



DISPLACEMENT & ECONOMIC IMPACT ASSESSMENT
THE WAVE IN CONTEXT OF OCEANFRONT
RESORT DISTRICT
VIRGINIA BEACH

CITY COUNCIL BRIEFING

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VIRGINIA BEACH

Two Major Proposed Public or Public/Private Projects Proposed in Oceanfront Resort District



Two Principal Questions the Lambert Advisory Economic Assessment Helps Answer

- Do the economic and fiscal benefits of The Wave project exceed the public commitment of funds to the project? (a measure of return-on-investment for the Virginia Beach community)
- When looking at the project in a citywide context; to what extent does the economic and fiscal activity generated from a given project displace economic and fiscal activity already being generated within the City?

Important to measure net economic and fiscal impacts generated by a project which is the recipient of public investment, not total economic activity.

SECTION ONE

WHAT IS DISPLACEMENT AND IS IT BAD?

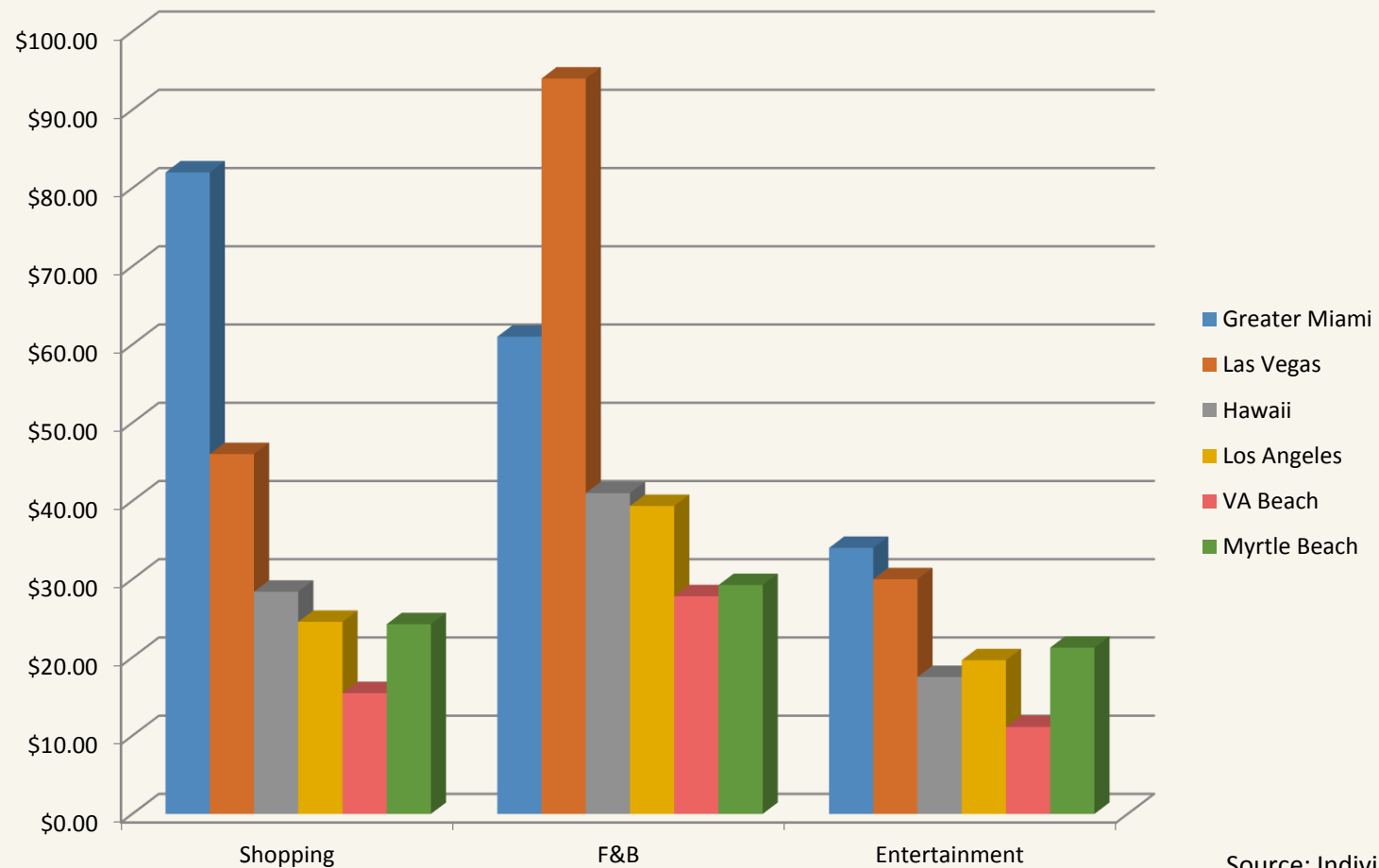
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Is Displacement Bad?

- Not necessarily.....it's natural in a market economy
- Displacement however is not good when government intervenes and uses public money that could move economic and taxable activity from one business to another entirely like business.
- Yet, important to take great care to not exclusively use measure of displacement when evaluating the prudence of public investment
 - Mathematical methodology for estimating displacement exists when comparing entirely like businesses.
 - However, no mathematical measures for determining if the qualitative qualities of one new business/development will encourage visitors/shoppers to:
 - Spend more money per visit than they would have with another business in the past
 - Draw visitors from a broader geographic region, or;
 - Become a catalyst for future private investment which improves the competitiveness of the city or district overall
 - Not all science.....some art

There Should Be Room to Grow Visitor Retail & Restaurant Expenditure:
Virginia Beach Per Person/Per Day Shopping, Eating, and Entertainment Expenditure
by Overnight Guests is Below Many Other Major Visitor Markets.



Source: Individual City CVBs

SECTION TWO

HOW TO MEASURE NET NEW BUSINESS ACTIVITY?
MEASURE FORWARD LOOKING NEW DEMAND ONLY

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Seven Net New Potential Demand Drivers of Retail/Restaurants in Oceanfront Resort District through 2021

1. **New residences in new units** based upon a market analysis by Lambert Advisory completed for The Wave development project
2. **New office workers** based upon a market analysis by Lambert Advisory completed for The Wave development project
3. **Additional hotel guests** based upon the addition of hotel rooms in late planning or under construction between 2018 and 2021 and estimates of occupancy rates
4. **New out-of-town participants, families, and coaches at Sports Complex** based upon estimates developed by the City's Consultants and Convention & Visitors Bureau
5. **New out-of-town attendance at Wave performance space** based upon an analysis completed for The Wave
6. **New out-of-town Wave Garden surfers** based upon an analysis completed for The Wave
7. **New out-of-town visitors** to other Wave attractions (NatGeo & Bridge) based upon estimated developed for The Wave

2021 Net New Demand for Retail/Restaurant: Residential

	2021
New Units Absorbed in Submarket 2018-2021 (Lambert)	473
Average VA Beach Household Income (U.S. Census)	\$86,500
Total New Household Income	\$40,914,500
% household income spent on non-auto retail goods/eating out (U.S. Consumer Expenditure Survey)	26%
Total new non-auto retail/eating out expenditure	\$10,637,770
% spent on retail goods (Economic Census; Lambert)	84%
% spent on food and beverage (Economic Census; Lambert)	16%
Retail Sales per Square Foot (Lambert)	\$300
Restaurant Sales per Square Foot (Lambert)	\$350
New Square Feet Demanded - Retail	29,800
New Square Feet Demanded - Restaurant	4,900

2021 Net New Demand for Retail/Restaurant: Office Workers

	2021
New Office Square Feet Absorbed in District 2018-2021 (Lambert)	150,000
Square Feet per Worker (BOMA)	200
New Workers in District	750
Annual Expenditure per Worker: Food Service & Drinking (ULI)	\$1,389
Annual Expenditure per Worker: Shopper Goods (ULI)	\$1,965
Annual Expenditure per Worker: Convenience Goods (ULI)	\$2,438
Retail Sales per Square Foot (Lambert)	\$300
Restaurant Sales per Square Foot (Lambert)	\$350
New Square Feet Demanded - Retail	11,000
New Square Feet Demanded - Restaurant	3,000

2021 Net New Demand for Retail/Restaurant: Hotel Guests

	2021
New Oceanfront Resort Area Hotel Rooms 2018-2021 (City)	480
New Homeshare Rooms (ODU, Lambert)	232
Hotel Occupancy (Smith Travel; Lambert)	65%
Homeshare Occupancy (ODU, Lambert)	43%
Additional Occupied Rooms per Night	412
Persons per Room (Hotels 2.5; Homeshare 2.0)	2.4
Visitor Days	357,500
Average per Visitor Daily Meal Expenditure (City)	\$27.83
Average per Visitor Daily Entertainment Expenditure (City)	\$11.12
Average per Visitor Daily Retail Expenditure (City)	\$15.45
Sales per Square Foot (Restaurants)	\$350
Sales per Square Foot (Entertainment)	\$100
Sales per Square Foot (Retail)	\$300
New Square Feet Demanded – Retail/Entertainment	58,200
New Square Feet Demanded - Restaurant	28,400

What happens to restaurant expenditure when day trips increase?

- Not measured in our summary numbers except for specific entertainment attractions/venues
- In 2017 there were 8.9 million visitors who traveled more than 50 miles to visit Virginia Beach to spend the day (Longwoods International).
 - An increase from 6.9 million in 2013 and the number of day visitors has grown each year since 2013 at growth rates as high as 9 percent per year.
- Average daily expenditure for food and beverage in Virginia Beach among day visitors is \$22.33 per visitor or approximately \$200 million in total in 2017.
- Assuming a static \$22.33 per visitor (current dollars), the growth in the number of day visitors between 2013 and 2017 generated over 125,000 square feet in demand for additional restaurant and bar space
- By extension, every 100,000 additional day visitors in the future is likely to generate an additional \$2.23 million in food and beverage sales or demand for another 6,400 square feet of restaurant and bar space.

2021 Net New Demand for Retail/Restaurant/Entertainment: Virginia Beach Sport Center

	2021
Net New Room Nights (VA Beach CVB)	90,900
Persons per Room	3.5
Visitor Days	318,150
Average per Visitor Daily Meal Expenditure (City)	\$27.83
Average per Visitor Daily Entertainment Expenditure (City)	\$11.12
Average per Visitor Daily Retail Expenditure (City)	\$15.45
Sales per Square Foot (Restaurants)	\$350
Sales per Square Foot (Entertainment)	\$100
Sales per Square Foot (Retail)	\$300
New Square Feet Demanded – Retail/Entertainment	51,800
New Square Feet Demanded - Restaurant	25,300

2021 Net New Demand for Retail/ Entertainment/Restaurant: Wave Performance Space

	2021
Non-VA Beach Visitors (Wave)	190,000
Percent Out-of-Town Visitors Stay Overnight	25.00%
Per Capita Restaurant Spend Day Visitors (Longwood Study)	\$22.33
Overnight Event Visitors	47,500
Average per Visitor Daily Meal Expenditure (City)	\$27.83
Average per Visitor Daily Retail Expenditure (City)	\$15.45
Total Restaurant Expenditure (overnights + non-overnights)	\$4,500,000
Total Retail Expenditure (overnights)	\$734,000
Sales per Square Foot (Restaurants)	\$350
Sales per Square Foot (Retail)	\$300
New Square Feet Demanded - Restaurant	12,900
New Square Feet Demanded - Retail	2,500

2021 Net New Demand for Retail/Restaurant: Wave Garden

	2021
Day Surfers From Beyond 15-minutes (Wave Garden)	22,600
Overnight Surfer (Wave Garden)	42,300
Party Size per Surfer	2.0
Per Capita Eating Spend per visit day visitor	\$22.33
Per Capita Eating Spend per overnight visitor (1/2 day)	\$13.90
Per Capita Retail spend overnight visitor (1/2 day)	\$7.71
Per Capita Other Entertainment spend overnight visitor (1/2 day)	\$5.56
Total Restaurant Expenditure	\$2,185,000
Total Retail Expenditure	\$652,000
Total Other Entertainment Expenditure	\$470,000
Sales per Square Foot (Restaurants)	\$350
Sales per Square Foot (Retail)	\$300
Sales per Square Foot (Other Entertainment)	\$100
New Square Feet Demanded – Restaurant	6,200
New Square Feet Demanded – Retail	2,200
New Square Feet Demanded – Other Entertainment	4,700

2021 Net New Demand for Retail/Restaurant: Other Gates

	2021
Day Visitors From Beyond 50 miles (LDP & Madison)	153,900
Overnight Visitors (LDP & Madison)	188,100
Per Capita Eating Spend per visit day visitor	\$22.33
Per Capita Eating Spend per overnight visitor (1/2 day)	\$13.90
Per Capita Retail spend overnight visitor (1/2 day)	\$7.71
Per Capita Other Entertainment spend overnight visitor (1/2 day)	\$5.56
Total Restaurant Expenditure	\$6,051,000
Total Retail Expenditure	\$1,450,300
Total Other Entertainment Expenditure	\$1,045,836
Sales per Square Foot (Restaurants)	\$350
Sales per Square Foot (Retail)	\$300
Sales per Square Foot (Other Entertainment)	\$100
New Square Feet Demanded – Restaurant	17,300
New Square Feet Demanded – Retail	4,800
New Square Feet Demanded – Other Entertainment	10,400

Summary:

New Oceanfront Resort District Demand for Retail & Restaurant Space by 2021

	2021 Retail/Entertain New Square Feet Demanded	2021 Restaurant New Square Feet Demanded	Personal & Business Services Space (additional 15%) *	Total
New Residents	29,800	4,900		34,700
New Office Workers	11,000	3,000		14,000
New Hotel Guests in New Hotel Rooms	58,200	28,400		86,600
Overnight Virginia Beach Sports Center Visitors	51,800	25,300		77,100
Out-of-Town Wave Performance Space	2,500	12,900		15,400
Out-of-Town Wave Garden Surfers	6,900	6,200		13,100
Other Entertainment Gates – NatGeo & Bridge	<u>15,200</u>	<u>17,300</u>		<u>32,500</u>
Net New Square Feet Demanded & Absorbed	175,400	98,000	41,000	314,400

* Personal & business services include services typically found in retail space which are not considered retail such as dry clean drop stores, real estate offices, urgent care medical centers, and hair salons

Summary:

New Retail/Entertainment Demand vs. Proposed Supply

New Projects Proposed/ Under Construction	Retail/Entertainment Retail/ Restaurant Space Sq. Feet
Estimated Net New Demand	314,400
Minus: The Wave	(243,900)
Minus: Cavalier/Oceanfront Marriott	<u>(28,000)</u>
Additional Sq. Ft. of Retail/Entertainment/Restaurant Space Demanded	42,500

SECTION THREE

WAVE DEVELOPMENT ECONOMIC IMPACT SUMMARY

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The Wave Project: Summary By Use

Total Development Cost of \$337.8 million

Office	150,000 square feet
For-Rent Residential	426 units
Retail/Restaurants	138,100 square feet
Entertainment Retail/Fitness	60,800 square feet
Cinema	45,000 square feet
Wave Garden/Common Areas	229,000 square feet
Parking	1,825 spaces
Performance Space	3,500 seat

Economic Benefits from Construction: The Wave (all phases)

Impact Type	Employment	Labor Income	Economic Output
Direct Effect	2,300	\$139,973,000	\$337,800,000
Indirect Effect	470	\$22,493,000	\$62,745,000
Induced Effect	<u>830</u>	<u>\$33,026,000</u>	<u>\$107,848,000</u>
Total Effect	3,600	\$195,493,000	\$508,394,000

Economic Benefits Once Operating & Stabilized: The Wave

Impact Type	Employment	Labor Income	Economic Output
Direct Effect	1,600	\$33,519,000	\$88,967,000
Indirect Effect	200	\$8,680,000	\$30,441,000
Induced Effect	<u>200</u>	<u>\$8,630,000</u>	<u>\$28,184,000</u>
Total Effect	2,000	\$50,828,000	\$147,592,000

Source: IMPLAN

City Select Tax Revenue Generation from Wave Once Stabilized

	Taxable Sales*	City: Sales/Admis. Prepared Food Rate*	City: Sales/Admissions/ Prepared Food Tax*	Bus Lic. Tax Rate	Business License Tax*	Total*
Entertainment Venue Tickets	\$10,142,000	10.0%	\$1,014,000	0.20%	\$20,000	\$1,034,000
Entertainment Venue F&B	\$3,078,000	6.5%	\$200,000	0.20%	\$6,000	\$206,000
Entertainment Venue - Other	\$834,000	1.0%	\$8,000	0.20%	\$2,000	\$10,000
Cinema	\$5,910,000	10.0%	\$591,000	0.20%	\$12,000	\$603,000
Cinema Concessions	\$4,742,000	6.5%	\$308,000	0.20%	\$10,000	\$318,000
Retail - Restaurant	\$33,715,000	6.5%	\$2,192,000	0.20%	\$67,000	\$2,259,000
Retail - Non-Restaurants	\$25,130,000	1.0%	\$251,000	0.20%	\$50,000	\$301,000
Other Gated Entertainment	\$5,500,000	10.0%	\$550,000	0.20%	\$11,000	\$561,000
Office	\$60,000,000	0.0%	-	0.58%	\$348,000	\$348,000
Surf Park	\$5,130,000	5.0%	\$257,000	0.36%	\$19,000	\$276,000
Surf Park Food & Beverage	\$294,000	6.5%	\$19,000	0.20%	\$1,000	\$20,000
Surf Park Ancillary Revenue	<u>\$574,000</u>	1.00%	<u>\$6,000</u>	0.20%	<u>\$1,000</u>	<u>\$7,000</u>
Total	\$155,049,000		\$5,396,000		\$547,000	\$5,943,000

Annual City Property Tax Revenue Generation from Wave Once Stabilized

Use	Estimated Taxable Value	Annual Real Estate Tax
Entertainment Venue	Tax Exempt	
Parking	Tax Exempt	
Retail (Includes Cinema)	\$65,468,400	\$656,321
Office	\$33,474,900	\$335,600
Surf Park	\$24,990,000	\$250,525
Residential	\$83,855,000	\$840,600
Common Areas	<u>\$14,400,000</u>	<u>\$144,360</u>
Annual Real Estate Taxes	\$222,188,200	\$2,227,400



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