



economic impact strategy 4

The Economic Impact Strategy was prepared by Bay Area Economics, in collaboration with H. Blount Hunter Retail & Real Estate Research and Zimmerman/ Volk Associates, Inc.

Fort Monroe employs 4,051 military personnel, civilian employees, and contractors.¹ The closure of Fort Monroe will result in a relocation of personnel to local and non-local facilities not later than 2011. Two-thirds of the positions currently at Fort Monroe will likely remain in the Hampton Roads region including more than one-half moving to Fort Eustis 18 miles away. Programmed realignment actions include:

- Relocation of 2,217 personnel to Fort Eustis in FY 2011;
- Discretionary moves of 634 personnel, most likely within the region;
- Transfer of 388 personnel to Fort Knox in Kentucky in FY 2010; and
- Elimination of 462 jobs held primarily by civilians in FY 2011.

Potential economic impacts of those moves include jobs, taxes to the City of Hampton, retail sales and housing values.

- Those individuals who lose their jobs will feel a direct and difficult impact.
- Cutbacks in local Federal spending as a result of Fort Monroe closure will lead to losses of “spin-off” jobs elsewhere in the economy. However, in this case,

¹Fort Monroe BRAC Planning, 20 April 2006 Robert Edwards/IMNE-RMO 11

most of the jobs are being moved within the region with the real job loss limited to 850 personnel and a portion of the private-sector jobs supported by the Fort Monroe local expenditures reduced as a result of the base closure.

- As a result of Fort Monroe’s presence, the Federal government will discontinue the annual payments to the Hampton School District that help offset the cost of educating children of Federal employees, particularly those that live on tax-exempt land.
- With a move 18 miles north on I-64, it is unlikely that civilians and military personnel that own homes in or near Hampton will relocate in the short term. The few homes sold by employees that move to be closer to Fort Eustis could affect the local Hampton housing market in the year before and after closure, but they are unlikely to have substantial long-term impacts on property values.

Clearly, one imperative in planning Fort Monroe reuse is to attract new jobs and resident customers to replace those lost to BRAC. Filling even one-half of the vacated office space on Fort Monroe would more than replace the jobs lost from the region due to closure. Several of the jobs associated with the physical plant operation and maintenance will continue but as non-Federal positions. Additional short-term

jobs will be created by environmental remediation and building rehab and upgrades. Attraction of civilians to Fort Monroe housing may largely offset the local impact of losing military families as patrons of local stores and restaurants. Given the military personnel’s access to commissaries and Post Exchanges, their spending in local stores likely has been somewhat limited.

One of the more difficult economic impacts will be the transfer of responsibility for upgrading and maintaining Fort Monroe’s extensive stock of historic structures as well as its seawall, open space and non-historic buildings. Many of the transferred buildings will require capital improvements to provide access for the disabled and to meet all local health and safety codes before they can be reused for private purposes. Additional analysis will be undertaken to refine the cost estimates for upgrading and maintaining Fort Monroe’s infrastructure and those buildings likely to remain in long-term public use. It is important to note that no agreement has yet been negotiated between the Fort Monroe FADA and the City of Hampton regarding the City’s role in providing any operation and maintenance or services to the Fort, and any such agreement should identify revenue sources to offset the financial impact of bringing these O&M costs and services into the City’s systems.

MARKET POTENTIALS

A key principle in Fort Monroe reuse planning is that the reuse should be economically self-sustaining, avoiding financial burdens on the Commonwealth of Virginia or on the City of Hampton. The market analysis helps to identify and quantify those opportunities.

Unlike many military bases in more isolated and economically depressed locations, Fort Monroe offers many important opportunities for reuse of historic buildings, valuable waterfront land and other building resources. This reuse could generate funding for required capital improvements to the infrastructure and buildings as well as long-term operations and maintenance costs associated with stewardship of Fort Monroe's historic assets and natural environment. Reuse of historic buildings will generate lease revenues from leases and/or from sale of leaseholds (i.e., an up-front payment for the right to occupy a house or building for 50 or more years), particularly housing that can attract households to take advantage of the beauty and heritage of Fort Monroe. Additional revenues will be generated by reuse of non-residential buildings for office, hospitality and retail uses.

Housing

- Fort Monroe holds the potential to become a development of national importance, attracting future residents from well beyond Hampton Roads to lease year-round and second/vacation homes.
- Providing a variety of housing types will allow Fort Monroe to attract a variety of new residents. The target mix derived from the propensities of market area households to rent year-round and second/vacation homes includes:
 - 47 percent empty nesters and retirees,
 - 25 percent traditional and non-traditional families, and
 - 28 percent younger single- and two-person households.
- Figure 4.1 identifies initial estimates of supportable rents or prices for the range of housing types supportable at Fort Monroe (leasehold fees for leases of 50 or more years are estimated at 90 percent of potential sales prices).
- Absorption of new and rehabilitated units is projected to average 209 units per year.

Office

- Fort Monroe is not a traditional location that would be sought by all office-using tenants. It does not offer the easy highway access, proximity to major employment centers and modern office space that most of the region's business parks provide.
- Office space absorption fluctuates from year to year in the Peninsula office market. While the Peninsula office market is not subject to predictable annual demand for space, the addition of 200,000 to 300,000 square feet of new space per year is a realistic market expectation based upon past trends. Fort Monroe could compete to attract a share of that demand, but it may take several years to reuse and fill buildings.

Figure 4.1: Target Residential Mix
New Year-Round and Second-Vacation Housing Units
at Fort Monroe

Housing Type	Base Rents/ Prices
Multi-family for-rent (lofts/apartments, lease)	\$750 to \$1,400 per month
Multi-family condo / co-op (leasehold ownership)	\$225,000 to \$1,000,000
Single-family attached (duplexes, quad-plexes, leasehold ownership)	\$475,000 to \$875,000
Urban single-family detached (detached houses, leasehold ownership)	\$725,000 to \$1,150,000

SOURCE: Zimmerman/Volk Associates, Inc., 2006, amended 2008.

- Existing buildings can be converted to office space. However, the fact that many of the buildings were converted from historic barracks, cottages and other housing means that they do not offer the typical office space layouts and features that some users may prefer or require. Existing office space will require upgrades to meet the needs of the private market. Some small office buildings can be expected to attract local businesses such as accountants, attorneys, architects, and other professionals seeking the opportunity to live near their work in a high-amenity location.
- The potential for larger tenants lies primarily in recruiting one or more specialized office users. Larger buildings or new space can be constructed for corporate users or specialized tenants such as research & development firms. Specialized users may exist for historic structures and for larger spaces that have been outfitted by the military with advanced technology wiring and internal systems. An extensive recruitment plan may be required to solicit appropriate tenants.

Existing buildings offer 516,622 square feet of space that can be converted to offices, though office may not be their highest and best use of all this space. Using only the TRADOC complex and the

cluster of buildings at North Gate and Patch Road (Buildings 56, 57, 59, and 135) would create enough office space to replace existing jobs that will be lost to closure. These buildings will require significant renovation and infrastructure enhancements to make them suitable for private tenant use.

- Building 5 could be reused as a museum, but it also has potential for a variety of non-traditional uses that might result in the creation of a world-class asset or institution limited only by the imagination of community leaders:
 - a high-profile “think tank” or public policy institute created by a consortium of national and local educational institutions;
 - a residential conference center aligned with one or more local universities;
 - an executive training center/meeting facility;
 - an “honors campus” or off-campus extension of a local college or university;
 - a campus for a new college;
 - a specialized research center (medicine, engineering, applied sciences);
 - a site for a major maritime research center or oceanographic institute;
 - a year-round retreat similar to the Chautauqua Institution;

- an artists’ colony with live/work facilities and public display areas;
- the headquarters of one or more major non-profit organizations or charitable foundations; or
- a magnet school or Governor’s School for performing arts and science.

Retail

- Fort Monroe is not a suitable site for substantial retail development (e.g., big box retailers) requiring regional customer support. The site is too isolated from significant clusters of resident consumers, it is accessed by low-capacity neighborhood streets rather than major arterial highways, and it is too close to competitive retail in the Coliseum Central node.
- Rather, Fort Monroe can attract a small contingent of niche retailers that see an opportunity to serve a very desirable residential neighborhood. Restaurateurs with destination drawing power will be attracted in the near term to signature sites offering waterfront settings and views of the Hampton Roads harbor and Chesapeake Bay.
- “Retailing follows rooftops,” so merchants are likely to respond to site opportunities at Fort Monroe only once a consumer base emerges through development of housing, offices, and visitor destinations. Major destination restaurants are an exception

to this rule and will seek out Fort Monroe sites prior to the development of a neighborhood retail consumer base.

- Fort Monroe’s retail strategy will optimally center upon the development of “village-scale” retailing as an amenity for residents as well as employees and visitors. Retail development at Fort Monroe can contribute to pricing premiums for residential units and contribute to quality of life by providing daily needs within walking distance (or a short drive) of residents.
- Creating two small clusters of mercantile activity each merchandised to meet the needs of 500 to 1,000 households and nearby offices would encourage pedestrian access by residents and workers. The redevelopment could support 7,500 to 12,000 square feet of retail space with limited new housing beyond reuse of existing structures.
- Establishing a centrally located “village center” shopping district offering a greater variety of convenience goods, personal services, and casual dining options should be encouraged as warranted by density of residents, employees, and tourists. With more expansive development of new housing, tourism and recreation uses, a small village center could be supported once extensive leasing and development provide the potential customers.

Lodging

- Lodging can be a part of Fort Monroe’s future, taking advantage of the water location and the important historic resources.
- Hampton does not offer beach-oriented hotels, which may be appropriate for consideration at Fort Monroe. Development could include a variety of facilities:
 - one or more independently-owned bed & breakfast inns;
 - one or more small cottage-style hotels such as the Sanderling Inn in Duck, NC; and/or
 - a spa/resort oriented to the beach and/or boating.
- Section 5 discusses options for transforming Fort Monroe into a greater tourist destination, building on its historic importance and natural beauty.



Figure 4.2. Building 5 has a wide range of possibilities for reuse.



Figure 4.3. Waterfront settings provide opportunities for new restaurants on signature sites.



Figure 4.4. Reuse of existing housing can attract households to take advantage of the beauty and heritage of Fort Monroe.



Figure 4.5. View of historic housing along the moat; the existing water tower is visible in the background.



Figure 4.6. Existing infrastructure, such as streets and sidewalks, will need to continue to be maintained.



Figure 4.7. Private users will be responsible for maintaining many of the existing buildings.

FUTURE FINANCIAL PERFORMANCE AND FISCAL IMPACTS

Critical to the long-term success of Fort Monroe reuse is the need to be financially self-sufficient. Based on preliminary analysis of individual line items in the potential operations and maintenance (O&M) budget, between \$3.9 and \$4.4 million will be needed annually to care for public infrastructure and parks and open space. Analysis will continue to further refine these cost estimates in concert with the City of Hampton as more information becomes available about infrastructure conditions and other factors impacting service costs. Additional costs to operate the FMFADA and pay leasing and management fees will be incurred as reuse proceeds; they are discussed in the financial analysis portion of this report.

The public responsibility and cost of maintenance will be reduced by assigning private users with the responsibility for maintaining many of the buildings. The Fort Monroe management entity will receive lease revenues from reuse of many buildings and sites for private uses. The City of Hampton will receive real property, sales, food/beverage and hotel tax revenues from new development and reuse of historic and other buildings as well as fees for specific services. It is important to note that no agreement has yet been negotiated between the Fort Monroe FADA and the City of Hampton regarding the City's role in providing any operation and maintenance or services to the Fort, and any such agreement

should identify revenue sources to offset the financial impact of bringing these O&M costs and services into the City's systems.

Potential partnerships between the management entity and the City will be explored to address short-term and mid-term O&M and capital improvement costs.

Additional costs will be incurred to operate and maintain the historic buildings within the moat that are designated for public uses. At this early stage in concept development for the museums and other public uses, those costs have not yet been estimated.

FMFADA and the City of Hampton will work together closely to make appropriate arrangements for operation and maintenance of Fort Monroe's infrastructure in a manner that mitigates the City's risk of unforeseen and unfunded infrastructure capital requirements and operating costs. No agreement has been negotiated yet.

Financial Performance

The FMFADA will generate revenue primarily from leasing historic structures and land for new development:

- An Interim Leasing Program could generate early income to funds operations while keeping buildings in operation and avoiding physical deterioration that could result in higher rehabilitation costs in the future.

- In keeping with the FMFADA policy of not selling its assets, a Pre-Paid Leasehold Program could transfer use and responsibility for structures for a period of 50 to 75 years. Instead of purchasing a home, buyers would purchase the right to lease the home for, say, 75 years and would possess most of the rights and responsibilities of homeownership without technically owning the property. On-going maintenance and improvements to the homes would be the responsibility of the leaseholder.
- FMFADA also could enter into ground leases with one or more third-party developers for adaptive rehabilitation of historic structures as well as new construction in the Entry Gate, North Gate and Historic Village planning areas. Land values will reflect the ultimate value of the new development after adjustments for infrastructure requirements and environmental remediation.

Preliminary analysis estimates capital costs at approximately \$40 million, comprised of infrastructure improvements, building improvements, and other miscellaneous projects. Fort Monroe's infrastructure requirements are less than would be expected for a military facility of this age and size because the U.S. Army invested \$88.4 million in rebuilding systems after Hurricane Isabel hit in 2003. An important element – the electri-

cal power distribution system – is not included in this analysis. The cost of any required system upgrades is not known nor is the degree to which such costs could be financed by rate-payers.

To implement its Interim Leasing Program and Pre-Paid Residential Leasehold Program, the FMFADA will need to make initial investments in existing buildings to ensure their marketability. These improvements are limited to cosmetic treatments such as exterior and interior repainting as needed, carpet cleaning/replacement, acoustic tile replacement, window washing, selected appliance replacements, and life-safety signage. Any major rehabilitation or upgrades of existing structures would be made by one or more third-party developers.

On-going operating costs, estimated at roughly \$6 million per year, will include:

- FMFADA expenses for personnel, contract services and marketing;
- O&M costs for public infrastructure, parks and open space;
- costs of maintaining buildings retained for public use or not yet transferred under long-term ground leases; and
- leasing/asset management fees paid to third-party developers and property managers.

The financial analysis reflects reasonable expectations about the pace of future absorption and development and the associated revenues. However, these cost and revenue projections are still preliminary and will change as more information becomes available.

Summary of Preliminary Findings

Overall, the financial model indicates that Fort Monroe can become financially self-sustaining with sufficient funds to cover its own operating costs and fund capital projects. A key assumption is the successful launch of a Pre-Paid Residential Leasehold Program and the leasehold value received and timing of sales. The projections of the financial model will change over time as more information becomes available. The projections are intended to provide a sense of scale as to the potential costs and revenues based on current conditions. The model is designed to accommodate changes in key assumptions and to test the sensitivity to different possible future events.