

WEST MAIN STREET SITES | PRELIMINARY FINDINGS AND RECOMMENDATIONS

April 5, 2019

Weitzman Associates, LLC was retained to undertake a marketability study of the West Main Street Sites for the prospective development of residential and retail uses. Our work is being completed within the context of a broader planning effort that could include significant waterfront infrastructure components, a possible hotel, and collaboration with stakeholders who hope to shape the overall continuation of Pensacola's downtown revitalization.

The West Main Street sites hold great potential for new residential and retail construction that meets the needs of Pensacola's growing population, as well as catalytic development that will complement the City's current attractions and bolster Downtown's appeal as a destination to live, work, and play. The sites' location and size (over 28 acres in total) present a unique opportunity in Downtown Pensacola. The residents, workers, and visitors to Pensacola contribute to the City's vitality, and thus, demand for the uses that can be developed at the sites will be diverse. This will require the development there to appeal to a variety of people, with a range of economic means, and spending time downtown for many different reasons. This is the nature of an urbanized environment, and it is a positive that Pensacola's downtown has the growing appeal to enable reaching such a range of people into the foreseeable future.

While our marketability study is being finalized, we wanted to offer some critical preliminary conclusions and recommendations derived from our research:

- **Population Demographics.** Overall, Pensacola's population is growing, and becoming more affluent. The population, currently around 55,000, is projected to grow modestly (1% annually) over the next 5 years. Median household income, which is currently about \$46,000, is expected to grow at a faster rate of 2.7%. The share of households with income below \$50,000 is projected to shrink, from 52.7% to 47.2%, during the next five years.
- **Employment.** The number of jobs in the Pensacola MSA grew by 13.6% from 2013 to 2018, to over 180,000 jobs. The employment base relies heavily on jobs driven by government, healthcare, tourism, and the military. Notably, there is significant growth occurring in the cybersecurity industry, upon which Pensacola is capitalizing. Unemployment in Pensacola is currently about 2.9%, markedly lower than the county, MSA, state, and nation.
- **Tourism.** The tourism industry in Pensacola is robust and gaining momentum. From 2014 to 2017, tourist visitation grew by 14% annually to about 2.7 million people. This significantly outpaces the growth of Florida tourism overall, which grew by 6.3% annually over the same time period. Visitors to Pensacola are estimated to spend over \$800 million each year.
- **Housing Market.**
 - **Rental Market.** Pensacola supports a healthy albeit emerging multifamily housing market. The number of rental units grew by 9% from 2013 to 2018, to over 12,500 units in

properties operated as apartment communities. Vacancy is healthy, at about 5.9%, indicating that there is currently adequate supply to meet demand, and that there is room for more rental housing in the market. Anecdotal examples of new development have demonstrated the potential for rapid absorption of rental units (over 20 units per month).

- *For-Sale Market.* In 2018, across Escambia and Santa Rosa Counties, over 9,000 homes (of all types) were purchased, an increase of 48% over 2013. Homes sold at an average sale price of about \$235,000 in 2018, 34% higher than the average sale price in 2013. New condominium units have sold from \$220 to \$586 per square foot, depending on the unit size, quality and location. There appears to be strong depth of demand for for-sale housing in the downtown area, but very little product has been developed that offers relatively affordable purchase options.
- **Retail Market.** The retail market in Pensacola is fundamentally strong. The overall market has a vacancy rate of 3.6%, whereas Downtown Pensacola has an extremely low vacancy rate of 1.4%. While there has been little new construction, new retail tenants constantly enter Downtown Pensacola, hence its low vacancy rate.

Based on Weitzman's analysis of the Pensacola market and the physical characteristics of the West Main Street Sites, our preliminary development recommendations include the following concepts:

- With over 28 acres of semi-contiguous land, the project will require significant urban design elements that simultaneously situate the development appropriately along the waterfront and imbue it with a sense of community and place. Importantly, the results of the waterfront study currently being conducted by SCAPE should be taken into consideration in order to tangibly link the West Main Street Sites to the eastern portion of Downtown Pensacola.
- Based on current as-of-right zoning, the 28 acres of land have capacity to accommodate a maximum of approximately 3,000 housing units. Weitzman's recommendations regarding build-out at the West Main Street Sites are driven by the market's historic pace of absorption for new development, and by our projected demographic depth of demand. While the current zoning allows for more residential units than we are recommending, a larger scale of development would require a longer absorption period that cannot be reasonably projected at this time. Furthermore, we have made our recommendations with the intention of informing a successful mixed-use development that respects and complements Downtown Pensacola's existing urban character. The planning effort surrounding West Main Street should be flexible and iterative based on the work of the planning team and feedback from local stakeholders, and density provisions should enable the development to pivot in the future in light of changing market conditions. Should initial phases of development experience materially more rapid absorption than we have projected, and if prices and rents are supportive of taller structures with greater density, the development plans could be adjusted in the future to increase the total number of residential units, if designed in a marketable way. Likewise, should long-term demand not be sustainable at the same levels as we have forecasted for the foreseeable future, the urban plan should be flexible

enough to accommodate lower density development than we have forecasted. However, ultimately, we believe that the scale of development we have recommended is supported with a prudent perspective on demand, and can be phased in marketable “chunks” of development that allow for an appropriate level of development risk going forward.

- We believe that a project of this scale should be built in at least four phases. Overall, the absorption schedule is projected to be approximately 15 years. This is cautious, in that this absorption period allows for a pace that is well-supported by our demand analyses, but that does not take into account the ways in which the development can capture more than its fair share of demand. Notably, we believe that rental apartments can be absorbed far more quickly than condominiums – approximately 20 units per month versus 3 units per month. Additionally, the recommended quantity of retail space, while large in relation to existing retail inventory Downtown, is reasonable when viewed in a regional context, and should be supported by future residents at the West Main Street Sites as well as the City’s growing base of workers and visitors.
- There will be no other development capable of commanding the market’s attention as effectively. The project’s marketing budget can be larger than other competitors due to the scale of this development, enabling the project to dominate top-of-mind awareness. Further, because we are recommending housing and retail that is generally missing from the downtown area, both in specific product types and the unique atmosphere that this project will create, we believe the market may absorb space more quickly than we have forecasted. Thus, the development period could be shorter, although this would also be dependent upon the actual construction phasing occurring with a greater amount of simultaneous construction activity.
- In total, we are recommending that approximately 1,275 rental apartment units, approximately 550 for-sale condominium units, and approximately 200,000 square feet of retail space (with an entertainment component) be built on the West Main Street Sites over a period projected to be approximately fifteen years.
- **Housing Affordability.** Overall, Weitzman notes that our preliminary recommended rental apartment unit mix and rents will be affordable for households with incomes ranging from approximately \$40,000 and higher. Similarly, for-sale condominiums should be affordable for households with incomes above approximately \$50,000. At these price points, housing at the project could be affordable to over 50% of existing households in Pensacola. It is critical that residential development at the West Main Street Sites appeals to a broad spectrum of the potential market to maximize its overall marketability and contribute positively to the growth of Downtown by attracting a variety of household types.

In the coming weeks, Weitzman will be finalizing its study, and we look forward to discussing it with the community in greater detail. In the interim, these initial conclusions and recommendations should not be relied upon as fully accurate representations of our final conclusions and recommendations, which may change based upon ongoing dialogue with the planning team. Nevertheless, we are quite optimistic that the West Main Street Sites can be developed in a compelling way, that allows Downtown Pensacola to



attract new residents and visitors, and to create an exciting new district that is both complementary to the existing downtown atmosphere and that is further enhanced by the other major initiatives being undertaken to develop the waterfront, enhance services and public facilities, and attract new hospitality and entertainment venues to Pensacola. We look forward to continuing our work with the community.