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ECONOMIC DEVELOPMENT PLAN

City of Virginia Beach

TIP STRATEGIES

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TIP STRATEGIES

TIP STRATEGIES, INC., is a privately held economic development consulting firm with offices in Austin and Seattle. TIP is committed to providing quality solutions for public sector and private sector clients. Established in 1995, the firm's primary focus is economic development strategic planning.

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CONTENTS

INTRODUCTION 1
PROJECT BACKGROUND AND SCOPE 1
ECONOMIC CONTEXT 2
STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS 4
STRATEGIC FRAMEWORK 5
VISION 5
MISSION 5
GOALS 5
STRATEGIC PLAN 6
GOAL 1. LOCAL BUSINESS GROWTH AND ENTREPRENEURSHIP 6
GOAL 2. DOMESTIC AND INTERNATIONAL BUSINESS DEVELOPMENT 10
GOAL 3. SITES AND INFRASTRUCTURE 16
GOAL 4. TALENT AND WORKFORCE 19
REAL ESTATE REVIEW 21
BENCHMARK ANALYSIS 22
REGIONAL ANALYSIS 26
KEY ECONOMIC DEVELOPMENT SITES 29
STAKEHOLDER INPUT 33
CONCLUSION 34
APPENDIX A. METRICS 35
APPENDIX B. VIRGINIA BEACH ECONOMIC EXPLORER 36
APPENDIX C. CASE STUDIES 37
APPENDIX D. REAL ESTATE GLOSSARY 40

INTRODUCTION

The City of Virginia Beach (the City) is at an economic development crossroads. Once a fast-growing suburban-style community, driven largely by US military installations, the defense sector, tourism, and a high quality of life, the City now finds itself with a dwindling supply of developable real estate and flat population growth. And while defense and tourism will continue to be pillars of Virginia Beach's economy, there is wide recognition that economic diversification must occur to ensure long-term economic vitality in the City.

Notwithstanding its challenges, Virginia Beach remains in an enviable economic position. Home to approximately 450,000 residents, it is the most populous city in the Commonwealth of Virginia. It is the largest city within the Hampton Roads metropolitan area, which has a population of almost 1.8 million. Residents and visitors enjoy the City's 38 miles of beachfront along Chesapeake Bay and the Atlantic. Four of the world's fastest subsea cables digitally connect Virginia Beach to Europe and South America. The City hosts two important US military installations (Naval Air Station Oceana and Joint Expeditionary Base Little Creek-Fort Story) and is home to almost 57,000 veterans. Hampton Roads is also served by world-class transportation infrastructure, including an interstate highway, two Class I railroads, an international airport, and the third-largest container port on the East Coast.

The Virginia Beach Department of Economic Development (VBDED) is the entity charged with growing the City's tax base and expanding employment opportunities for residents. VBDED is a highly respected economic development organization that is well resourced and is led and staffed by a team of experienced professionals. VBDED also staffs the Virginia Beach Development Authority (VBDA), the legal entity through which the City facilitates new private investment through incentive agreements, real estate transactions, and issuing industrial revenue bonds. In 2019, VBDED's efforts resulted in 909 new and retained jobs and $151 million in additional capital investment in the City. More impressively, in the midst of the global economic recession caused by the COVID-19) pandemic, the department helped to generate 1,737 new jobs and over $246 million in new investment for Virginia Beach. These 2020 figures represent a 63 percent increase in capital investment and a 91 percent increase in jobs over 2019.

This plan is designed to help focus VBDED's efforts to be more strategic and effective in responding to new opportunities and addressing challenges head-on in a long-term, sustained effort.

PROJECT BACKGROUND AND SCOPE

In January 2021, TIP Strategies (TIP) was engaged by VBDED to develop an economic development strategic plan for the City. Over the course of eight months, the TIP Strategies consulting team worked closely with VBDED to identify promising opportunities to capitalize on the City's strong economic base and considerable assets. The team also conducted a review of Virginia Beach's commercial and industrial real estate market and developed a set of operational recommendations for product development and positioning. The planning process was conducted in three phases: discovery, opportunity, and implementation. Due to the travel and in-person meeting limitations caused by COVID-19, all client meetings and stakeholder engagements were conducted by phone and/or virtually.

- **DISCOVERY:** Conducted over 30 interviews with economic development stakeholders in Virginia Beach and the Hampton Roads region. Important constituencies were engaged during this process, including the following.
  - VBDED staff
  - Business and industry representatives
  - Commonwealth of Virginia leaders
  - Regional economic development partner organizations

- City of Virginia Beach executive staff
- Technology entrepreneurs
- Higher education officials
- Real estate developers

- **OPPORTUNITY:** Identified major priorities for the strategic plan. A strengths, weaknesses, opportunities, and threats (SWOT) analysis; vision; mission; and strategies were developed based on input from discovery.

- **IMPLEMENTATION:** Developed strategies, action items, tactical recommendations, and suggested performance metrics.

The City should not view this strategic plan as a static document, but as one that invites revisions and amendments as conditions change. Now, more than ever, stakeholders should take a dynamic approach to implementation—one that revisits this plan on a regular basis to measure progress and to reprioritize strategies and actions as needed.

ECONOMIC CONTEXT

TIP prepared a targeted assessment of factors that define Virginia Beach's overall competitiveness and that are of greatest concern to economic decision-makers, including demographic and socioeconomic data, labor force characteristics, and employment trends. The Economic Explorer was delivered in electronic format (Tableau) and can be found on the VBDED website (https://www.yesvirginiabeach.com/). Instructions for navigating the Economic Explorer are included in Appendix B.

The summary of a data analysis of factors that define Virginia Beach's overall economic competitiveness is included in this section. The analysis specifically looked at demographics, employment sectors, workforce characteristics, housing, and regional connectivity. Some of the most important trends for the City include the following.

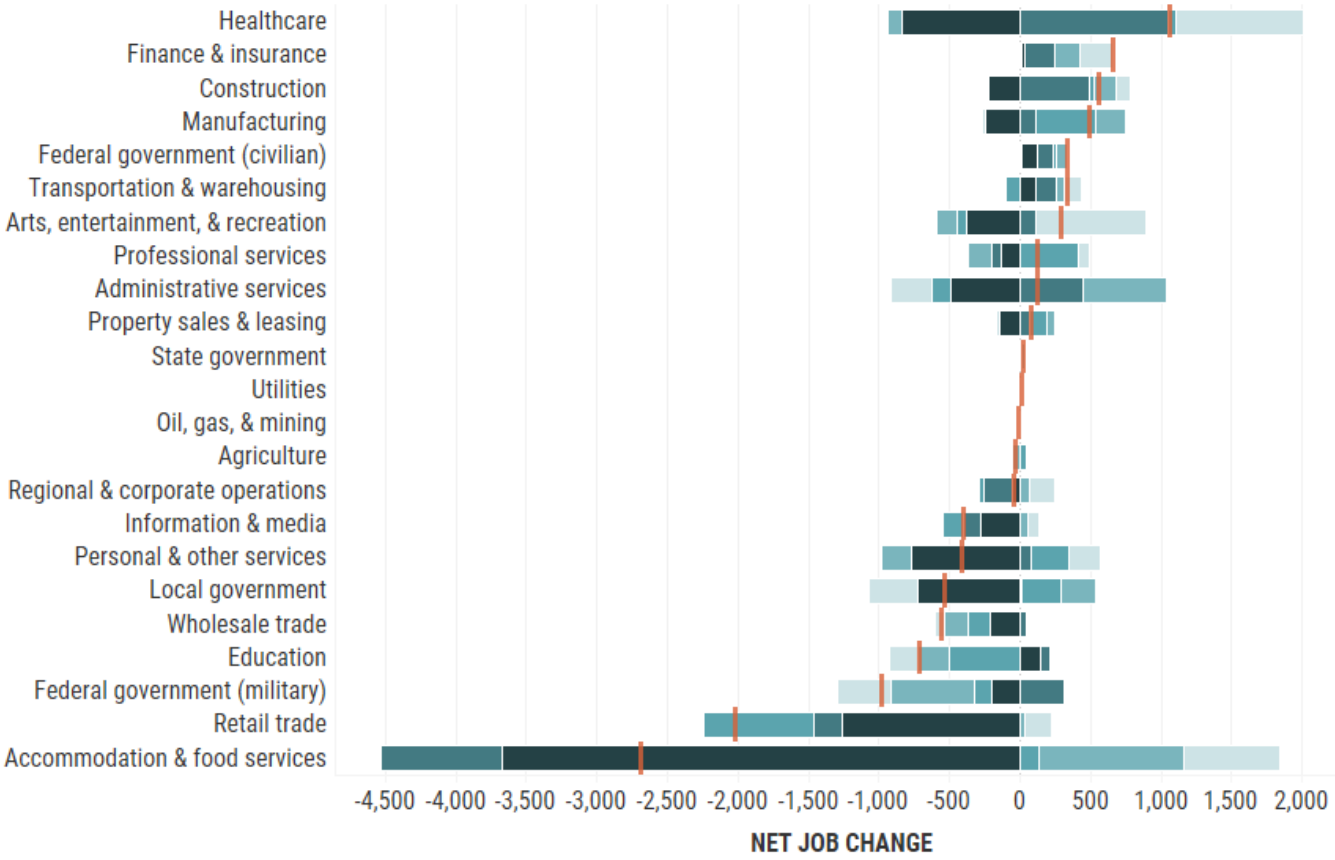
STAGNATING POPULATION GROWTH IS A THREAT TO LONG-TERM PROSPERITY. The Virginia Beach population has slowly increased in recent years after leveling off from rapid growth in the 1980s. Historically, this population growth was driven by natural change (more births than deaths), though this trend is slowing as the population ages. Virginia Beach is also a consistent net exporter of residents to other US communities. If current trends continue, the City's population will stagnate without additional migration from the US or abroad. While Virginia Beach is the largest city in the metropolitan statistical area (MSA) by more than 200,000 residents, Chesapeake's population is rising much faster than other cities in the Hampton Roads region. Because of the massive military presence in Hampton Roads, Virginia Beach is home to a high concentration of veterans (>17 percent) compared to state (10 percent) or national (7 percent) levels and is the community of choice for veterans residing in Hampton Roads.

A TIGHT HOUSING MARKET MIGHT PRICE OUT POTENTIAL RESIDENTS. Virginia Beach has a low housing vacancy rate (6 percent), well below the national rate (12 percent). This trend is also shared by the rest of the region. While a high vacancy rate can signal low demand to live in a region, a low vacancy rate can also signal a lack of sufficient housing supply for would-be residents and lead to increased housing prices. This coincides with the higher housing and rental costs in Virginia Beach when compared to the state, nation, and other cities in the metro. While the median-earning household might be able to afford a mortgage on the median-priced home in Virginia Beach, a household just below the relatively high median income would likely struggle to make monthly payments.

AN EDUCATED, HIGH-INCOME POPULATION WITH CONSISTENT EMPLOYMENT GROWTH EXPERIENCED COVID-19 INDUCED LOSSES. The City enjoys the region's most highly educated population with almost 40 percent of residents over 25 holding a bachelor's degree or more. Moreover, Virginia Beach enjoys a high median household income ($79K), well above regional ($69K) and national ($66K) levels. Consistent with its larger population, Virginia Beach also has the largest labor force in the metro (236K)—more than double that of the second-largest city (Chesapeake with 117K)—and a high labor force participation rate (over 65 percent). The City has also realized consistent employment growth between 2009 and 2019, growing by 4.9 percent and outperforming the rest of the metro area (1.8 percent). However, the COVID-19 recession has taken City employment levels back to where they were in 2009, with a 4.2 percent decline in 2020 employment.

TOURIST-ADJACENT SECTORS SUFFERED IN 2020, BUT NEW INDUSTRIES ARE STARTING TO RISE. Healthcare, retail, and accommodation & food services continue to be the dominant employment sectors in Virginia Beach. Most employment gains before 2020 were in healthcare and accommodation & food services, with modest increases in construction, finance & insurance, manufacturing, and transportation & warehousing. Most sectors saw a decline in 2020, most notably the accommodation & food services sector, which contracted by more than 14 percent from 2019—a loss of more than 3,600 jobs.

FIGURE 1. NET EMPLOYMENT CHANGE BY SECTOR, CITY OF VIRGINIA BEACH, 2015–2020



Source: US Bureau of Labor Statistics; Economic Modeling Specialists International (Emsi) 2021.2—Quarterly Census of Employment and Wages (QCEW) Employees, Non-QCEW Employees, and Self-Employed; TIP Strategies, Inc.
Notes: **Red** bars indicate the total net change for the selected period.

STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS

This page provides a summary of Virginia Beach's strengths, weaknesses, opportunities, and threats (SWOT). The SWOT analysis was developed based on direct input from internal and external stakeholders and the economic context analysis.

STRENGTHS

- Port of Virginia—third largest East Coast container port
- Well-funded economic development program
- Historically a pro-development business climate with a relatively low cost of doing business
- Well-educated population and high median household income
- Consistent gains in business & finance, healthcare, and computer & math occupations
- Recent growth and opportunities in advanced manufacturing development
- Tourism, resort destinations, and Something in the Water music festival
- Workforce pipeline of military veterans
- Strong regional educational institutions
- Large presence of high-profile advanced manufacturers (e.g., STIHL, Lockheed Martin, Busch Vacuum Solutions)

WEAKNESSES

- Lack of shovel-ready sites for industrial development
- Less than 200 acres of public industrial land
- Only 300 acres of greenfield industrial land
- Tight housing market and high housing affordability costs
- Absence of rapid transit/rail; limited urban, walkable areas
- Underutilized and undermarketed Opportunity Zones
- Limited air logistics inhibit pharma sector development; lack of direct international flights (and limited West Coast flights)
- Limited awareness of Hampton Roads and Virginia Beach as a major economic player in the rest of the US and globally

OPPORTUNITIES

- Business Resource Center
- Offshore wind projects—$16 billion in two proposed major 2.5-gigawatt projects
- Attracting associated supplier/service/investment opportunities to offshore wind
- Diversification within the defense sector
- Subsea cables emanating from the port and associated data centers, energy storage, and cybersecurity
- Town Center development and increase in number of residents living in Town Center
- Greater regional collaboration
- Raise awareness of Virginia Beach to site sectors
- Greater engagement on issues of diversity, equity, and inclusion
- Strategic land acquisitions and redevelopment incentives

THREATS

- Stagnating population growth
- Long-term economic disruption caused by COVID-19—global
- City stormwater regulations—imposing higher costs on development projects and go above state regulations
- Inability to develop urban live/work/play amenities to draw younger workers
- Future base realignment and closure (BRAC) round, loss of mission/personnel, and/or reduced US defense spending in the region
- Lingering regional collaboration concerns (including perceptions from past activities and failed light rail referendum)

STRATEGIC FRAMEWORK

With rapid changes reshaping the global economy, the need for strategic and organizational focus is greater now. The purpose of this plan is to enable VBDED to better anticipate, respond, and evolve with changes affecting the economic success of residents and businesses. The framework, strategies, and actions detailed in this plan are informed by extensive data analysis and thorough stakeholder input, including interviews with state and City officials, regional partners, and business leaders.

VISION

The City of Virginia Beach's economic development strategy must be driven by a vision of what VBDED aspires to achieve. Meaningful vision statements should be bold, provide a clear direction, and differentiate the City from its peers and competitors. The following vision achieves those objectives and reflects Virginia Beach's economic potential.

Virginia Beach is a global destination for premier investment, talent, innovation, and jobs.

MISSION

While vision statements capture what a community hopes to become, mission statements focus on what an organization does to achieve its vision. Effective mission statements encapsulate the core functions of an organization as well as the overall objectives of its programs and initiatives. TIP suggests a refined mission statement for VBDED that better reflects its expanding role of accelerating growth and prosperity for all residents.

The Virginia Beach Department of Economic Development drives economic vitality and inclusive prosperity in the city by fostering the attraction and creation of new investment, innovation, and jobs.

GOALS

This strategic plan is built around four major goals: local business growth and entrepreneurship, domestic business development, international business development, sites and infrastructure, and talent and workforce. Developed based on input from stakeholder engagement and economic assessments, the set of strategies and actions identified under each goal is meant to provide the City with a roadmap to organize its programs and strengthen Virginia Beach's economic vitality over the next 5 years.

LOCAL BUSINESS GROWTH AND ENTREPRENEURSHIP—Foster an environment of growth and success for existing businesses and entrepreneurs.

DOMESTIC AND INTERNATIONAL BUSINESS DEVELOPMENT—Position Virginia Beach to compete with any community in the nation for new, high-quality investment and jobs.

SITES AND INFRASTRUCTURE—Ensure that Virginia Beach has the sites and infrastructure to compete for high-wage employment, new capital investment, and business growth.

TALENT AND WORKFORCE—Expand the talent base and strengthen connections between workforce assets and local employers.

STRATEGIC PLAN

GOAL 1. LOCAL BUSINESS GROWTH AND ENTREPRENEURSHIP

Foster an environment of growth and success for existing businesses and entrepreneurs.

A strong business retention and expansion (BRE) program is the foundation of any economic development program. Research from the US government has shown that the bulk of job flows result from the expansions and contractions of existing businesses.[1] Some of the department's BRE programs and services include advocacy services, business workshops, networking, fast-track project review, financial guidance, market information, research assistance, and site selection/expansion assistance. VBDED also played a critical role in helping local small businesses survive during the worst of the economic recession caused by the COVID-19 pandemic by connecting them with federal, state, and local technical and financial assistance.

A major initiative within VBDED is to provide greater assistance, training, and resources to the City's businesses, especially small, women, and minority-owned businesses (SWaM). The new Virginia Beach small business center, The Hive in Town Center, is the focal point of that effort. The Hive is envisioned as a catalyst for building a vibrant entrepreneurial ecosystem in Virginia Beach through partnerships, education, training, mentoring, and networking. Raising the profile and awareness of The Hive, as well as VBDED's overall BRE program, throughout Hampton Roads will be key to its vision becoming a success. Virginia Beach should be seen by businesses throughout the region as having the most vibrant and well-supported small business and entrepreneurial environment in Hampton Roads.

This plan advocates for building a more robust BRE program within VBDED by raising its profile among the business community, expanding outreach to existing businesses, creating a business visitation questionnaire, strengthening the department's BRE database, publishing a regular BRE report, and capturing business development intelligence through interactions with existing businesses.

1.1. Expand VBDED's existing business visitation program. Document the overall needs of local businesses, their challenges to operating successfully, and their potential to remain and/or expand in Virginia Beach.

- **1.1.1.** Maintain and grow the VBDED Salesforce customer relationship management (CRM) database of existing businesses in the City.
- **1.1.2.** Establish an annual goal of in-person and virtual business visitations.
- **1.1.3.** Prioritize businesses using criteria, such as employer size (e.g., >25 employees), employer growth rates, and target industries.
- **1.1.4.** Conduct in-depth research on each business prior to all visitations. Successful BRE calls require the economic development representative to know in advance the issues the business is likely to communicate and how the business can be assisted. Businesses will be more receptive and responsive to BRE outreach if they feel the economic development representative did their homework to understand the company's needs.
- **1.1.5.** Organize joint business visits with regional and state workforce development partners, including higher education and technical education representatives, to help address specific workforce challenges.
- **1.1.6.** Create a brief questionnaire for use during business visitations that captures a base set of standard information and metrics that are consistently captured and entered into VBDED's CRM

[1] *Small Business Administration and Job Creation.* Congressional Research Service. June 23, 2021. Small Business Administration and Job Creation (fas.org).

database. The meeting, however, should not be guided by scripted questions. Moreover, if meeting with the business owner/chief executive officer, avoid questions that can be answered from a secondary source or by someone else in the company. Basic questions should inquire about these topics.

- Business climate concerns
- Training and technical assistance needs
- Employment growth/contraction over the past year and future hiring plans
- Site/facility expansion plans
- Industry trends
- Primary markets served (domestic and foreign)
- Supply chain opportunities (that could be filled by local companies or through new recruitment)
- Adoption and utilization of new technologies in production processes (e.g., artificial intelligence, big data, cybersecurity, augmented and virtual reality, robotics and automation, additive manufacturing/3D printing, cloud computing, and the Internet of Things)

1.2. Raise the profile of the VBDED's BRE program and The Hive within the region's business community.

1.2.1. Identify companies in the City that serve external markets or are suppliers/service providers to existing businesses.

1.2.2. Identify employers, using CoStar or other sources, who have leases that will be expiring in the next 2 or 3 years to be prioritized for visitations.

1.2.3. Increase efforts to reach out to women-owned firms and minority-owned firms, many of which are facing greater challenges through the current economic downturn than other businesses.

1.2.4. Highlight minority and women founders of VBDED-supported businesses that have successfully grown their companies in Virginia Beach through testimonials, blog posts, and other VBDED marketing efforts, along with collaboration with partners such as the Minority Business Council, the Hampton Roads Black Chamber of Commerce, and the Hampton Roads Hispanic Chamber of Commerce.

1.2.5. Connect local businesses that currently export products or services or are interested in exploring international trade opportunities with Virginia Economic Development Partnership (VEDP) international trade promotion resources and services. VEDP can assist Virginia businesses with international market research, business appointment setting, a trade show program, training assistance, and grant funding.

1.2.6. Prepare and administer an annual online "Take the Pulse" business survey as a means of keeping in touch with local businesses and documenting specific needs or expansion plans. Include questions on the survey for employers regarding their attitudes toward the business climate, talent availability, and workforce quality in Virginia Beach.

1.2.7. Organize reoccurring events throughout the City that bring in multiple businesses, especially in the same industry or at the same size. For example, hold off-site information and networking events at locations where multiple business are located, such as a business park or an office building. Such events could feature guest speakers, refreshments, and information about VBDED's existing business program services.

1.2.8. Reinstitute the Virginia Beach Business Roundtable to provide a forum for local employers to communicate challenges and opportunities on critical issues of local competitiveness, including workforce, permitting, regulations, and infrastructure.

1.2.9. Create a quarterly BRE report that highlights the program's activities, summarizes discernable trends, and communicates local business success stories.

1.2.10. Feature testimonials from business executives whom VBDED has assisted on its website, in reports, and in social media.

1.2.11. Market the new small business resource center at The Hive prominently in department materials, social media, presentations, events, and business interactions.

1.3. Create a soft landing space and support program within The Hive for young emerging businesses located inside and outside of Virginia Beach. See the adjacent text box for a description of a similar program development by Ann Arbor SPARK in Michigan.

1.4. Partner with local and regional partners to design reverse-pitch competitions to engage major corporations and organizations in Hampton Roads with needs for innovation.

1.4.1. Pitch a challenge in a reverse-pitch competition, where established businesses provide a challenge to entrepreneurs and solicit solutions. Businesses have their challenges addressed while entrepreneurs benefit from establishing connections and increasing awareness about their startups.

1.4.2. Help the City solve issues, like sustainability, housing, and other community challenges, through social entrepreneurship—another area where this approach could be beneficial.

1.5. Support youth entrepreneurship programs at the local level to foster a culture of innovation and cultivate an entrepreneurial spirit. Entrepreneurship education is especially important for helping the City's low-income and minority youth to develop skills and knowledge that will support their future success and benefit their communities.

- The National Consortium for Entrepreneurship Education provides resources and technical assistance for entrepreneurial education (www.entre-ed.org).

ANN ARBOR SPARK

For more than 15 years, Ann Arbor SPARK has served the greater Ann Arbor, Michigan, region which includes Washtenaw and Livingston Counties. SPARK is a nonprofit economic development organization that fosters regional growth through business attraction, retention, and creation. The bi-county area has a long history of tech development, due in large part to the presence of the University of Michigan. Capitalizing on this, SPARK has created a robust entrepreneurial ecosystem within the region.

In 2020, SPARK's entrepreneurial services team assisted more than 267 innovation startups through their programs and facilities, which include fully equipped coworking spaces across two innovation centers (SPARK Central and SPARK East), mentorships with regional business leaders, a2TECH360 (an annual tech and entrepreneurial conference), entrepreneur bootcamp, student internship programs, and funding programs specifically for nascent companies. In addition to federal and state funding, SPARK manages SPARK Capital, the statewide co-investment fund that provides up to $250,000 for qualifying companies.

SPARK has also created a soft landing program for young emerging companies located outside of the Ann Arbor region. The program includes providing companies with market-entry work, meeting areas, and conference spaces.

Source: https://annarborusa.org/.

1.6. Tell entrepreneurial success stories. An important component of building an entrepreneurial culture is making residents aware of how entrepreneurship can help to drive the economy. This message is best communicated by raising awareness of business success stories, both internally and in target markets.

1.6.1. Utilize social media aggressively to publicize successes.

1.6.2. Market success stories through existing entrepreneurship networks and investors such as 757 Accelerate and 757 Angels.

GOAL 2. DOMESTIC AND INTERNATIONAL BUSINESS DEVELOPMENT

Position Virginia Beach to compete with any community in the nation for new, high-quality investment and jobs.

The core function of any economic development organization is to generate greater investment, employment opportunities, and wealth creation in the community. VBDED's business development team is on the front lines of the organization working to accomplish its mission. The team consists of a group of experienced professionals engaged in domestic and international attraction. The members of the team each have specific industry expertise and areas of focus. In addition to the Virginia Beach-based staff, VBDED employs three European-based representatives who provide lead generation and assistance to companies interested in investing in the City.

Domestic attraction should continue to be the top business development priority for VBDED, as US-based companies account for most investment leads and actual projects. In addition, prioritizing City resources and staff time on domestic business development activities is more cost effective than international business development, which is generally more expensive. However, international attraction should remain an important component of VBDED's business development program. The expanding presence of German-based STIHL USA and other foreign companies in Virginia Beach, as well as new interest in Hampton Roads tied to the offshore wind energy sector, demonstrates that VBDED should continue looking for new foreign direct investment (FDI) opportunities from Europe, Asia, and Latin America.

For most economic development organizations (EDOs), the traditional approach to business development involved seeking investment leads by attending industry trade shows and conferences coupled with calling on companies in the host regions. However, the efficacy of generating investment leads at trade shows has been diminishing as a practice for economic development organizations throughout the nation. The COVID-19 pandemic will likely reinforce this reality. While such events are important for helping to educate staff about industry trends and for networking, they are less and less likely to engage directly with investment decision-makers. Moreover, as many US businesses continue encouraging their employees to work remotely, it will be more difficult to schedule in-person meetings with prospects in other markets. Consequently, EDOs will need to conduct a greater degree of virtual business development outreach.

As with all EDOs, VBDED's business development team will need to be creative in how they proactively generate investment interest in Virginia Beach. This should involve greater outreach to site selectors and commercial real estate brokers (domestic and international) and hosting events and site tours in the community, both in-person and virtually. The Virginia Beach Convention & Visitors Bureau (VBCVB) should align its conference and meeting attraction program with VBDED's target industries. The business development team should utilize its business retention and expansion efforts among existing businesses to identify new investment leads. The team should also use other creative approaches to identifying investment prospects and business development targets.

2.1. Build relationships with real estate brokers and national site selectors.

- **2.1.1.** Build and maintain a database of national and regional developers, brokers, and site consultants.
- **2.1.2.** Schedule regular trips to call on the site consultants in targeted metropolitan areas, such as Atlanta, Charlotte, Chicago, Baltimore, and Washington, DC.
- **2.1.3.** Host events and fam tours, periodically, in Virginia Beach that highlight specific assets, such as VBDA-owned sites, buildings, or new development projects. Schedule site selector visits to align with air shows at Naval Air Station (NAS) Oceana and invite consultants to attend.
- **2.1.4.** Develop a virtual site tour program that allows site selection consultants and business decision-makers in other markets to view featured sites and buildings in the City. These can be conducted as custom tours of local sites for specific prospects using basic tools such as Google Earth and

YouTube. There are also virtual site tour platforms that can be incorporated into VBDED's website allowing site selectors and prospects to explore local sites at any time. GIS Planning's ZoomProspector is one such tool.

2.1.5. Continue maintaining and updating data and information of interest to commercial and industrial site selectors on the VBDED website.

2.2. Focus business development efforts on emerging strategic growth sectors. VBDED's existing target industries include advanced manufacturing, biomedical & life sciences, defense, information technology (IT) & cybersecurity, maritime & logistics, offshore wind, professional office, and retail. VBDED has identified these sectors based on local and regional assets, such as the Port of Virginia; the immense presence of the US Armed Forces and associated defense contractors in the region; the BIO Accelerator, Avangrid; NASA Langley Research Center; Old Dominion University Virginia Modeling, Analysis, and Simulation Center; as well as emerging opportunities, such as the planned Dominion Energy Coastal Virginia Offshore Wind development. Within these broad sectors, there could be opportunities for VBDED to attract and grow niche subsectors, which are described here.

- **DIGITAL TECHNOLOGY.** The global COVID-19 pandemic will accelerate the demand for more data centers and cloud storage as companies and workers transition to working remotely. Telecommuting will likely be widely embraced as employers and employees become more comfortable with working from home. Virtual meetings will become prevalent as executives and managers recognize that they can reduce travel and still conduct business. Virginia Beach is uniquely positioned to benefit from the increase in demand for cloud storage and data due to the ultra-high-speed transatlantic fiber optic telecommunications cables that come ashore in the City, as well as its broadband backbone, advantageous tax rates, abundant water, and competitive electricity rates.

- **FOOD AND BEVERAGE PROCESSING.** The production of specialty foods and beverages remains one of the fastest-growing sectors in the US. Growth in emerging markets and urbanization, increasing consumer focus on health, and increasing demand for convenience foods signal favorable conditions for continuing and even accelerated growth in the food processing sector. Moreover, regardless of economic conditions, people still require food and beverages. Virginia Beach's water and sewer capacity, transportation infrastructure and access, existing agricultural sector, and proximity to major urban areas make it a competitive destination for food and beverage processing. However, suitable industrial sites will need to be developed in the City for this to be a realistic target.

- **MANUFACTURING TECHNOLOGIES.** COVID-19 is accelerating the swift transition to the Fourth Industrial Revolution (Industry 4.0), which involves the utilization of rapidly advancing digital technologies into production processes. Technologies such as artificial intelligence, process automation, Internet of Things, cybersecurity, big data, additive manufacturing, and augmented reality are completely reshaping the global manufacturing sector. This not only represents a unique industry strength on which to build, but also there is a tangible benefit of helping existing manufacturers in the City to become more innovative and resilient.

- **BUSINESS SERVICES.** Business services encompass establishments and services primarily designed to support other aspects of a business or to assist unrelated companies. This includes corporate regional headquarters, professional services firms, financial services, and back office operations. Virginia Beach currently enjoys employment strengths relative to the US in finance & insurance, engineering services, and computer systems design services. In addition, the business & financial operations occupation experienced high net job growth in Virginia Beach from 2016 to

2020. The large base of manufacturing and logistics & distribution businesses located at or near the Port of Virginia provides opportunities to attract to Virginia Beach professional and technical services firms that support port-related plants and facilities. Virginia Beach could also be an attractive location for companies that rely on ultra-high-speed broadband communications, such as financial services and telehealth providers.

- **DEFENSE AND AEROSPACE.** Growing and diversifying Virginia Beach's defense and aerospace sector represents an opportunity to attract more value-added research and development (R&D) and manufacturing activities in emerging defense and civilian technologies.
  - **UNMANNED SYSTEMS.** In recent years, the US military has been making substantial investments in unmanned systems for air, ground, and naval forces. These systems and vehicles will constitute a growing and critical component of American Armed Forces. In addition to defense applications, unmanned systems are drawing increased interest and investment for commercial transportation, imaging, and logistics uses. Indeed, the Virginia Department of Economic Development (VDED) has identified unmanned systems as a key industry for the state. Virginia Beach is already home to multiple companies involved in the sector, including Huntington Ingalls Industries Technical Solutions; Hush Aerospace; DroneUp; Spatial Integrated Systems, Inc.; PrecisionHawk; and ICI Services Corporation.
  - **SENSOR TECHNOLOGIES.** Hampton Roads is home to several existing assets and companies involved in sensor technologies, which have a growing role in military and commercial applications, such as environmental monitoring, logistics, surveillance, and transportation. For years, NASA Langley Research Center has fostered a considerable amount of research and development related to sensor technologies and has helped to generate and attract additional private investment and activity to the region. Virginia Beach's high-quality workforce and stock of Class A office space make it a good location for research and engineering companies.
- **BIOMEDICAL & LIFE SCIENCES.** Hampton Roads is a growing center of biomedical & life sciences research. The Eastern Virginia Medical School Office of Research is conducting innovative research in the fields of diabetes, endocrinology, reproductive medicine, healthcare analytics, and oncology. For its part, the City of Virginia Beach recently opened the VABeach BIO Accelerator that features 5,700 square feet of wet/dry lab space, office space, and conference rooms. In addition to the lab space, the accelerator will offer tenants access to programmatic advantages, such as mentoring, networking, professional services, shared services, and research collaboration networks. The accelerator has identified heart disease, brain injury, diabetes, and neuroscience as four specific areas of focus for VBDED's development efforts. In addition to these areas of focus, Virginia Beach should consider attracting companies, particularly second-stage firms and startups, involved in digital health and medical device manufacturing. And according to a *CB Insight* 2017 report on healthcare trends, startups are leading many healthcare innovations in digital health, biotechnology, and medical devices.[2]
  - **DIGITAL HEALTH.** Digital health represents the convergence of the digital and genetics revolutions with bioscience, healthcare and wellness, information technology software, and medical devices. Techniques such as intelligent drug design in digital health—the implementation of artificial intelligence (AI) and other computational tools to identify molecular compounds—has the potential to reduce the resource-intensive drug discovery process on the front end of drug development by years, saving millions in R&D dollars. Medical wearables (patches and devices on the skin that act as

[2] John Prendergass. "Healthcare Horizons: Startups and Technologies Poised to Have the Greatest Impact on Healthcare." *CB Insights.* October 2, 2017. https://bit.ly/2hRUKky.

biometric monitors or drug delivery systems) are also on the rise and are in development from startups. Another digital health trend focuses on administrative innovation by adopting blockchain technology to create secure, decentralized networks for health data; this approach might increase the efficiency of pharmaceutical supply chains and expedite the move toward universal accessibility of secure electronic medical records. This might present a unique opportunity for Virginia Beach, given the ultra-high bandwidth undersea data cables coming ashore in the City.

2.3. Position Virginia Beach as a desirable soft landing spot for emerging companies in larger mid-Atlantic metros, such as Charlotte and Washington, DC.

2.3.1. Create a soft landing space and support program within The Hive for emerging companies located outside of Virginia Beach. (See Strategy 1.3.)

2.3.2. Target successful startups in business incubators/accelerators in other markets (e.g., Northern Virginia; Montgomery County, Maryland; Baltimore; Charlotte) that are on the cusp of outgrowing their existing spaces and could be positioned for expansion/relocation to Virginia Beach.

2.3.3. Track venture capital (VC) firms in Silicon Valley; Washington, DC; Charlotte; and other markets that have recently funded high-growth, innovative businesses.

- Use this list to follow VC trends and identify high-growth businesses that might be targets for expansion or relocation. This will also help VBDED build relationships in the VC community and facilitate connections to local startups.

2.3.4. Use resources like the Inc. 5000 (a list of the fastest-growing private firms in the US based on year-over-year revenue growth) to identify firms that would be a good fit for Virginia Beach. Additional resources include the following.

- Crunchbase (for identifying recipients of venture funding)
- *Fast Company* (magazine about the world's most innovative companies)
- *MIT Technology Review* (magazine about the smartest companies)

2.4. Develop potential investment leads through the business retention and expansion (BRE) program.

2.4.1. Inquire about existing business vendors and suppliers during BRE visits and events to uncover supply chain recruitment opportunities in target sectors.

2.5. Generate leads for economic development prospects from nontraditional sources.

2.5.1. Obtain lease expiration data, using CoStar, in competing cities. Send marketing materials to companies headquartered in these markets whose leases are expiring within 24 months.

2.5.2. Utilize Google Alerts to get news updates on companies in target sectors that are considering expansion, relocation, or consolidation. For instance, create alerts for terms such as "offshore wind headquarters relocation."

2.6. Leverage Virginia Beach's position as a tourism destination to support business attraction. The City's resorts, beaches, attractions, outdoor recreation assets, and events are exceptional assets for industry and talent-attraction marketing. The City has an exceptional platform from which to engage visitors—whether in the region for business or pleasure—in a conversation about the benefits of doing business in Virginia Beach. Conferences and meetings hosted locally are also an excellent opportunity to engage talented professionals in a conversation about how they can pursue their careers, start a company, or relocate an existing business to Virginia Beach.

2.6.1. Work with the VBCVB to develop a conference and meeting strategy linked to targeted occupations, groups, and industries.

- Identify industry associations within each target industry and encourage them to consider Virginia Beach as a destination for annual events and meetings.
- Engage talented professionals—conferences and meetings hosted locally are an excellent opportunity—in a conversation about how they can pursue their careers, start a company, or relocate an existing business to the region.
- Work with VBCVB and local tourism businesses to learn more about the visitors traveling to the City on business, including information about the businesses they own or represent, and the transportation routes used to get to the area.

2.7. Collaborate with the Hampton Roads Alliance and other regional partners to attract new investment to the region.

2.7.1. Work with regional partners to identify industry conferences, meetings, and trade shows that can be recruited to Virginia Beach.

2.7.2. Attend select industry trade shows and conferences jointly with regional partners.

2.7.3. Assume a high profile in regional meetings, conferences, and gatherings.

2.8. Generate new foreign domestic investment opportunities in Virginia Beach.

2.8.1. Continue contracting with VBDED's international representatives in the United Kingdom, Germany, and Spain to generate new business investment leads and referrals.

- Establish annual numerical targets of business contacts, investment leads, and referrals.

2.8.2. Consider contracting with part-time international representatives in key markets in Asia and Latin America.

2.8.3. Schedule virtual site tours and informational meetings for international investment prospects. With the current COVID-19 pandemic, European companies are generally more willing to discuss investment projects virtually than in person.

2.8.4. Attend a limited number (two to three) of international trade shows and industry conferences, when international health conditions permit, in target industries primarily to stay informed about industry trends and to develop industry network contacts.

- Schedule one day to two days of meetings with businesses in target industries located in the host city or region once health conditions permit international representatives to travel.

2.8.5. Include questions for existing companies, as part of the BRE program, aimed at exploring opportunities for international trade, supplier, and investment linkages tied to global trade.

2.8.6. Work with the international representatives to identify and conduct outreach to European-based site selection consultants. While the site selection industry is not as pervasive in Europe as it is in the US, it is still important, and many European companies outsource their site selections.

2.8.7. Connect with business and industry associations in foreign markets. Such organizations are influential in Europe, Japan, and China and can become helpful partners for promoting Virginia Beach to their members. For example, each country in Europe has specific industry associations, and major subnational regions in Europe also often have their own business and industry associations.

2.8.8. Conduct outreach to foreign consulates in Hampton Roads.

2.8.9. Identify individuals and organizations from the international community residing or working in Hampton Roads who could assist in marketing and recruitment efforts.

GOAL 3. SITES AND INFRASTRUCTURE

Ensure that Virginia Beach has the sites and infrastructure to compete for high-wage employment, new capital investment, and business growth.

One of Virginia Beach's chief challenges for expanding and attracting new investment to the City, especially for advanced manufacturing, is site availability. While industrial site availability is tight both nationally and regionally, it is particularly limited in Virginia Beach. As of the second quarter of 2021, the vacancy rate for industrial space in Virginia Beach was only 1.7 percent, compared to 5.1 percent for the nation and 2.4 percent for the Hampton Roads region. Manufacturers looking for a large, high-quality space in Virginia Beach have little to choose from. In addition, much of the space that is available is not located adjacent to major highways, limiting its appeal to operations that are connected to the Port of Virginia. Consequently, for Virginia Beach to be able to compete for new manufacturing investment, the development of additional greenfield sites suitable for light industrial use is imperative.

As part of the strategic planning process, TIP conducted a review of the competitiveness of Virginia Beach's real estate market, which is found in the Real Estate Review section of this document. The review includes descriptions, analyses, and recommendations for some of the City's key economic development sites.

In addition to sites, the first-class infrastructure is essential for retaining existing employers and for competing for new investment. The infrastructure in Hampton Roads is a definite competitive advantage for the region, especially its multimodal transportation infrastructure. The Port of Virginia, Norfolk International Airport, two Class 1 rail carriers, and Interstate 64 provide Virginia Beach with a globally connected transportation system. Modern essential infrastructure includes broadband internet access. In this capacity, Virginia Beach features a unique competitive asset in the ultra-high broadband undersea data cable that come ashore in Virginia Beach. Leveraging these cables for new high-value investment is a major opportunity for the City.

3.1. Expand the inventory of sites and buildings suitable for advanced manufacturing and other high-wage employment sectors.

- **3.1.1.** Create and maintain a central database of City-owned and VBDA-owned properties.
- **3.1.2.** Implement an employment land preservation policy that restricts rezoning of industrially zoned land to other uses.
  - Recognize the need for adequate buffering between industrial land and incompatible uses.
  - Consider how and where that industrial land will be replaced elsewhere in the City.
  - Consider whether the proposed change-of-use development will increase land values of surrounding industrial land and/or encroach on nearby viable industries.
  - Consider whether the new use will produce more high-value jobs than alternative industrial uses.

3.2. Explore the development of a new greenfield business park on the 750 acres of City-owned land southwest of Innovation Park for light industrial use.

- **3.2.1.** Create a site master plan to establish a vision for future business and light industrial growth within the site that is both economically viable and in alliance with City goals and objectives for development. The master plan should consider such factors as these.
  - Availability and cost of the land
  - Suitable light industrial uses
  - Environmental constraints
  - Roadway access

- Wetlands
- Greenspace preservation
- Access to utilities (water/wastewater, electricity, gas)
- Access to broadband infrastructure

3.3. Identify older sites and buildings in existing commercial areas that could be candidates for redevelopment or renovation. Renovated manufacturing buildings are in high demand in the region. TIP reviewed all industrial properties within a 200-mile radius of Hampton Roads and identified 189 renovated buildings that are designated for manufacturing use. Of these, TIP found 22 in which the renovations were completed within the past 5 years, with all being fully leased.

3.3.1. Evaluate potential redevelopment/renovation of buildings to better understand the current conditions and determine if there are barriers that need to be mitigated for development to occur.

3.3.2. Review the City's development process and fee structure to ensure that they encourage redevelopment. For example, impact fees put in place to manage greenfield growth can inhibit redevelopment. Continue to offer a fast-track process for particularly high-impact redevelopment projects.

3.3.3. Identify areas of underutilized and/or poorly maintained parcels and explore the possibility of land assembly to provide the ability to influence a larger scale catalyst project. Areas within Burton Station could be candidates for redevelopment.

3.3.4. Structure clear guidelines that define the city's role as a partner in redevelopment projects. Use successful public-private partnerships as models for formulating these guidelines.

3.3.5. Develop, adopt, and implement an incentive program to retain commercial and industrial activities and revitalize obsolete industrial properties.

3.3.6. Create and promote public-private collaboration programs to facilitate redevelopment of underutilized industrial and commercial properties and functionally obsolete buildings.

3.4. Continue working with NAS Oceana to identify, market, and develop underutilized land in and around the installation for new commercial development through the Future Base Design Initiative. Approximately 1,000 acres of underutilized land has been identified thus far. Of that, a little more than 400 acres around the installation is classified as developable and site ready (cleared and no environmental constraints).

Source: SIA Solutions

3.4.1. Establish mutually beneficial partnership structures that would allow new private development to occur on the commercially developable properties.

3.4.2. Market the properties to investment prospects.

- Because of existing use restrictions surrounding the base, commercial and industrial opportunities for the land will be limited to businesses that are not employee intensive (e.g., large manufacturing facilities). Uses that would be compatible include data centers, energy storage facilities, and warehousing.

- Prioritize the attraction of compatible business and uses to Navy-owned properties, leaving higher-intensity employment prospects to more appropriate sites, such as the Corporate Landing Business Park or other potential new greenfield sites.

3.5. Continue using financial incentives and other tools to promote growth and development.

3.5.1. Utilize local, state, and federal public financing vehicles and tax incentive programs, such as the establishment, renewal, implementation, management, and/or expansion of tax increment financing, enterprise zones, business improvement districts, the New Markets Tax Credit Program, as well as other innovative programs to facilitate economic development and rehabilitation. See the adjacent text box for a brief summary of tax increment financing best practices.

3.5.2. Leverage new federal funds for investment in physical infrastructure from the American Rescue Plan Act (ARPA) of 2021 and the proposed American Jobs Plan (e.g., upgrade electric distribution, broadband, roadway improvements, transit, etc.).

3.6. Advance the emergence of Town Center as the region's premier urban center. The continued growth and vibrancy of Town Center would benefit from expanding walkable and cyclable mixed-use areas and green space in and around the development. The benchmark analysis highlights the growing need for near-term investment in residential rental property in Virginia Beach. Promoting and facilitating the development of additional multifamily units, including mid-rise structures in Town Center, would help to strengthen its appeal to residents and businesses and enhance the quality of place for Virginia Beach as a whole.

3.6.1. Expand urban, walkable mixed-use development in Town Center.

3.6.2. Continue promoting and facilitating the development of additional multifamily units, including mid-rise structures, in Town Center.

TAX INCREMENT FINANCING (TIF)

TIF is a targeted development finance tool that captures the future value of an improved property to pay for the current costs of those improvements. This mechanism can be used to finance costs typically pertaining to public infrastructure, land acquisition, demolition, utilities, planning, and more. TIF funds have also been used to help support community amenities, such as parks, recreational facilities, schools, and network infrastructure.

According to Toby Rittner, president and CEO of the Council of Development Finance Agencies (CDFA), communities should consider the following as best practices when creating and operating a TIF district.

- A TIF project should be clearly eligible according to the state's authorizing statute.
- The project should remain viable even if it did not receive any TIF assistance.
- The project should yield a positive net gain for the community.
- The community should identify the experience and financial history of the developer as a crucial early step.
- The municipality and developer should determine upfront when TIF funds will be needed and whether the project will require TIF bonds.
- In assessing the financial viability of the project, consideration should be given to whether the development or redevelopment has a high likelihood of maintaining an enduring presence in the community.
- The municipality should identify the project's broader stakeholders, which include neighborhood groups, business leaders, school districts, and elected officials.
- A plan for communicating the importance of the project, as well as information on how the project will be financed, should be developed and executed.

Source: https://www.frbsf.org/community-development/files/tax-increment-finance-success-driven-tool-catalyzing-economic-development-social-transformation.pdf.

GOAL 4. TALENT AND WORKFORCE

Expand the talent base and strengthen connections between workforce assets and local employers.

Access to talent continues to be a chief site selection factor for companies planning new facilities, expansion, and/or relocation throughout the nation. Access to talent has become especially challenging for employers during the COVID-19 economic recovery. However, even before the pandemic, finding skilled workers was a major issue for employers in Virginia Beach. When speaking with local employers, especially manufacturers, access to talent was their most pressing challenge. While Virginia Beach has the largest and most educated workforce in the region, employers still struggle to find the number of workers they need to be successful.

Hampton Roads is well served by several workforce development and educational institutions. Important partners include the Hampton Roads Workforce Council (HRWC) and Tidewater Community College (TCC). Virginia Beach-based Elevate U provides a talent matching and workforce development online platform that connects job seekers and employers. At The HIVE, VBDED is partnering with TCC, Virginia Wesleyan University, and HRWC to provide an educational program for local small businesses to help address workforce issues. The City of Virginia Beach is also working to address the talent pipeline issue at the early childhood education level through the GrowSmart initiative, which provides customized business training and mentorship to local small businesses in the childcare and early education industry.

One of Virginia Beach's greatest talent and workforce advantages is the large number of veterans who reside in the community and the nine US military installations in the region. Veterans and service members transitioning from service in the region offer a significant pool of talent for existing and potential employers in all sectors. Expanding efforts to connect veterans and their families to the community and local employers will benefit existing employers and will make the City more competitive for new employers searching for high-quality workers.

4.1. Connect military personnel separating from service in the region with local employers.

- **4.1.1.** Work with the Hampton Roads Veterans Employment Center, the Military Economic Development Advisory Committee, and other regional economic development and workforce partners to create a Hampton Roads Veterans Inventory Initiative for soldiers transitioning from the region's military installations to civilian life. See the case study in Appendix C for a description of the veterans inventory initiative at Fort Hood, Texas. A brief overview is in the adjacent text box.
- **4.1.2.** Adopt innovative models from other regions focused on connecting veterans to employment with critical employers and in strategic growth areas for the City and the region. Examples include the Amazon Veteran Technical

FORT HOOD REGION VETERANS INVENTORY INITIATIVE

In 2006, the city of Killeen, Texas, and the Greater Killeen Chamber of Commerce (GKCC) partnered with TIP Strategies to craft a regional plan (named Operation Economic Transformation) that would reduce the region's military-related economic dependency while simultaneously building on the region's growth opportunities associated with Fort Hood. One outcome of this plan was the creation of the Fort Hood Region Veterans Inventory Initiative (FHRVII) survey, which continues to be administered on a quarterly basis. FHRVII captures information from soldiers who are about to separate from the military. The survey asks questions about their educational levels, skills, postseparation career plans for them and their spouses, and suggestions to improve the area's quality of place. Once compiled, the results are sent to local partners so they can highlight the incoming talent pool for economic development marketing and in responding to investment request for proposals (RFPs). Inspired by GKCC's efforts, Joint Base San Antonio (JBSA) began its own survey in 2018, modeled after the FHRVII, and recently completed its third assessment.

Source: www.hotda.org/veterans-inventory-initiative.

Apprenticeship program with Northern Virginia Community College and the Camo2Commerce initiative from Pacific Mountain Workforce Development.

4.2. Engage with local employers directly through the BRE program to identify specific talent and workforce initiatives and connect them with state and local assistance and resources.

4.2.1. Include regional and state workforce development specialists on BRE visits, especially with the largest employers, where workforce is likely to be a major issue of need.

4.3. Promote the formation and expansion of industry sector councils to ensure the critical workforce and business competitiveness needs of each sector are addressed.

4.3.1. Work with the Hampton Roads Workforce Council and the Hampton Roads Alliance to organize sector councils in critical industries, such as advanced manufacturing, healthcare, information technology, and defense & aerospace.

INDUSTRY SECTOR COUNCILS

Hiring and training needs vary greatly by industry. Research of best practices for skills gap solutions shows that the most successful are organized around industry sector councils. Such councils are designed to convene representatives of business, education, and labor to facilitate data-driven recommendations concerning sector-specific workforce needs and challenges. Sector councils identify shortages or training needs in specific occupations and/or skills. They compile resources to better communicate their common needs and to offer solutions. They also help to ensure that the region's training programs and capacity can meet the demand for workers in those critical areas.

4.4. Support the talent recruitment efforts of major employers by providing them with marketing resources that effectively promote Virginia Beach to potential employees. Marketing materials should cover topics of interest, including housing, education, entertainment, and recreation.

4.5. Deepen collaboration and ties with regional educational institutions.

4.5.1. Schedule regular annual meetings with the leadership of the region's colleges and universities and the Virginia Beach City Public Schools system to discuss opportunities for greater engagement and collaboration on important economic development issues.

4.5.2. Continue enlisting the support and expertise of university researchers and officials with appropriate investment prospects.

4.5.3. Align business attraction and retention efforts in knowledge-based sectors with research priorities and capabilities at the region's universities and other R&D organizations in the region.

REAL ESTATE REVIEW

In general, US commercial property markets follow reasonably predictable cyclical patterns. Each of the major property types—apartment, office, retail, industrial—has its own dynamics, its own supply and demand drivers, and its own sensitivities. When a recession arrives, demand dips, construction tapers off, and then things slowly return to normal. How each property type reacts is usually dependent on what triggered the recession in the first place. In 2001, it was a tech bubble. In 2008, it was housing. In 2020, it was a pandemic, but this time, the major property types have diverged from cyclical norms.

Going into this recession, **apartment** construction in the US had surged to its highest rate in decades. By mid-2021, rising prices for lumber and home construction materials had cut multifamily construction significantly, but not as much as one might expect. As of July 2021, multifamily units were still being added to the national inventory at a pace far above the long-term average.

The media predicted doom and gloom for **office** properties as the pandemic swept the US. But as of mid-2021, the pace of construction, though down a bit, was still hovering above its long-term average, a full five quarters beyond when the recession started. At this same point in the previous two recessions, office construction was plummeting. That could still happen, but so far investors do not seem to be concerned about their office holdings.

After the economic crash in 2008, **retail** construction rates languished and did not fully recover. The pace of construction began fading again in 2016 and was so sluggish when COVID-19 hit that the ensuing recession barely impacted the trend. As of mid-2021, the square footage of retail projects underway nationally amounted to less than one-half of 1 percent of the national retail inventory, a historically anemic pace for one of the most dynamic property types of the post-World War 2 era.

Finally, the major property type that has defied all cyclical norms is **industrial**. By 2016, the rate of industrial construction had already reached its highest point so far in this century. Since then, that pace has continued to surge even higher and has resisted the current recession with unprecedented resilience. The toggling of retail and industrial property in the supply chain of consumer product delivery represents one of the few significant structural shifts in US commercial property markets in decades. That shift sets the context for TIP's analysis of Virginia Beach's real estate markets.

The analysis begins with a review of CoStar data. TIP looked first at Hampton Roads positioning vis-à-vis its primary benchmark markets in the region. Next, the analysis zeroed in on industrial property to understand availability and market conditions within a 200-mile radius of Hampton Roads. Using that data as context, TIP interviewed regional stakeholders and virtually toured the major sites of interest in the City of Virginia Beach. Key findings and considerations from this work are presented in the Conclusion section.

BENCHMARK ANALYSIS

In consultation with VBDED staff, for this analysis TIP identified Richmond (Virginia), Raleigh-Durham (North Carolina), and Greenville (South Carolina) as three major regional economic development competitors for new investment projects. TIP compiled a mid-2021 snapshot for the major property types for each of these competitors. US averages are included for context and comparison. Property market dynamics are usually measured at an MSA level, so the TIP analysis shows Hampton Roads in aggregate in the tables. The City of Virginia Beach is included where variables are available at a municipal level.

INDUSTRIAL

Market dynamics for US industrial property were already tight when COVID-19 struck. Additional disruptions to the supply chain have only exacerbated the existing imbalances in supply and demand. The national vacancy rate for industrial property at mid-year 2021 was just 5.1 percent. Hampton Roads was less than half that at 2.4 percent. **And in Virginia Beach, only 1.7 percent of existing industrial space was vacant at the end of the second quarter.** If a logistics provider or a manufacturer is looking for a large, high-quality space to respond to a rapidly changing supply chain, they face a daunting challenge.

The unusual tightness of the market in Hampton Roads happened, in part, because supply lagged for a long time. Over the past decade, the national inventory of industrial property grew by nearly 10 percent. Supply in Hampton Roads grew by just 2.8 percent over the same period. True, supply growth was a bit faster than that in Virginia Beach, but the City's existing inventory is only a fraction (11.4 percent) of the overall Hampton Roads market.

There are signs that the backup of local industrial supply could be easing. At mid-year, Hampton Roads had 5.7 million square feet underway (though none of it was in Virginia Beach). Of the peer markets, only Richmond had more space under construction. But deep in the numbers, there are also reasons to question how much supply Hampton Roads can reasonably add. From an investor perspective, total returns for industrial property in Hampton Roads (9.0 percent) lagged the national average of 11.7 percent at mid-year and likewise trailed total returns in all the peer markets. Developers and institutional investors in property markets make allocation decisions for deploying capital. Historically, the markets with lower rates of return tend to stimulate less investment interest.

With 5.7 million square feet already underway in Hampton Roads, the task of attracting investor interest in Virginia Beach could be a tough sell. On the other hand, industrial construction is typically the fastest of any major property type. Conditions can change quickly—for better or worse—in a single year, or even in a couple of quarters.

FIGURE 2. PEER COMPARISON OF INDUSTRIAL PROPERTY MARKETS AS OF 2021 Q2

	HAMPTON ROADS		RICHMOND	RALEIGH-DURHAM		GREENVILLE	US
	Overall	*Virginia Beach*		*Raleigh*	*Durham*		
Market Size							
Asset Value (billions)	$9.6	—	$9.9	$8.9	$3.9	$6.6	$2,096.7
Existing Buildings (#)	4,027	455	3,443	3,166	999	3,515	462,960
Inventory SF (millions)	119.8	13.7	132.6	92.5	44.9	136.1	17,347.7
Supply Characteristics							
Inventory SF 10-Yr. Net Chg. (millions)	3.2	0.8	7.0	8.0	3.5	5.5	1,514.0
Inventory SF 10-Yr. Pct. Chg. (%)	**2.8%**	6.6%	5.5%	9.4%	8.5%	4.2%	9.6%
12-Month Net Deliveries SF (millions)	0.6	0.5	1.2	3.4	1.2	1.2	289.2
Under Construction SF (millions)	5.7	0.0	6.1	1.3	2.8	1.1	403.3
Construction Rate (%)	4.8%	0.0%	4.6%	1.4%	6.2%	0.8%	2.3%
Demand Characteristics							
Availability Rate (%)	4.1%	4.3%	5.2%	3.9%	10.2%	6.4%	7.4%
Available SF (millions)	5.2	0.6	7.2	3.7	4.9	8.8	1,316.4
Vacancy Rate (%)	**2.4%**	**1.7%**	4.2%	2.9%	4.1%	5.3%	5.1%
12-Month Net Absorption SF (millions)	1.0	0.6	2.1	3.8	1.5	0.1	334.4
Leasing Dynamics							
Market Rent Growth 12 Mo. (%)	6.4%	—	9.3%	5.6%	5.7%	5.3%	5.4%
Market Rent/SF ($)	$8.11	$7.07	$6.87	$8.88	$8.71	$4.99	$9.25
NNN Rent/SF ($)	$6.54	—	$5.43	$9.48	$6.96	$4.20	$8.30
Investment Dynamics							
Market Sale Price/SF ($)	$80	—	$75	$96	$86	$49	$121
Transaction Sale Price/SF ($)	$85	$64	$62	$83	$159	$34	$123
Median Cap Rate (%)	7.0%	7.1%	7.6%	7.1%	6.7%	7.0%	7.0%
Total Return (%)	**9.0%**	—	12.8%	13.1%	10.5%	10.8%	11.7%

Source: CoStar. Notes: See Appendix D for glossary for key real estate terms and definitions. Highlighted cells reflect notable figures. SF = square feet. NNN = triple net lease.

OFFICE

More than a year into the COVID-19 pandemic, the initial doomsday forecasts for the US office market have yet to materialize. Supply and demand dynamics are relatively stable across most markets, including the peer markets examined for this study. Office investors have not panicked, at least not yet. Commercial mortgage-backed securities (CMBS) delinquencies for office properties were running about 10 percent in the second quarter of 2021. At the same point in the previous recession, those delinquencies were running closer to 40 percent.[3]

The hit to office property in the previous recession resulted in a relatively muted response in the construction pipeline. Reasonable constraints on supply benefited investors who enjoyed ample double-digit returns on their office investments during the years of economic recovery. But at mid-year 2021, the national average for total

[3] Mark Heschmeyer. "Muted Distress in CMBS Loans Lets Investors Put COVID-19 in Their Rearview Mirrors." *CoStar News*. July 29, 2021. https://product.costar.com/home/news/shared/861378571.

returns to office property had drifted to a dismal 3.1 percent. So far, Hampton Roads and the benchmark regional markets have experienced marginally better performance, but that might be irrelevant if overall trends are moving downward. For the moment, the incentive to invest in office development is not an enticing proposition, at least in the near term. Until the ripple effects of the pandemic are squarely behind us, office investment is likely to remain muted across much of the US.

FIGURE 3. PEER COMPARISON OF OFFICE PROPERTY MARKETS AS OF 2021 Q2

	HAMPTON ROADS		RICHMOND	RALEIGH-DURHAM		GREENVILLE	US
	Overall	Virginia Beach		Raleigh	Durham		
Market Size							
Asset Value (billions)	$8.1	–	$11.1	$16.8	$8.1	$5.2	$2,572.4
Existing Buildings (#)	3,631	840	3,391	3,534	1,546	3,572	342,532
Inventory SF (millions)	55.5	14.1	65.7	76.1	35.3	33.8	8,176.5
Supply Characteristics							
Inventory SF 10-Yr. Net Chg. (millions)	2.8	0.8	0.2	11.4	3.6	1.8	400.0
Inventory SF 10-Yr. Pct. Chg. (%)	5.2%	5.9%	0.3%	17.6%	11.5%	5.6%	5.1%
12-Month Net Deliveries SF (millions)	0.8	0.1	0.3	2.2	1.0	0.2	59.1
Under Construction SF (millions)	0.2	0.1	0.2	1.0	0.9	0.8	146.2
Construction Rate (%)	0.3%	0.8%	0.3%	1.3%	2.6%	2.2%	1.8%
Demand Characteristics							
Availability Rate (%)	11.0%	10.6%	11.6%	11.6%	14.2%	10.1%	16.0%
Available SF (millions)	6.1	1.5	7.7	8.9	5.1	3.5	1,333.8
Vacancy Rate (%)	8.4%	7.2%	7.7%	7.8%	9.4%	8.6%	12.2%
12-Month Net Absorption SF (millions)	0.4	0.0	-0.8	0.6	0.9	-0.6	-127.8
Leasing Dynamics							
Market Rent Growth 12 Mo. (%)	0.5%	–	0.1%	0.3%	-0.1%	-0.1%	0.0%
Market Rent/SF ($)	$20.51	$19.35	$20.18	$27.43	$25.25	$19.95	$34.18
Gross Rent/SF ($)	$20.13	$19.35	$20.66	$28.90	$26.08	$21.73	$30.69
Investment Dynamics							
Market Sale Price/SF ($)	$146	–	$168	$221	$228	$153	$315
Transaction Sale Price/SF ($)	$124	$118	$174	$171	$262	$149	$265
Median Cap Rate (%)	8.2%	8.7%	8.3%	7.0%	7.3%	7.8%	7.1%
Total Return (%)	7.1%	–	4.4%	6.5%	9.2%	4.5%	**3.1%**

Source: CoStar. Notes: See Appendix D for glossary for key real estate terms and definitions. Highlighted cells reflect notable figures. SF = square feet.

APARTMENT

More than one-third of the apartment units in Hampton Roads are in Virginia Beach, giving the City an extraordinarily large share of the overall market. Over the past decade, the supply of units in the metro area expanded at about the same pace as the US, though far slower than in the peer benchmarks. The current pace of new apartment construction locally at mid-year 2021 had slipped to about half the pace of the US, and it lagged all the peer markets too. This constrained pipeline has resulted in relatively tight vacancy rates in the local market. Local apartment rents have been rising at a faster clip than the national average, and investor returns for multifamily investments widely outpaced the US average at mid-year. All of this suggests a need for near-term investment in local residential rental property.

FIGURE 4. PEER COMPARISON OF APARTMENT PROPERTY MARKETS AS OF 2021 Q2

	HAMPTON ROADS		RICHMOND	RALEIGH-DURHAM		GREENVILLE	US
	Overall	*Virginia Beach*		*Raleigh*	*Durham*		
Market Size							
Asset Value (billions)	$16.4	–	$14.6	$21.2	$9.5	$6.5	$3,876.1
Existing Buildings (#)	1,141	261	896	819	420	459	379,096
Inventory Units (000s)	115.8	41.9	90.4	107.6	53.1	45.2	17,662.2
Supply Characteristics							
Inventory Units 10-Yr. Net Chg. (#)	18,322	6,445	17,546	31,958	12,559	12,574	2,913,750
Inventory Units 10-Yr. Pct. Chg. (%)	18.8%	18.2%	24.1%	42.2%	30.9%	38.5%	19.8%
12-Month Net Deliveries Units (#)	2,005	793	2,923	3,678	1,187	928	383,156
Under Construction Units (#)	1,822	456	6,211	3,750	2,011	1,993	584,601
Construction Rate (%)	**1.6%**	**1.1%**	6.9%	3.5%	3.8%	4.4%	3.3%
Demand Characteristics							
Vacancy Rate (%)	**3.2%**	**2.3%**	5.0%	5.6%	8.1%	5.7%	5.3%
12-Month Net Absorption Units (#)	4,143	1,331	4,136	5,149	2,023	2,662	609,974
Leasing Dynamics							
Asking Rent Growth 12 Mo. (%)	**10.9%**	**11.8%**	9.5%	14.5%	9.9%	10.4%	7.1%
Asking Rent/Unit ($)	$1,249	$1,364	$1,270	$1,358	$1,313	$1,126	$1,475
Effective Rent Growth 12 Mo. (%)	11.3%	12.2%	9.4%	14.9%	10.4%	11.8%	7.6%
Effective Rent/Unit ($)	$1,245	$1,360	$1,258	$1,347	$1,299	$1,120	$1,464
Investment Dynamics							
Market Sale Price/Unit ($)	$141,510	–	$161,470	$196,566	$178,473	$143,796	$219,457
Transaction Sale Price/Unit ($)	$109,834	$125,255	$138,365	$185,449	$170,946	$148,470	$174,020
Median Cap Rate (%)	5.7%	5.5%	5.4%	4.5%	4.0%	4.9%	5.3%
Total Return (%)	**14.3%**	–	11.8%	10.6%	10.8%	13.3%	9.1%

Source: CoStar. Notes: See Appendix D for glossary for key real estate terms and definitions. Highlighted cells reflect notable figures. SF = square feet.

RETAIL

The waning of interest in retail property in recent years has been widespread. Even places like Virginia Beach that draw large numbers of tourists have experienced sluggish market dynamics. The pace of new construction has dwindled in Hampton Roads, just as it has in the peer markets and in the US overall. Annual rent growth in many markets, including Hampton Roads, held below 1.0 percent at mid-year 2021. Indeed, the pandemic made conditions worse, but the market dynamics were gloomy long before COVID-19. Given the structural shifts in supply chains for consumer goods, it is difficult to see the retail sector recovering significantly. Well-placed niche retail investments might perform well, but there are few of these types of investments that local metropolitan markets are likely to sustain.

FIGURE 5. PEER COMPARISON OF RETAIL PROPERTY MARKETS AS OF 2021 Q2

	HAMPTON ROADS		RICHMOND	RALEIGH-DURHAM		GREENVILLE	US
	Overall	*Virginia Beach*		*Raleigh*	*Durham*		
Market Size							
Asset Value (billions)	$16.7	–	$12.5	$5.8	$15.3	$9.0	$2,529.8
Existing Buildings (#)	8,332	1,839	7,404	2,526	5,809	7,041	1,048,434
Inventory SF (millions)	106.9	26.4	82.3	27.3	74.7	63.1	11,702.3
Supply Characteristics							
Inventory SF 10-Yr. Net Chg. (millions)	6.7	1.4	4.1	2.1	8.0	3.7	564.9
Inventory SF 10-Yr. Pct. Chg. (%)	6.6%	5.5%	5.2%	8.2%	11.9%	6.2%	5.1%
12-Month Net Deliveries SF (000s)	72.5	32.5	280.9	295.2	537.9	463.2	37,917.7
Under Construction SF (000s)	209.5	15.0	256.1	312.7	636.1	277.3	46,050.9
Construction Rate (%)	**0.2%**	0.1%	0.3%	1.1%	0.9%	0.4%	0.4%
Demand Characteristics							
Availability Rate (%)	7.6%	6.8%	6.5%	5.6%	4.2%	5.1%	6.2%
Available SF (millions)	8.1	1.8	5.4	1.6	3.1	3.2	732.4
Vacancy Rate (%)	5.5%	4.5%	5.1%	4.0%	3.1%	4.1%	5.0%
12-Month Net Absorption SF (000s)	289.1	60.3	83.9	125.1	163.0	444.0	12,250.7
Leasing Dynamics							
Market Rent Growth 12 Mo. (%)	**0.5%**	–	0.9%	1.0%	2.5%	1.4%	0.9%
Market Rent/SF ($)	$17.94	–	$18.42	$20.13	$21.69	$14.42	$22.07
NNN Rent/SF ($)	$14.84	$17.39	$15.80	$19.63	$19.18	$13.10	$18.86
Investment Dynamics							
Market Sale Price/SF ($)	$157	–	$152	$213	$204	$142	$216
Transaction Sale Price/SF ($)	$144	$264	$146	$138	$289	$145	$193
Median Cap Rate (%)	6.7%	5.9%	7.0%	6.6%	6.2%	6.3%	6.3%
Total Return (%)	6.1%	–	8.7%	7.2%	9.0%	4.4%	5.5%

Source: CoStar. Notes: See Appendix D for glossary for key real estate terms and definitions. Highlighted cells reflect notable figures. SF = square feet. NNN = triple net lease.

REGIONAL ANALYSIS

The exceptional fundamentals of supply and demand in the US industrial market require a deeper understanding of underlying trends. To do this, TIP pulled a sample of properties within a 200-mile radius of Hampton Roads. The arc stretched from the southern suburbs of Philadelphia in the north to the edges of the Greensboro/Winston-Salem metro area in the south. TIP set high parameters for its search, including large, contiguous available spaces of 100,000 square feet or larger, and high-quality properties as defined by CoStar with a rating of four or five (on a five-star system).

The options within a 200-mile radius are somewhat limited. Of the 5.7 million square feet under construction in Hampton Roads, less than a half-million square feet actually met this threshold. **And there were no properties located in the City of Virginia Beach, either existing or under construction, that met these criteria.** Only properties in Suffolk (one existing, one underway) and Newport News (one existing) met this bar for size and quality. TIP also found that most of the spaces available across the region were for distribution (7.6 million square feet) or specialized uses (9.7 million square feet). Of properties intended for manufacturing use, only 1.9 million square feet of lease-ready space was identified within 200 miles, with the bulk of it scattered across rural Virginia.

FIGURE 6. LARGE, HIGH-QUALITY INDUSTRIAL SPACE AVAILABLE FOR LEASE WITHIN A 200-MILE RADIUS OF HAMPTON ROADS

AVAILABILITY BY PIPELINE STATUS

	EXISTING	UNDER CONSTRUCTION	TOTAL SF
Baltimore	5,924,471	1,909,845	7,834,316
Washington, DC	697,522	2,374,232	3,071,754
Richmond	1,098,029	560,837	1,658,866
Virginia (non-metro)	1,510,886	0	1,510,886
Raleigh/Durham	0	1,469,680	1,469,680
Greensboro/Winston-Salem	536,000	350,000	886,000
Philadelphia	797,829	0	797,829
North Carolina (non-metro)	793,133	0	793,133
Hampton Roads	374,600	348,500	723,100
Roanoke	387,558	0	387,558
Total	**12,120,028**	**7,013,094**	**19,133,122**

AVAILABILITY BY BUILDING TYPE

	DISTRIBUTION	MANUFACTURING	OTHER INDUSTRIAL	TOTAL SF
Baltimore	3,404,239	0	4,430,077	7,834,316
Washington, DC	928,860	0	2,142,894	3,071,754
Richmond	338,108	249,921	1,070,837	1,658,866
Virginia (non-metro)	0	1,350,886	160,000	1,510,886
Raleigh/Durham	1,210,080	0	259,600	1,469,680
Greensboro/Winston-Salem	776,000	0	110,000	886,000
Philadelphia	577,829	100,000	120,000	797,829
North Carolina (non-metro)	0	160,000	633,133	793,133
Hampton Roads	348,500	0	374,600	723,100
Roanoke	0	0	387,558	387,558
Total	**7,583,616**	**1,860,807**	**9,688,699**	**19,133,122**

ESTIMATED RENT PER SF OF AVAILABLE PROPERTIES

	Low	High
Baltimore	$4.53	$7.68
Washington, DC	$4.80	$14.50
Richmond	$2.85	$7.59
Virginia (non-metro)	$2.75	$5.93
Raleigh/Durham	$4.50	$10.51
Greensboro/Winston-Salem	$2.00	$4.46
Philadelphia	$3.50	$6.70
North Carolina (non-metro)	$2.50	$4.95
Hampton Roads	$3.79	$9.15
Roanoke	$4.15	$4.15

Source: CoStar.

Notes: Large is defined as contiguous available space of 100,000+ square feet (SF). High quality is defined as a CoStar rating of four or five (on a five-star system). Other industrial (excluding manufacturing and distribution) might include showroom, data housing, cold storage, warehousing, and other specialized uses. The pipeline of space available for lease includes existing stock as well as properties currently under construction. There were no properties located in the City of Virginia Beach that met these criteria. Only properties in Suffolk (one existing, one underway) and Newport News (one existing) met this threshold. Darker shading indicates greater square footage.

One opportunity to expand the inventory of available industrial properties with a focus on manufacturing is the renovation of existing buildings. TIP reviewed all industrial properties within a 200-mile radius of Hampton Roads and identified 189 renovated buildings that are designated for manufacturing use. Of these, TIP found 22 in which the renovations were completed within the past 5 years.

Demonstrating the demand for renovated space, all 22 properties were fully leased. Half of the properties (11) were in North Carolina. Only eight were in Virginia, with most of them located in or near Richmond. Of the five properties with a CoStar rating of at least a four, only one was in Virginia, just south of Richmond.

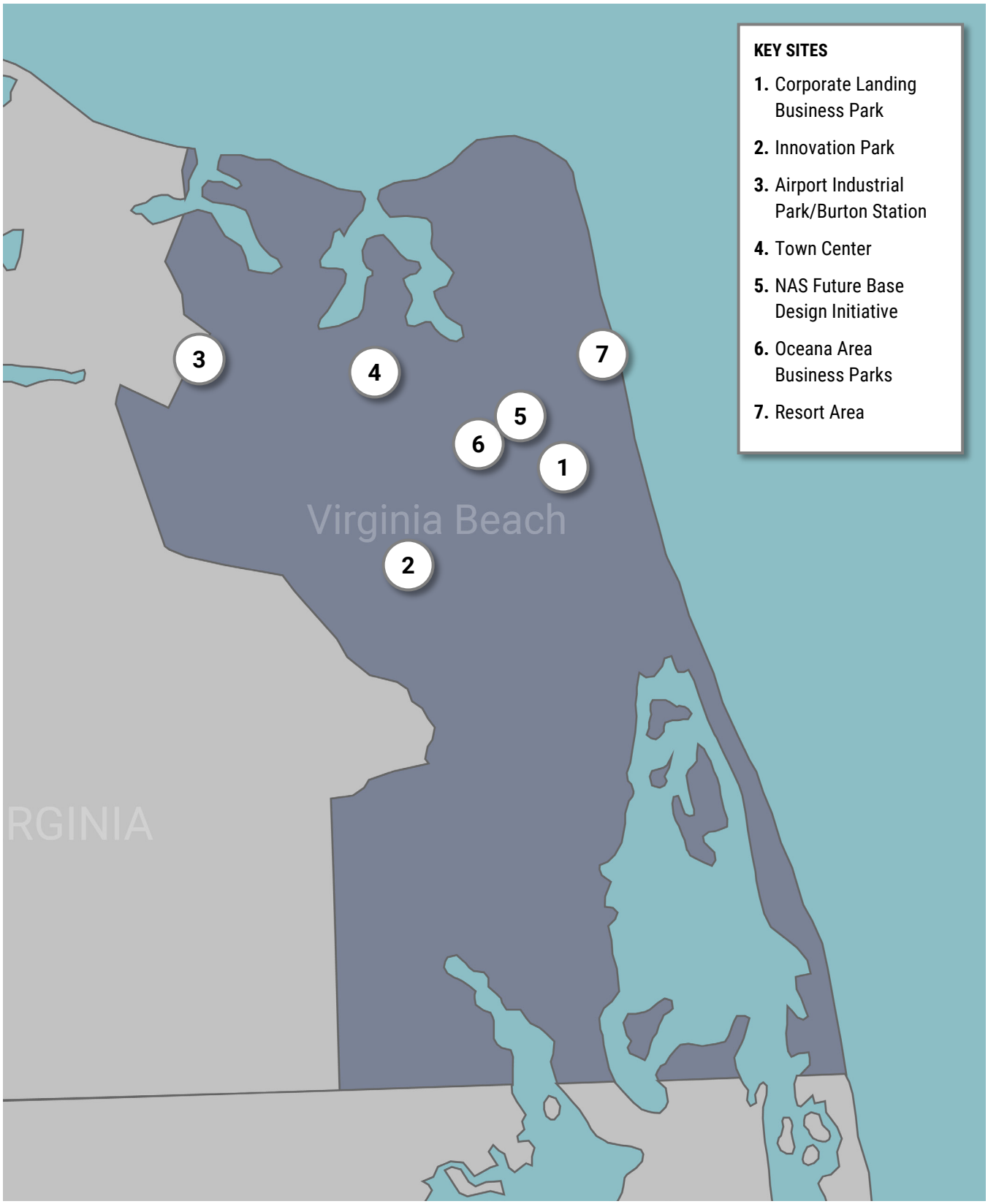
The estimated rent ranges for these buildings vary widely, with some approaching a pricey annual rate of $10/SF. The wide range in estimated rents can reflect several factors that can't be corrected with a renovation, including location, intermodal accessibility, and certain obsolescence factors like clearances, heights, and other specs that are part of the original structure.

FIGURE 7. RECENTLY RENOVATED MANUFACTURING BUILDINGS WITHIN 200 MILES OF HAMPTON ROADS

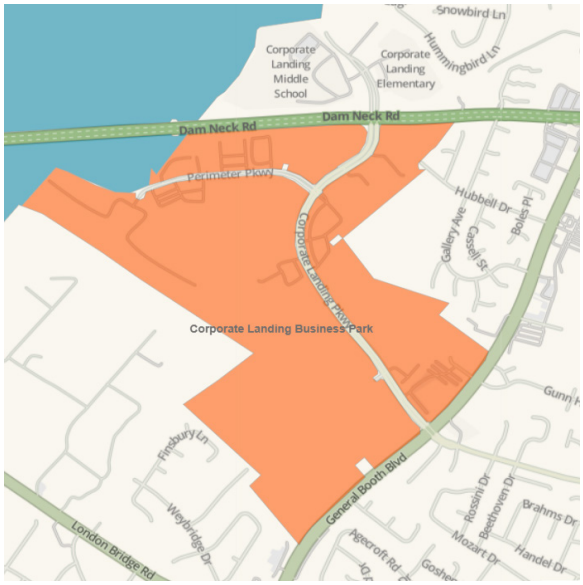
PROPERTY ADDRESS	CITY	STATE	SQUARE FEET	EST. RENT/SF/YR.	COSTAR RATING	YEAR BUILT	YEAR RENO.
6300 Kioti Dr	Wendell	NC	228,120	$7.05–$8.61	4	2004	2020
280 Woodland Church Rd	Goldsboro	NC	207,000	$2.07–$2.53	3	1969	2020
1500 Commerce Rd	Richmond	VA	184,270	$1.65–$2.02	2	1954	2020
700 E 4th St	Richmond	VA	112,100	$5.92–$7.24	2	1942	2020
900 Beards Hill Rd	Aberdeen	MD	21,945	$8.73–$10.67	2	1977	2020
475 Green Oaks Pkwy	Holly Springs	NC	618,201	$7.45–$9.10	4	2008	2019
15900 Sabra Way	South Chesterfield	VA	220,000	$5.40–$6.23	4	2009	2019
211 Kitty Hawk Dr	Morrisville	NC	74,707	$7.10–$8.68	2	1996	2019
309 Component Dr	Smithfield	NC	29,676	$5.35–$6.54	2	1979	2019
1101 E 3rd St	Siler City	NC	10,540	$2.26–$2.77	3	1994	2019
3001 Cofer Rd	Richmond	VA	246,615	$3.00–$3.66	3	1969	2018
2300 Jefferson Davis Hwy	Richmond	VA	163,112	$1.97–$2.41	2	1949	2018
2440 N Mill Rd	Vineland	NJ	150,000	$2.76–$3.37	4	2016	2018
270 Moncure Pittsboro Rd	Moncure	NC	94,260	$5.82–$7.12	2	1961	2018
1722 Arlington Rd	Richmond	VA	65,000	$5.62–$6.87	3	1940	2018
1200 N New Hope Rd	Raleigh	NC	76,380	$5.08–$6.21	3	1975	2017
2101 Harrod St	Raleigh	NC	70,108	$5.42–$6.62	3	1971	2017
187 McGrew Dr	Burlington	NC	47,320	$4.15–$5.07	3	1968	2017
5250-5330 Holabird Ave	Baltimore	MD	499,022	$3.20–$3.63	3	1965	2016
3721 NC 119 Hwy	Haw River	NC	233,395	$3.64–$4.45	4	2003	2016
485 N Charlotte Ave	Waynesboro	VA	4,792	$5.70–$6.96	1		2016
522 S Main St	Broadway	VA	4,130	$8.09–$9.88	1	1940	2016

Source: CoStar.
Notes: Includes manufacturing buildings with renovations completed in the 5-year period of 2016 through 2020. All buildings were 100 percent leased as of August 13, 2021.

KEY ECONOMIC DEVELOPMENT SITES



CORPORATE LANDING BUSINESS PARK

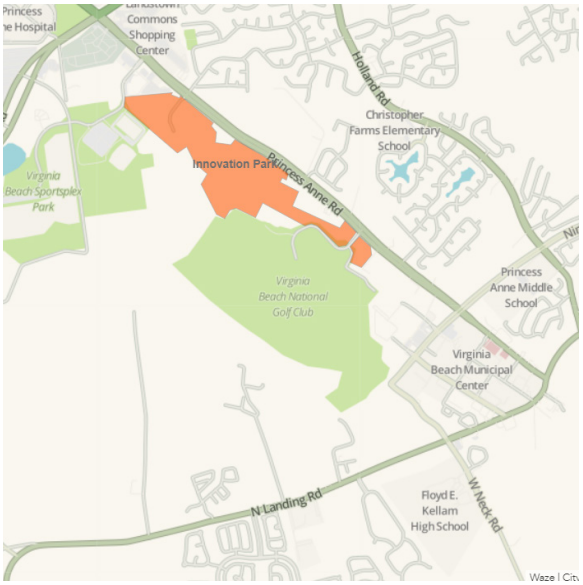


Corporate Landing Business Park is a certified Tier IV shovel-ready business park owned by VBDA. The 325-acre park is located 5 miles from I-264 on the southwestern edge of NAS Oceana. Current uses include Class A office space, light industrial, research and data centers, and other mixed uses. It is also a Dominion Energy certified data center site and landing location for three ultra-high-speed subsea transoceanic fiber optic cables. The Spanish telecom company, Telefónica, has built a 24,000-square-foot landing station to support the undersea data cables. The park's current tenants include the regional headquarters for GEICO, Lockheed Martin, and Globalinx, as well as the corporate headquarters for Groundworks.

Corporate Landing is a first-class corporate business park that offers several advantages to prospective tenants. However, the park is down to only about 30 acres available for development. Because of this, VBDED and VBDA must consider the types of development and uses that should be prioritized for the remaining acreage. While attracting additional data centers to the park is a natural fit, these facilities do present limited economic benefits. Foremost, data centers do not offer significant direct employment benefits to the community. In addition, in Virginia much of the tax benefit on the equipment is limited to the first couple of years due to accelerated depreciation. Consequently, there is a question as to whether attracting additional data centers to Corporate Landing offers the optimal economic benefit for the remaining acreage on the site. Prioritizing uses, such as corporate and regional headquarters, light manufacturing, and business services in Corporate Landing, while targeting other sites in the City for data center development, might make the most sense.

INNOVATION PARK

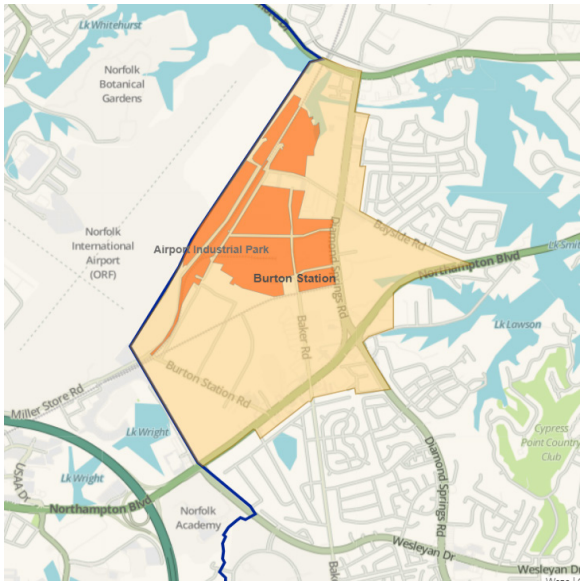
Situated within the Princess Anne Commons commercial corridor, Innovation Park is a VBDA-owned, 155-acre business park. The park is zoned light industrial and lists compatible uses as Class A office, advanced manufacturing, and technology. All the park's phase I development acreage has been obligated.



Southwest of Innovation Park, however, there is approximately 750 acres of City-owned unzoned land that could be made available for future advanced manufacturing and light industrial development. Residential development on the property is restricted because it lies beneath the flight path of NAS Oceana. The site is well served by electricity and water utilities but lacks an adequate natural gas supply. With the tight supply of available land in Virginia Beach, this tract could represent the best opportunity for increasing the City's competitiveness for new advanced manufacturing investment

and employment. The City should take the first step in evaluating the potential of the land for new light industrial development by creating a site master plan.

AIRPORT INDUSTRIAL PARK/BURTON STATION



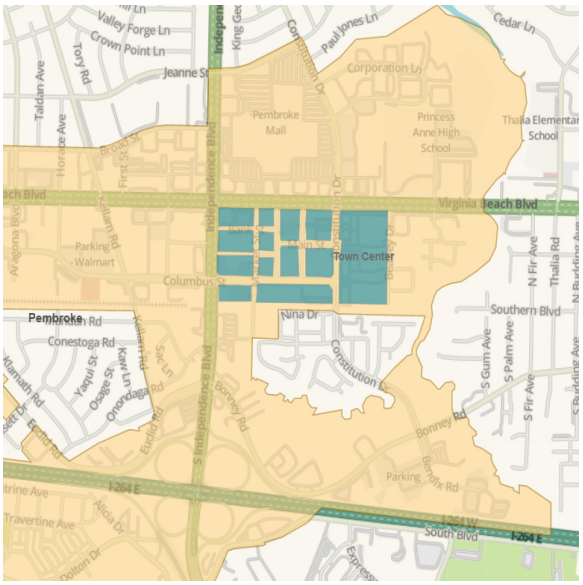
According to regional real estate professionals interviewed by the consulting team, Airport Industrial Park, situated within the Burton Station SGA, is one of Virginia Beach's most competitive business parks due to its geographic location. Acquired by the City in 1969, the 250-acre park is zoned for industrial and borders Norfolk International Airport to the east and is the closest business park in the City to the Port of Virginia and I-64. It has access to Class I railroads via the Buckingham Branch Railroad. The three primary uses in the park are industrial and flex (3.7 million square feet), retail (876,000 square feet), and office (230,000 square feet).

The 52-year-old park is predominately built out and the properties are relatively old. They lack the high bays that are currently in demand by developers seeking sites for modern industrial and distribution facilities. Making the site more competitive for such projects would require private acquisition and redevelopment of existing properties. However, current market conditions, including the cost of land and construction costs, make that unfeasible in the near term.

There are indications that new development and redevelopment is possible south of the park in the Burton Station SGA. Near the airport, there are sizeable tracts of undeveloped land that are proximate to air, rail, and interstate connections and could be appealing for flex, light industrial, and office uses. The eastern portion of the SGA represents an opportunity for new multifamily residential, commercial, and office development/redevelopment. The City has invested in multiple capital improvement projects in the SGA to promote new development, including road improvements, water and sewer line extensions, and a new fire and emergency medical services (EMS) station.

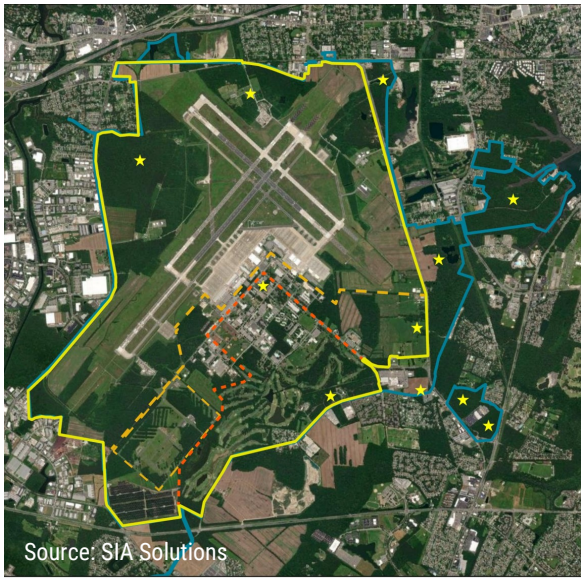
TOWN CENTER

Town Center is the rising urban center of Virginia Beach. The 25-acre, 17-block development is part of the Pembroke Strategic Growth Area (SGA) situated in the middle of the City's commercial business district. The 20-year-old development is home to a mix of modern facilities, including retail, Class A office, multifamily residential, entertainment, hospitality, dining, and cultural. Town Center encompasses 813,000 square feet of Class A office space. Another 235,000 square feet of office space will be added in 2022 with the planned completion of the 16-story Block 2 Office Tower. In addition to office space, Town Center features 401,000 square feet of retail space, 134,000 square feet of restaurant space, and over 900 residential units.



The continued growth and vibrancy of Town Center would benefit from expanding walkable and cyclable mixed-use areas and green space in and around the development. The benchmark analysis highlights the growing need for near-term investment in residential rental property in Virginia Beach. Promoting and facilitating the development of additional multifamily units, including mid-rise structures, in Town Center would help to strengthen its appeal to residents and businesses and enhance the quality of place for Virginia Beach as a whole.

NAS OCEANA FUTURE BASE DESIGN INITIATIVE



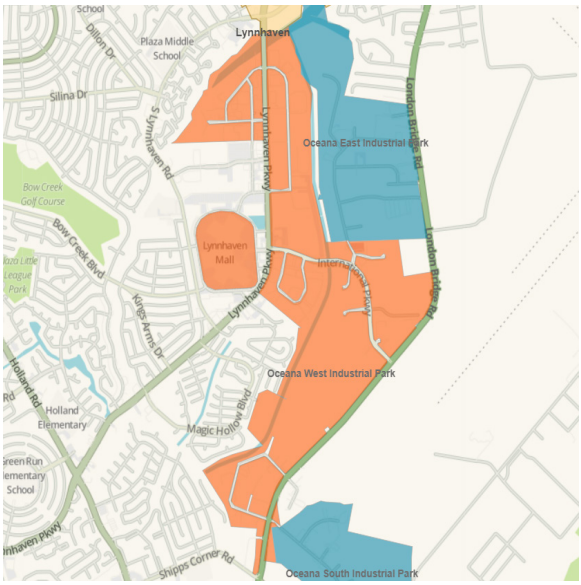
Future Base Design is a US Navy initiative to explore alternative land uses for properties in and around NAS Oceana. A key focus of the initiative is to consider options for enhancing the economic value and contributions to both NAS Oceana and the City of Virginia Beach of underutilized properties owned by the Navy. Approximately 1,000 acres of underutilized land has been identified. Of that, a little more than 400 acres around the installation is classified as developable and site ready (cleared and no environmental constraints).

NAS Oceana and the City of Virginia Beach are working together to identify mutually beneficial partnership structures that would allow new private development to occur on the commercially developable properties. NAS Oceana would benefit from modernized facilities, in-kind services, and compensation that would help to offset funding declines in installation sustainment. Virginia Beach stands to gain precious developable land that is compatible with new commercial and industrial development.

The VBDA, through VBDED, will likely be responsible for marketing the properties to investment prospects and negotiating deals. Because of existing use restrictions surrounding the base, commercial and industrial opportunities for the land will be limited to businesses that are not employee intensive (e.g., large manufacturing facilities). Uses that would be compatible include data centers, energy storage facilities, and warehousing. Further, by seeking to attract those types of businesses and uses to Navy-owned properties, VBDED can prioritize attracting higher intensity employment prospects to more appropriate sites, such as Corporate Landing Business Park or potential new greenfield sites.

OCEANA AREA BUSINESS PARKS

Located to the west and south of NAS Oceana are three industrial parks. These parks include Oceana West (public owned), Oceana East (private owned), and Oceana South (private owned). VBDA owns the 1,110-acre Oceana West Industrial Park. Major employers in the park include STIHL's North American headquarters, AvalonBay Communities, ADS Tactical, Busch Vacuum Solutions, IMS Gear, AGI, Fortis Solutions Group, and Kettler International. However, greenfield land for additional development at Oceana West is limited.



RESORT AREA

The Resort SGA is another highly successful long-term investment in economic vitality by the City of Virginia Beach, the business community, and local residents. The first strategic plan for the Resort SGA was adopted in 2008. Since that time, the area has seen a number of new developments, including the Virginia Beach Convention Center, the Virginia Beach Sports Center, multiple high-rise hotels, retail stores, beach amenities, and some commercial office space.

In 2020, the City adopted an updated 10-year strategic plan for the Resort SGA: Resort Area Strategic Plan (RASAP) 2030. The new plan contains several new priorities for the area. These include the completion of a new mobility plan, detailed streetscape design, connected greenspace and open spaces, and supporting new residential and mixed-use development to help transform the Resort Area into a year-round economic engine for the community.

STAKEHOLDER INPUT

To supplement the data analysis, TIP spoke with commercial real estate experts in Hampton Roads to gather qualitative input on current conditions and the outlook for the industrial market in Virginia Beach. The following are some key takeaways from those discussions.

- Virginia Beach is not attracting much interest for large industrial projects due to a lack of appropriate sites and buildings. The sites that are available are smaller and do not have good interstate highway access. The City of Virginia Beach needs to invest in pad-ready sites that have zoning, utilities, and road access.
- Airport Industrial Park, Cavalier Industrial Park (Chesapeake), and Norfolk Industrial Park are the most competitive sites for industrial development in Hampton Roads.
- The main industry drivers of industrial development over the past 12 to 18 months are e-commerce distribution, freezer space (near the port), and third-party logistics companies.
- There has not been much recent interest by defense contractors in large sites in the region. There have been some inquiries seeking smaller facilities (<20,000 square feet). Many existing defense contractors are choosing to renew existing leases.
- Most of the large-scale activity (e.g., assembly, construction, cabling, maintenance and repair, and storage) associated with the Dominion Energy Coastal Virginia Offshore Wind development will be concentrated at Portsmouth Marine Terminal. Virginia Beach should be targeting smaller parts production and operations activities associated with the project.
- A major weakness in the Hampton Roads industrial market is the lack of available spec buildings, especially compared to other competing markets, like the Richmond and Charleston regions.
- There are currently few shovel-ready greenfield sites available in the region. Most of the sites are in Suffolk; however, the distance to the port makes these sites less competitive.

- There is some potential for the redevelopment of older industrial sites and buildings into more modern facilities, especially near the airport. However, this likely will not happen until the cost of construction and acquiring the land becomes more affordable.

CONCLUSION

The industrial real estate market in Virginia Beach is extremely tight. While industrial vacancy is relatively low for competing markets, it is especially low in Virginia Beach. According to CoStar, at the end of the second quarter of 2021, the vacancy rate for existing industrial space stood at only 1.7 percent. This makes the City essentially uncompetitive for new manufacturing projects, especially larger ones. This reality should compel the City of Virginia Beach to assess options for acquiring new properties suitable for manufacturing uses.

Major new office and retail development opportunities in the City are likely to be muted until the immediate effects of the pandemic have receded and there is a better understanding of its long-term impacts. There is a need for greater investment in apartment rental properties in Virginia Beach, which aligns well with the long-term City planning for key areas such as Town Center, the Resort Area, and Burton Station.

APPENDIX A. METRICS

A critical component of a successful strategic plan is the set of metrics by which the plan's implementation is tracked. It is imperative that VBDED focus on a set of strategic metrics to track progress on critical economic outcomes. Staff should create a performance dashboard that can be used to communicate performance metrics to City leadership on a regular basis. This is vital to tracking progress as well as maintaining accountability throughout the implementation of this plan.

Figure 8 provides a list of performance metrics that are intended to focus VBDED on high-level strategy and outcomes; however, VBDED staff will also need to identify programmatic and operational metrics to track progress toward program-specific goals. Moreover, not all of these measures are ones that VBDED can directly impact through its programs and activities. Still, VBDED should track these measures as much as possible to provide an overall indicator of the relative economic health in Virginia Beach.

FIGURE 8. RECOMMENDED STRATEGIC PERFORMANCE METRICS

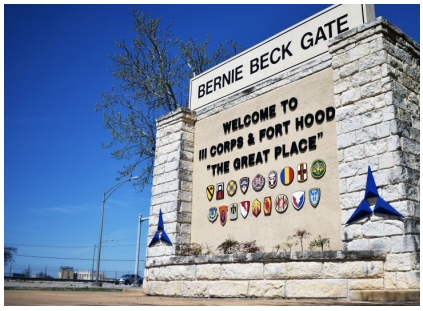
METRIC	DESCRIPTION	SOURCES
Job growth	Number of jobs created and retained.	Virginia Works, business surveys, and interviews
Domestic investment	Growth in capital investment from both existing and new businesses.	In-house data collection, business surveys, and interviews
Foreign investment	Growth in capital investment from both existing and new businesses based overseas.	In-house data collection, business surveys, and interviews
Wages	Average wages of jobs created/retained.	Virginia Works, business surveys, and interviews
Portion of jobs at a livable wage	Percentage of jobs in the City that pay a living wage (see MIT living wage calculator).	Virginia Works, Massachusetts Institute of Technology
Employment gap	Percentage difference in employment rate between Whites and people of color (ages 16–64).	US Census Bureau, American Community Survey
Startup survival	Percentage of startups that are active after 1 year and 5 years.	In-house data collection, business surveys, and interviews
New business establishments	Number of new businesses in Virginia Beach and year-to-year growth.	In-house data collection, business surveys, and interviews
New industrial, manufacturing, and office space	Amount of new space (square feet) added as well as vacancy rate.	CoStar
Domestic migration	Net migration to Virginia Beach.	US Census Bureau, American Community Survey
Talent availability	Population 25+ with associate degree or higher.	US Census Bureau, American Community Survey
	Population 25+ with bachelor's degree or higher.	US Census Bureau, American Community Survey

APPENDIX B. VIRGINIA BEACH ECONOMIC EXPLORER

TIP Strategies' Economic Explorer analyzes the demographics, housing, workforce, and employment trends of Virginia Beach and the surrounding region. This tool was developed in Tableau—an interactive data visualization software that allows users to explore data and find new insights. This guide will outline the steps to interact with the data.

1. **NAVIGATION AND MENU.** The landing page menu has a brief description of the tool and buttons to navigate to each visualization. Click on a button to navigate to that visualization and return to the main menu by clicking the "Return to Menu" button at the bottom of the page (users can also navigate with the tabs, similar to a Microsoft Excel file).
2. **INTERACTIVE TOOLTIPS AND FILTERS.** The visualizations in this tool have additional data that will appear when hovering the mouse over a chart element. For example, hovering over a bar on the "Age" chart will show additional information about the region's population, such as median age and gender ratio. In the top right corner of some tabs, there are filter options to change the year(s) or region(s) analyzed in the visualization.
3. **EXPORTING IMAGES AND DATA.** While interactive features can lead to new data insights that might have been otherwise missed, sometimes a still chart image or the data behind the chart is needed. The dropdown options under "File" include "Export as PowerPoint" and "Print to PDF" options that can be applied for a single chart or multiple visualizations. The dropdown options under "Dashboard" also include image copy and export options. If a single visualization on a tab is selected, additional options appear under the "Workbook" dropdown that allow users to copy or export the single chart image or the data underlying the current view. "Workbook->Export" gives more options for how the image is exported, while "Copy" provides a simple still image. Note: Excel must be closed for the data export "Crosstab to Excel" option to work properly.

APPENDIX C. CASE STUDIES



CASE STUDIES: Fort Hood Region Veterans Inventory Initiative (FHRVII) and Joint Base San Antonio (JBSA) Transition Assistance Survey

LOCATIONS: Killeen, Texas, and San Antonio, Texas

WEBSITES

www.hotda.org/veterans-inventory-initiative

www.jbsa.mil/Mission-Partners

PARTNER ORGANIZATIONS

Fort Hood Region Veterans Inventory Initiative

- Army Transition Assistance Program (TAP)
- Workforce Solutions of Central Texas Board of Directors, Workforce Solutions of Central Texas Workforce Service Centers
- Greater Killeen Chamber of Commerce (GKCC)
- Heart of Texas Defense Alliance (HOTDA)
- Texas Veterans Commission

Joint Base San Antonio

- Workforce Solutions Alamo (WSA)
- Bexar County, Texas

BACKGROUND

In 2006, the city of Killeen, Texas, and the Greater Killeen Chamber of Commerce (GKCC) partnered with TIP Strategies to craft a regional plan (named Operation Economic Transformation) that would reduce the region's military-related economic dependency while simultaneously building on the region's growth opportunities associated with Fort Hood. One outcome of this plan was the creation of the Fort Hood Region Veterans Inventory Initiative (FHRVII) survey, which continues to be administered on a quarterly basis. FHRVII captures information from soldiers who are about to separate from the military. The survey asks questions about their educational levels, skills, post-separation career plans for them and their spouses, and suggestions to improve the area's quality of place. Once the results are compiled, they are sent to local partners so that they can highlight the incoming talent pool in economic development marketing materials and responses to investment request for proposals (RFPs).

Inspired by GKCC's efforts, Joint Base San Antonio (JBSA) began its own survey in 2018, modeled after the FHRVII, and recently completed its third assessment. After receiving the completed survey, JBSA sends the information to Workforce Solutions Alamo (WSA). WSA analyzes the results, publishes the findings, and then uses this data to apply for training dollars. A major consistent finding of the survey is the need for more entry-level, professional career opportunities for recently separated military members in the San Antonio area. This diverges from older assumptions that veterans are more primed for blue-collar work and affects what workforce and training programs JBSA is willing to partner with.

KEY TAKEAWAYS

- Assess soon-to-be separating military members before they leave to ensure survey completion.
- Be comprehensive when creating a survey for this specific demographic so that the data can support funding for all facets of economic development.
- Regularly administer the survey to produce fresh and compelling data that can be applied for funding opportunities.

CASE STUDY: New College Institute (NCI)

LOCATION: Martinsville, Virginia

WEBSITE: www.newcollegeinstitute.org

PROGRAM AFFILIATION

- Martinsville Henry County Economic Development Corporation
- Mid-Atlantic Wind Training Alliance: Virginia's first offshore and onshore wind workforce training collaborative led by NCI, Centura College, and the Mid-Atlantic Maritime Academy. The alliance offers courses certified by the Global Wind Organisation (GWO) and the National Center for Construction Education and Research (NCCER).
- Bluefield College, University of Virginia, Radford University, William & Mary, James Madison University, Longwood University, Virginia Tech

TIMELINE

- 2004: Initial legislation and financial support established to support a college in Southern Virginia.
- 2006: NCI's pilot program launches with more than 100 students.
- 2020: The Mid-Atlantic Wind Training Alliance is created.
- 2021: NCI was GWO certified in February.

BACKGROUND

Like many former manufacturing cities in the South, Martinsville has cycled through booms and busts and has been in a period of economic stagnation since the turn of the recent century. The loss of so many jobs in this southern Virginia town underscored the need for increased access to local postsecondary education. With support from state and local authorities, NCI was established as a rural innovation center, which aligned with the economic priorities of the Commonwealth of Virginia.

NCI offers certifications in multiple industries, but it is notable for its offshore wind technician program. It is the first facility in Virginia to be GWO certified and only one of three sites in North America to offer basic technological training specific to wind energy. While Martinsville is a 4-hour drive from Virginia Beach, NCI is equipped to fully train its students for the offshore wind facility being constructed off the coast of Virginia Beach. While there are no current plans to build a second campus closer to shore, it should not be ruled out in the future.

The school's primary focus is workforce development. As such, NCI leadership is actively marketing its offshore wind technician program to K–12 students. NCI representatives sit on panels and lead webinars, speaking about NCI and the promise of wind energy careers as part of the Alliance's 757 Recovery and Resilience Action Framework (Hampton Road's COVID-19 economic recovery plan). Though the main audience for this program is high school seniors who are, or about to be, 18 years old (the wind technician program require students to be at least 18 years old), efforts toward younger students are also made so that when they turn 18, they can immediately train at NCI. The institution is in the process of partnering with more school districts in Virginia and is also in talks with leadership from Virginia Beach to help grow this program.

NCI offers basic safety training (four courses), basic technical training (three courses), and is in the process of getting certified to offer a sea survival course. Once certified, NCI will be one of three schools in the country to offer this specific course.

KEY TAKEAWAYS

- State and institutional leadership knows early exposure and awareness about offshore wind technician careers is key to building a talent pipeline for future workforce demand.
- Proximity to the shore is not necessary for basic offshore wind technical training.
- Virginia Beach school districts should make an aggressive effort to partner with NCI on career and workforce development.

Image source: New College Institute Facebook profile.

CASE STUDY: NTT Data Center

LOCATION: Hillsboro, Oregon

WEBSITE: www.ragingwire.com/wholesale/wholesale-data-center-hillsboro-hi1

BACKGROUND

Hillsboro is located west of Portland, Oregon, and is considered part of the Silicon Forest tech industry due to the presence of many large high-tech companies and proximity to the metro area. In 2021, Nippon Telegraph & Telephone (NTT), the Japanese telecommunications company, opened a campus in Hillsboro. The city was selected for its lower cost of power and consistent reliability, which is possible because it is one of two places where transatlantic data cables come ashore in the United States from Asia (the other locale is Los Angeles).

The campus inhabits a repurposed solar panel factory, and four more buildings will be constructed over the surrounding 47 acres. Hillsboro has no sales tax and an Enterprise Zone program property tax abatement for new data centers for up to 5 years. NTT also appreciated that the electricity powering the center comes from green energy generated from windmills and hydroelectric plants. It is expected that the new campus will employ at least 22 full-time employees, including IT professionals, security guards, and facilities management.

KEY TAKEAWAYS

- In addition to offering incentives, power an industrial campus or data center with as much green energy as feasible.
- Take advantage of the rarity of being an onshore transoceanic data cable location by emphasizing the reliability of the connections.

Image source: NTT Global Data Centers Americas.

APPENDIX D. REAL ESTATE GLOSSARY

- **AVAILABILITY RATE.** The percent of space available on the last day of each quarter or the current date in the case of the current quarter. Total available square feet divided by the total RBA on the last day of each quarter.
- **AVAILABLE SPACE.** The total amount of space that is currently being marketed as available for lease or sale in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date. CoStar includes only existing, under construction, and under renovation buildings in its statistical calculations of available space.
- **CAPITALIZATION ("CAP") RATE.** The income rate of return for a total property that reflects the relationship between one year's net operating income expectancy and the total price or value. Calculated by dividing the net operating income by the sale price or value.[4]
- **CONSTRUCTION RATE.** The total square footage under construction divided by the total square footage of inventory at a specific point in time.
- **INVENTORY.** Existing inventory refers to the total square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space that is either planned, or under construction.
- **MARKET RENT.** The rental income that a property would most probably command in the open market.
- **NET ABSORPTION.** For existing buildings, the measure of total square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a given period of time. Lease renewals are not factored into net absorption. However, in a lease renewal that includes the leasing of additional space, that additional space is counted in net absorption. Pre-leasing of space in non-existing buildings (Planned, Under Construction or Under Renovation) is not counted in net absorption until actual move in, which by definition may not be any earlier than the delivery date.
- **TRIPLE NET (NNN).** A lease in which a tenant is responsible for all expenses associated with their proportional share of occupancy of the building.
- **UNDER CONSTRUCTION.** [This includes] buildings in a state of construction, up until they receive their certificate of occupancy. In order for CoStar to consider a building Under Construction, the site must have a concrete foundation in place.
- **VACANT SPACE.** Vacant space refers to all space not currently occupied by a tenant, regardless of any lease obligation that may be on the space. Vacant space could be space that is either available or not available. For example, sublease space that is currently being paid for by a tenant but not occupied by that tenant, would be considered vacant space. Likewise, space that has been leased but not yet occupied because of finish work being done would also be considered vacant space. Vacant space could also be quoted in one of three ways, as new, relet or sublet. New space, sometimes called first generation space, refers to space that has never been occupied by a tenant before. Relet space, sometimes called second generation space, refers to space that has previously been occupied by another tenant. Sublet space refers to space that has been leased by another tenant, is still under a lease obligation by that tenant, but is being offered for lease back to the market by the tenant with the lease obligation.

Source: CoStar

[4] TIP Note: Property investors typically read cap rates as a pricing barometer, with lower relative cap rates signaling expensive market pricing.