

# WEST ATLANTIC AVENUE DEVELOPMENT RECOMMENDATIONS

*Prepared for*

***Delray Beach  
Community  
Redevelopment  
Agency***

***and***

***City of  
Delray Beach***

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## FOREWORD

In late December, 2010, the Delray Beach Community Redevelopment Agency (CRA) released a Request for Proposals for development rights on two adjacent development sites that have been assembled in the West Atlantic Avenue corridor. Developers will be expected to obtain proprietary feasibility assessment of elements of proposed developments. This report does not assess the feasibility of any specific use. Instead, this report presents perspectives on appropriate development options for the blocks of West Atlantic Avenue between Swinton Avenue and Interstate 95 in Downtown Delray Beach.

Some potential uses are subject to evaluation using traditional models of supply and demand to estimate supportable square footage; however, some uses that may be proposed are not subject to modeling. Despite the inability to model future performance, some of these uses may be appropriate for the West Atlantic Avenue area.

Known locally as planning clusters 1 and 2, the segment of West Atlantic Avenue evaluated in this report has great potential to be developed in a manner that benefits nearby residents and the community as a whole. The CRA's two strategically located development sites are large enough to attract uses that could transform West Atlantic Avenue into a vibrant part of Downtown Delray Beach.

Obtaining traditional financing for real estate development is likely to be difficult in the current economic climate. This is clearly a time for the CRA to be creative and flexible in determining how it can assist developers move forward. The most effective way for the Delray Beach CRA to protect the public interest is to establish a reasonable time schedule for the winning developer to obtain financing with a clear understanding that the CRA will withdraw development rights if financing cannot be secured within the agreed time period. Some flexibility may be desirable if good faith efforts are made to obtain financing; however, the ability to terminate a developer's accepted RFP could prevent a protracted period of inactivity that might cause the CRA to miss other development opportunities. The CRA must protect itself against a situation where the winning developer attributes financing difficulty to the general economy while, in fact, the inability to secure financing is a reflection of the financial capacity of the developer.

The community's expectations have been elevated by two visioning workshops held in November. Participants spoke candidly about uses they "want" and "don't want" along West Atlantic Avenue. Their overarching goal is to connect West Atlantic Avenue to the economic vitality of Delray Beach in a way that expands Downtown Delray Beach seamlessly from the Atlantic Ocean to Interstate 95.

Blount Hunter  
H. Blount Hunter Retail & Real Estate Research Co.  
January, 2011

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## *EXECUTIVE SUMMARY*

In January 2011, commercial real estate development faces the most restrictive financing environment in recent memory. The end of “easy financing” has curtailed development of projects with genuine demand in addition to those with weak fundamentals. For the foreseeable future, even projects with demonstrated demand will be subjected to requirements for heightened levels of developer equity—if loan funds can be identified.

Developers and their proposed projects will undergo more rigorous scrutiny by potential lenders than in recent years. This lending environment is merciless on start-up firms and entrepreneurs. Developers must be highly experienced and heavily invested with their own equity, and lenders will require higher levels of pre-leasing to credit-worthy tenants than in the past to reduce risk. Some viable development projects will not obtain financing simply because lenders have similar projects in their portfolios of troubled loans or among their foreclosure assets.

As a steward of public land, the Delray Beach Community Redevelopment Agency (CRA) must remain cognizant of these circumstances as it solicits Requests for Proposals for development of parcels in the West Atlantic Avenue area. Community expectations for redevelopment are high at a time when any type of real estate development is a challenging undertaking. In this environment, the CRA must retain the right to decline any and all proposals from developers it considers inexperienced and/or under-funded. Most critical, the CRA should protect the interests of the public by requiring proposals to include specific timelines for pre-leasing and securing financing that trigger termination of right to develop if unmet. The CRA should protect itself against prolonged entanglements with developers who cannot obtain financing in a timely manner. The CRA may find that a financing deadline protects it from developers who cannot obtain financing because of current lending restrictions as well as developers who would not be able to obtain financing even under better lending conditions.

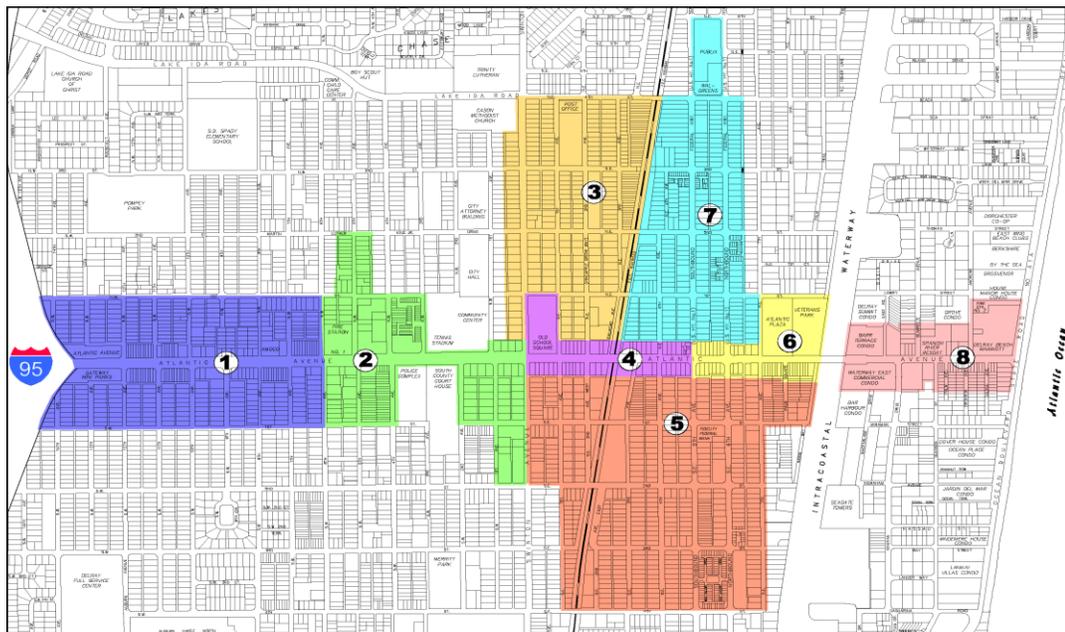
In the current economic climate, the CRA’s financial incentives can be “sweeteners” that make developments more profitable once operational or that lessen the time necessary to reach profitability, but these incentives alone cannot be counted upon to completely close financing gaps that may arise. Additionally, the CRA’s incentives will not directly induce demand by tenants unless they cause rents to fall well below the prevailing level. Verifiable demand by credit-worthy tenants is the key to having a viable development that stands a chance of attracting financing. Despite limitations, these incentives should not be dismissed since they may help the CRA attract the attention of highly qualified developers and reward them for investing the required share of equity to secure financing in this rigid lending environment. In addition to incentives, the CRA has expressed its willingness to consider requests for other forms of public-private partnerships that would advance a developer’s ability to successfully redevelop the parcels offered in the RFP. The CRA should seriously entertain opportunities to become a co-owner of development projects or to lease space within projects in order to fulfill the CRA Plan Objectives.

## OVERVIEW OF STUDY AREA

Citizens and leaders of Delray Beach distinguish three “zones” within the boundaries of Downtown Delray Beach that are distinguishable by variations in physical form and function as well as differences in sources of predominant consumer support.

1. West Atlantic Neighborhood (between Interstate 95 and Swinton Avenue)
2. The Central Core (between Swinton Avenue and Intracoastal Waterway)
3. Beach District (between Intracoastal Waterway and Atlantic Ocean)

Downtown Delray Beach was subdivided into eight clusters for retail analysis in 2004. Clusters 1 and 2 are the subject of this study.



The Downtown master planning process engaged the community and provided an opportunity for residents to create a vision to guide the redevelopment of Downtown Delray Beach. The community’s desire for a general sense of unity translated into the goal of having a “*seamless urban environment that reflects continuity to pedestrians and motorists.*”

Community pride and a desire to elevate Downtown to a place of prominence in the eyes of residents and visitors resulted in plans to create appropriate “gateways” at the western and eastern ends of Atlantic Avenue. The western gateway (near Interstate 95) is expected to be installed in 2011. Designed to announce arrival and to set expectations, the gateway will feature landscaped berms, winding sidewalks, decorative trellises, and 30-foot tall artistic pillars containing iconic images of Delray Beach’s history and cultural diversity. The West Atlantic Avenue study area is just within the western “gateway.”

## **CLUSTER 1**

Cluster 1 extends along West Atlantic Avenue from Interstate 95 to NW 6<sup>th</sup> Avenue. The predominant mercantile uses are neighborhood-focused including the Community Market. Cluster 1 contains many vacant parcels.

Most of the neighborhood businesses in Cluster 1 derive their support from residents of the traditionally African-American residential areas immediately to the north and south of West Atlantic Avenue.

Vacant parcels inhibit pedestrian activity within Cluster 1. Some land uses (such as a gas station) are auto-oriented.

## **CLUSTER 2**

Cluster 2 corresponds to the portion of West Atlantic Avenue from NW 6<sup>th</sup> Avenue to Swinton Avenue. This cluster contains many community institutions and facilities including a community center, city government offices, a world-class tennis stadium, police station, fire station, courthouse, and new central public library. New residential units have been well-received as have street-level commercial spaces.

Cluster 2 has a significant daytime employee count and patrons attracted to government offices, recreational facilities, and library. As consumers, these patrons are oriented to convenience food and services rather than comparison goods retail items such as apparel, home furnishings, and gifts.

The pedestrian environment in Cluster 2 is impacted by deep set-backs of the tennis center and courthouse. The Delray Beach Fire Department complex also creates a “dead zone” for the length of a city block.

## **GENERAL PHYSICAL CHARACTERISTICS**

Atlantic Avenue has four travel lanes from Swinton Avenue to Interstate 95. While the vehicle speed limit is reasonable, the width of the road inhibits pedestrian street crossings that are essential in retail zones. (The portion of Atlantic Avenue to the east of Swinton Avenue provides a sharp contrast. Here, the two travel lanes do not bisect the commercial corridor in a detrimental manner.)

The narrow median on West Atlantic Avenue does not provide a sense of safety to pedestrians who opt to cross the street. Landscaping along West Atlantic Avenue is relatively young and does not create a canopy over the street or create continuous shade along the sidewalks.

## *CRA'S WEST ATLANTIC AVENUE DEVELOPMENT SITES*

The CRA has assembled two adjacent development sites that are the subject of Requests for Proposals:

- SW 7<sup>th</sup> Avenue (3.46 AC)
- SW 9<sup>th</sup> Avenue (4.31 AC)

These sites have potential as individual sites or as a combined development opportunity. Their location within the West Atlantic Avenue corridor provides a strategic opportunity to create a central focal point near the center of this long corridor. These sites are proximate to the new “gateway” entrance feature that will define the entrance to Delray Beach for motorists approaching from Interstate 95. These parcels are adjacent to existing commercial buildings and could serve as anchors for drawing more users in a concentrated area for the benefit of new businesses and existing businesses since the blocks of West Atlantic Avenue between SW 3<sup>rd</sup> Avenue and SW 6<sup>th</sup> Avenue are largely developed and occupied. Development of these sites would also concentrate activity in the vicinity of the public plaza recently established at SW 5<sup>th</sup> Avenue. These sites are also close to many existing businesses and cultural establishments including the Spady Museum. 5<sup>th</sup> Avenue’s restaurants and shops are located within several blocks of the development sites.

### SW 7<sup>th</sup> Avenue Site

The SW 7<sup>th</sup> Avenue site spans SW 6<sup>th</sup> and SW 8<sup>th</sup> avenues on the south side of West Atlantic Avenue. The site has direct frontage on West Atlantic Avenue between SW 7<sup>th</sup> and SW 6<sup>th</sup> avenues with additional land behind an existing building at the southwest corner of SW 7<sup>th</sup> Avenue and West Atlantic Avenue. This land assembly falls within the Central Business District and Residential Multi-Family zoning areas.

Opposite blocks across West Atlantic Avenue presently contain a gas station and a community food store. One or both of these blocks may represent future private sector redevelopment opportunities based upon the outcome of development on the CRA’s SW 7<sup>th</sup> Avenue site.

### SW 9<sup>th</sup> Avenue Site

The SW 9<sup>th</sup> Avenue redevelopment site is located at the southeast and southwest corners of West Atlantic Avenue and SW 9<sup>th</sup> Street, extending south along SW 9<sup>th</sup> Avenue. The site has two full blocks of frontage on West Atlantic Avenue between SW 10<sup>th</sup> and SW 8<sup>th</sup> avenues. These frontage blocks are currently vacant land. Blocks across from this site on the north side of West Atlantic Avenue are largely vacant; development of the CRA’s SW 9<sup>th</sup> Avenue site would optimally leverage private sector development on these opposite blocks.

## *DEVELOPMENT CHALLENGES*

There are numerous challenges to development at the present time.

1. The most serious economic downturn since the Great Depression began as a banking crisis in 2008 and continues to make borrowing money for real estate development of any kind difficult if not impossible. Lenders are requiring developers to invest higher levels of project equity and have greater levels of pre-leasing commitments with credit-worthy tenants before lending money on office and retail developments. Obtaining financing for hotels is even more difficult given over-building in the lodging sector. Only the most liquid developers and those willing to invest their own funds are able to proceed with development.
2. Because many sectors of real estate are over-built, lenders are delaying new lending until there is ample evidence of increased demand and decreased inventory of available space. This translates into requiring substantial levels of pre-leasing to credit-worthy tenants in retail and office projects. Lenders' portfolios need to be cleared of troubled assets before they will finance new projects—especially hotels.
3. Federal agency lending guidelines that once favored “mixed use” development have changed, making it more difficult to add significant elements of commercial uses within “for sale” residential buildings. FHA and VA loan programs now limit commercial elements of mixed use buildings to 25 percent of total floor area. Atlantic Grove’s mixed-use buildings—otherwise great models for urban development—could not qualify for FHA and VA mortgages under these new guidelines; the residential components could only be rental rather than “for sale.”
4. Residential over-building, combined with a downward housing price trend, has created a “crisis in confidence” that will take years to subside even after consumers regain confidence in their own job security and earning capacity. Price stabilization in the single family and condominium markets is years away. A significant share of current residential purchasing activity is in the foreclosure sector. New “for sale” residential development will be deferred until excess capacity has been removed and supply and demand conditions are more favorable.
5. Land acquired by the Delray Beach Community Redevelopment Agency (CRA) several years ago may have been purchased at the peak of the market for the foreseeable future. Any pressure to break even or profit on the sale of redevelopment parcels will exacerbate the development economics faced by developers.
6. Lot dimensions combined with the zoning ordinances may present a physical barrier to some types of developments on the CRA’s parcels. Zoning allows commercial construction at a depth of 150 feet along West Atlantic Avenue without conditional use approval, and allows commercial

construction to expand beyond the 150-foot limit as a conditional use. In addition, overall height of buildings is limited to forty-eight feet which may limit Class A office buildings to three-stories, and hotel structures to four-stories. Also, upper stories are required to provide additional setbacks than those required for the lower levels. The City and CRA's support for conditional use requests and waiver requests may be necessary to elicit strong proposals that meet most of the criteria outlined in the RFP as well as the goals and objectives of the CRA Plan.

7. Financial incentives offered by the CRA are more likely to enhance operating profits or advance the start of profitable operations than generate demand by tenants. By design, these incentives are intended to close financing gaps that may arise.
  - a. The Land Value Investment Program (LVI) defers the cost of land acquisition and provides for graduated land lease payments starting at \$1.00 per year for developments that contain office space equal to at least 50 percent of net floor area in multi-use buildings where not more than 25 percent of the net floor area can be devoted to residential space. (This requirement is at odds with FHA and VA loan programs that limit commercial elements of mixed use buildings to 25 percent of total floor area.) This incentive can be applied to hotel development as well as office building development.
  - b. The Relocation & Development Incentive Program (RDI) and Job Creation Bonus Program (JCB) reward businesses selecting sites in Delray Beach without stimulating demand. At best, these programs keep Delray Beach "at parity" with incentive programs offered by neighboring jurisdictions including West Palm Beach and Boca Raton.
  - c. The Real Estate Development Incentive Program (REDP) provides developers and businesses that construct Class A office space in the CRA District with an equity contribution of approximately 10 percent of project cost from the CRA. Eligible projects must be multi-story and include at least 15,000 net square feet of office space. Applicants must either own the property or have an executed multi-year lease (30-year minimum). The CRA will not charge interest on its equity contribution. The project owner/developer must have a minimum equity investment of 20 percent of the project's financing. It is the CRA's intent to recover its equity contribution in the future upon the sale of the project or upon the project reaching a return on the owner's investment that allows for payments to the CRA. The return on investment threshold that triggers the return of the CRA's investment will be determined when the CRA and developer enter into a Public-Private Partnership Agreement; however, the CRA anticipates that the threshold that would trigger recapture of the CRA's contribution would be the point where the project's net income exceeds fifteen percent cash-on-cash return of the developer's/building owner's equity.

- d. The Development Infrastructure Assistance Program (DIA) enables a private, for-profit organization to request a reimbursement grant of up to 50 percent of the cost of eligible site improvements, up to an amount not to exceed 50% of the projected Tax Increment Funds to be generated by the improvements over a ten-year period following completion of the improvements. Qualified improvements may be on private land or public right of way, or both, and may include landscaping, irrigation, exterior lighting, sidewalks, plazas, site walls, site furniture, and bicycle racks, paving, curbs and gutters, storm drain structures, traffic signals, on-street parking, street signage, directional signage, monument signs, underground and above ground public utilities, and eligible parking lots and structures. This incentive can be applied to office building and hotel development.
8. Financial incentives alone may not be sufficient to facilitate development. The CRA may need to engage in more creative forms of public-private partnerships. The CRA has expressed willingness to consider developer requests for public-private partnerships.

Despite the backdrop of the current economy, the Delray Beach CRA should solicit developer interest in its parcels on West Atlantic Avenue. Developers who should not have been able to obtain loans for speculative or ill-conceived real estate development have been largely removed from the market. Experienced developers continue to seek opportunities. The vitality of the eastern portion of Atlantic Avenue sets the stage for potential developer interest in the CRA's sites on West Atlantic Avenue. Still, the CRA must protect its interests from prolonged delays and postponements caused by inexperienced bidders. The scale of projects brought forward at this time may be smaller than the scale of projects that might have been proposed in the past or that might be proposed in the future. The CRA must examine development proposals in 2011 from the perspective of future opportunity of unknown timing.

## *LAND USE PRINCIPLES*

Any development decisions affecting the West Atlantic Corridor are subject to critical land use decisions.

Because of higher density and synergies, mixed-use development will almost always have greater fiscal impact on the city than single-use development. A recent study by Public Interest Projects urged cities to evaluate tax revenue per acre. “Downtowns achieve a higher rate of return than an acre of suburban development could ever do....The reason is simple: Once you start getting two stories, you start getting twice as much value.”<sup>1</sup>

Land values in the West Atlantic Avenue area demand multiple story development.

### **CORRIDOR DEVELOPMENT**

Corridor development is characterized by uses that are attracted to transient motorists with only minor concern for serving adjacent residential areas. Corridor development typically features automobile-centered businesses such as service stations, fast food outlets, banks, and service establishments. Most or all tend to have drive-through facilities to enhance convenience. Businesses of this type make site selection decisions based on vehicle counts instead of residential density.

In many instances, corridor development does not conform to a master plan. Individual property owners make independent decisions about property sale and development. In most cases, buildings are single story and corridor businesses devote considerable amounts of land to parking for the convenience of their customers.

Many cities have commercial corridors on the edges of their Downtowns. These corridors are distinguished by suburban rather than urban building massing and placement as well as convenience-oriented uses. Often these commercial zones are derided as “Anywhere U.S.A.” because they lack local aesthetics and character.

### **NEIGHBORHOOD-FOCUSED DEVELOPMENT**

Neighborhood-focused development is oriented to businesses that serve clusters of neighborhoods as residential trade areas. Site decisions are based upon residential density and demographics and access patterns. The needs of residents and the amount of consumer support determine the amount of development that is sustainable as well as the merchandising direction that is most profitable.

Neighborhood-focused development tends to attract commercial users that are replicated frequently within a community. As a result, each business has limited drawing power. Unless

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<sup>1</sup>“Best Bet for Tax Revenue: Mixed-Use Downtown Development” New Urban News, September, 2010

there are unique businesses, the node that the businesses form as a collection also have limited drawing power.

Neighborhood-focused development is typically low density development. Commercial buildings in particular succeed when rents are modest and when on-site parking is plentiful.

## **COMMUNITY/REGIONAL DEVELOPMENT**

Community/regional-focused development occurs when sites are easily accessible from a broad area. Commercial activity is at a scale that requires support from consumers who reside beyond immediately adjacent neighborhoods. Community/regional-oriented development can also capitalize upon tourists and daytime workers. Research has demonstrated the regional drawing power of Downtown Delray Beach's shops, restaurants, and cultural/entertainment activities. Specialized and unique businesses seek sites that provide broad exposure and enable extended drawing power. Nearby residents may comprise a very small share of the intended consumer base.

Community/regional development often succeeds because specific destination uses are incorporated in an area or because a "critical mass" of uses has sufficient drawing power to attract patrons.

***West Atlantic Avenue could be developed in any of these three ways; however, Delray Beach will derive the highest level of benefits from extending the successful community-oriented mixed-use development that exists on the east of Swinton Avenue to the portion of Atlantic Avenue on the West side of Swinton Avenue. Atlantic Grove's street-oriented buildings are examples of urban form that extended the feel of East Atlantic Avenue. Future development should reflect urban scale and building placement if the community's vision is to have a seamless Downtown from the Atlantic Ocean to Interstate 95. Neighborhood needs can be accommodated within new development on West Atlantic Avenue while encouraging new development that will tap into the economic vitality of the larger community and region.***

## *COMMUNITY ENGAGEMENT*

The Delray Beach CRA invited citizens to community visioning groups on November 3 and 4, 2010. Participation at both meetings was enthusiastic. The discussion guidelines are included in the Appendix. Summaries of group reports are presented here.

### **November 3 6:00-8:00 pm**

**Group 1:** VISION: Mixed use area providing neighborhood services with destination elements to draw people from outside the area

Specific neighborhood needs:

- grocery store to scale
- mid-range hotel
- conventional bank
- specialty retail
- educational institution (vocational orientation)
- art component
- additional activities
- quality housing
- professional office space (to create jobs and provide services)
- small movie theater

General needs:

- safety
- franchise opportunities (“structure” for entrepreneurs)

**Group 2:** VISION: Mixed use area with affordable housing and family-oriented amenities including parks and recreational opportunities close to home

Specific requests:

- affordable housing
- small format grocery store as alternative to convenience stores
- hotel
- community park/playground

General needs:

- entertainment to draw people from beyond the neighborhood

**Group 3:** VISION: West Atlantic Avenue will become part of “Downtown Delray Beach”

Specific needs:

- small grocery store
- hotel

- pharmacy
- laundromat
- Class A office space
- Jazz club
- Mix of ethnic restaurants
- Free wifi

General suggestions:

- better utilization of upper floor spaces
- economics must be considered in order to assure sustainability and viability

**Group 4:** VISION: West Atlantic must provide employment and services for local residents; build community by preserving memories

Specific suggestions:

- hotel
- grocery store
- jazz club
- ethnic entertainment venues
- movie theater
- pharmacy
- no more check cashing stores, community markets, or government buildings

**Group 5:** VISION: Downtown Delray Beach should extend from Interstate 95 to the Atlantic Ocean, but in reality, Downtown spans the area from Swinton Avenue to the ocean. West Atlantic should replace Swinton Avenue as the “gateway” into Downtown Delray Beach. There is no need to choose between serving residents versus tourists. West Atlantic Avenue businesses need more foot traffic to survive.

Specific suggestions:

- hotel
- restaurants (recognized chain names)
- specialty retail
- services (bank, dry cleaner)
- small performing arts center
- ice cream shop
- coffee shop
- another gas station closer to Interstate 95
- NO liquor store

General suggestions:

- blur the sharp dividing line at Swinton Avenue
- hold festivals and entertainment events in the West Atlantic corridor

- preserve neighborhood history (specifically Spady Museum, Frog Alley, churches, schools, and the 5<sup>th</sup> Avenue pharmacy building)
- move beyond tourist-oriented shopping

**November 4 9:00-11:00 am**

**Group 1:** VISION: West Atlantic Avenue is Downtown Delray Beach’s “expansion opportunity.” Downtown Delray’s “clean and safe” efforts must be expanded to include West Atlantic Avenue. Downtown is unique in having a beach and an excellent pedestrian-oriented grid street system. The physical connection of sections of Atlantic Avenue to the east and west of Swinton Avenue can spread the economic vitality of Downtown to West Atlantic Avenue.

Specific recommendations:

- traffic calming along West Atlantic Avenue; more pedestrian orientation along West Atlantic Avenue
- replicate decorative elements of “Gateway” along Atlantic Avenue to reinforce sense of arrival
- encourage more cultural venues and activities (jazz club, comedy club)
- focus on experienced restaurateurs as “pioneers” as they are more likely to survive and thrive
- mid-range hotel
- bank and ATMs
- family-style dining (preferably near Interstate 95 and hotel)
- NO bail bonds offices, check cashing stores facing Atlantic Avenue; force these businesses on to side streets to make better retail spaces available

General comments:

- public policy should consider housing incentives to artists and students to populate area
- history (memories) can be expressed via culture and art; consider relocating historic homes into area; designate Frog Alley as an Historic District

**Group 2:** VISION: “New money, new people, new flavor.” West Atlantic Avenue will develop into a pedestrian-friendly mixed-use district with one or more gathering places. The existing plaza at 5<sup>th</sup> Avenue will be more fully utilized. Neighborhood needs will be served; historic fabric of the neighborhood will be retained. Cluster 2’s concentration of civic uses creates a dead zone that must be acknowledged without expectation of a significant change in the near future.

Specific suggestions:

- grocery store
- bank
- pharmacy

- hotel with small conference center
- “upscale” restaurants (known brands)

General recommendation:

- create a “central place” at 9<sup>th</sup> Avenue with 5<sup>th</sup> Avenue as an important commercial spine
- encourage more pedestrian-friendly building facades; encourage outdoor seating with umbrellas

**Group 3:** VISION: Downtown Delray Beach will extend from Interstate 95 to the Atlantic Ocean via Atlantic Avenue—a “seamless street.”

Specific guidance:

- create a more pedestrian-friendly environment on West Atlantic Avenue (wider sidewalks; trellises and awnings to create shade; no more tinted shop windows; no more steps up to ground level commercial space)
- hotel (oriented to business travelers and tourists; important to design with side entrance to allow Atlantic Avenue façade to be active, pedestrian-friendly space)
- NO liquor store, adult uses, rehab facilities, 24-hour businesses (except pharmacy)

General recommendations:

- chain retailers should be allowed on Delray Beach’s terms; standard corporate architecture must be replaced with site-appropriate designs
- enhance the area with arts
- encourage cross-usage (i.e. farmer’s market that sells to nearby restaurants)
- broaden use of tennis center
- re-think parking area in front of tennis center
- use kiosks as guideposts and possible locations for small businesses

## SHARED THEMES

There were many shared themes:

- ✓ Provide basic neighborhood services (groceries, pharmacy, bank) but target uses that can tap into the economic vitality of the community/region.
- ✓ Competition among merchants may bring lower prices; residents are tired of being treated as a captive market.
- ✓ New businesses on West Atlantic Avenue should not solely target nearby neighborhoods. Neighborhood residents will derive greater benefits from job creation and the potential for business investment by targeting the larger market than by targeting nearby neighborhoods as the primary consumer audience for West Atlantic Avenue.

- ✓ Some type of hotel is a widely desired use on the West Atlantic Avenue. The primary concern is that quality of operation would be high enough to avoid problems associated with low-end motels.
- ✓ Undesirable uses include liquor stores, check cashing stores, adult businesses, 24-hour businesses, rehabilitation facilities. Clusters 1 and 2 should not be the site of any more public institutional uses that cause “dead zones.”
- ✓ Maintaining a sense of identity and history is important to the community. Architectural design standards should be established to foster the expression of this unique identity.
- ✓ In the future, there shall be no distinction between “West Atlantic Avenue” and the rest of Atlantic Avenue. Atlantic Avenue will be a seamless street full of commerce and activity from the Atlantic Ocean to Interstate 95.

## WEST ATLANTIC RETAIL DEMAND

There is a finite amount consumer support for retail space on West Atlantic Avenue if neighboring residential areas are the predominant source of consumer demand. A larger amount of retail space can be added on West Atlantic Avenue if the area taps into consumer demand generated by the larger community—as is occurring elsewhere in Downtown Delray Beach.

### Consumer Demand from Nearby Neighborhoods

Neighborhoods within a 1-mile radius of West Atlantic Avenue and SW 5th Avenue have a population of 12,225 in 3,986 households.

	2009	2014
Population	12,225	11,955
Households	3,986	4,255
Average Household Income	\$51,001	\$53,499
Median Household Income	\$41,799	\$44,873
Pct. Hslds. Below \$25,000	31 percent	28 percent
Pct. Hslds. Above \$50,000	39 percent	42 percent

SOURCE: ScanUS

Neighborhoods immediately adjacent to West Atlantic Avenue represent a modest base for consumer demand in five key categories of spending:

- **Food at Home:** This category of spending includes all groceries and items purchased for preparation of meals at home. Based on the Census of Retail Trade, households spend an average of 5.0 percent of personal income on food away from home.
- **Food Away from Home:** This category includes fast food, limited service and full service restaurants as well as establishments selling alcoholic beverages. Based on the Census of Retail Trade, households spend an average of 4.7 percent of their annual incomes on food away from home.
- **Convenience Retail Goods:** This category includes packaged alcoholic beverages; soaps, detergents and household cleaners; paper and related products; pet foods and pet supplies. In the Census of Retail Trade, households spent an average of 4.7 percent of their incomes on these items.
- **Personal Services:** This category covers hair, nail and skin care services; dry cleaning and laundry services; footwear and leather goods repair. Spending on personal services equals 0.7 percent of household income.

- **Comparison Goods:** This category includes a wide variety of merchandise that typically involves comparison shopping including apparel and accessories; cosmetics; jewelry; furniture; flooring and floor coverings; curtains, draperies and other window coverings; kitchenware and home furnishings; large and small appliances; televisions, musical instruments, audio and video equipment; computer hardware and software; books; toys, hobby goods and games; photographic equipment and supplies; sewing, knitting and needlework goods; and optical goods. Sales of these items account for 12.0 percent of household income.

Annual expenditure potential among neighborhood residents has been calculated for these key merchandise categories:

- ➔ Spending on “food at home” is estimated at \$10.2 million annually. This volume of spending—assuming capture of 75 percent by one grocery store—could support a 25,500 square foot supermarket assuming that food sales account for 80 percent of store revenue. The existing collection of food stores/convenience marts equals 27,451 square feet. This is almost identical to the supportable square space identified in this analysis. The current grocery offering is appropriately sized although it is scattered across multiple small stores rather than consolidated in a single supermarket.
- ➔ Annual “food away from home” spending is estimated at \$9.6 million. This would support approximately 23,886 square feet of restaurant space at modest sales productivity of \$200 per square foot if restaurants in the West Atlantic Avenue study area captured 50 percent of this annual spending. Sales inflow from outside sources would allow for more restaurant square footage and/or higher sales productivity. The current inventory of 39,906 square feet is significantly larger than the amount of food/beverage space that can be supported solely by neighborhood residents. Restaurants on West Atlantic Avenue are already benefitting from “sales inflow” from beyond the immediate residential neighborhood.
- ➔ The estimated annual expenditure on “convenience goods” by residents in adjacent neighborhoods is \$9.6 million. At a capture rate of 50 percent by stores in this corridor, there could be adequate support for 24,000 square feet of “convenience goods” retailers with sales productivity of \$200 per square foot.
- ➔ The estimated annual expenditure on “personal services” by residents in adjacent neighborhoods is \$1.4 million. At a capture rate of 75 percent by stores in this corridor, there could be adequate support for 7,115 square feet of personal service establishments with sales productivity of \$150 per square foot.
- ➔ The estimated annual expenditure on “comparison goods” by residents in adjacent neighborhoods is \$24.4 million. At a realistic capture rate of 5 percent by stores in this corridor, there could be adequate support for 4,879 square feet of “comparison goods” retailers with sales productivity of \$250 per square foot.

<b>NEIGHBORHOOD CONSUMER DEMAND</b>	
Households	3,986
Average Household Income	\$51,001
Total Personal Income	\$203.3 million
Food at Home Potential	\$10.2 million
Food Away from Home Potential	\$9.6 million
Convenience Goods Potential	\$9.6 million
Personal Services Potential	\$1.4 million
Comparison Goods Potential	\$24.4 million

SOURCE: 2007 Census of Retail Trade; ScanUS;  
H. Blount Hunter Retail & Real Estate Research Co.

	<b>Potential</b>	<b>Capture</b>	<b>Sales</b>	<b>Productivity</b>	<b>Supportable SF</b>
Food at Home	\$10.2 million	75%	\$7.6 million	\$400 PSF	<b>19,058 SF</b>
Food Away from Home	\$9.6 million	50%	\$4.8 million	\$200 PSF	<b>23,886 SF</b>
Convenience Goods	\$9.6 million	50%	\$4.8 million	\$200 PSF	<b>24,000 SF</b>
Personal Services	\$1.4 million	75%	\$1.1 million	\$150 PSF	<b>7,115 SF</b>
Comparison Goods	\$24.4 million	5%	\$1.2 million	\$250 PSF	<b>4,879 SF</b>

SOURCE: H. Blount Hunter Retail & Real Estate Research Co.

## Existing Retail and Restaurant Inventory in Clusters 1 and 2

Clusters 1 and 2 comprise the West Atlantic Avenue study area. As shown in the following table, Cluster 1 is oriented to food stores while Cluster 2 is oriented to restaurants. There is a very modest amount of “general retail” square footage in the study area.

	<b>CLUSTER 1</b>	<b>CLUSTER 2</b>	<b>WEST ATLANTIC TOTAL</b>
Food stores	20,523 SF	6,928 SF	<b>27,451 SF</b>
Restaurants	5,557 SF	34,349 SF	<b>39,906 SF</b>
Drinking Places	---	1,280 SF	<b>1,280 SF</b>
Miscellaneous retail	---	5,154 SF	<b>5,154 SF</b>
Personal services	790 SF	10,167 SF	<b>10,957 SF</b>

SOURCE: Delray Beach Downtown Development Authority

Merchants in the West Atlantic corridor are performing at low levels of sales productivity (below \$150 per square foot on average). In 2008, retailers in planning clusters 1 and 2 generated retail sales of \$4.7 million. Restaurant sales in cluster 2 reached \$5.3 million; restaurant sales in cluster 1 cannot be reported by law due to the limited number of establishments. Cluster 1 restaurant sales were estimated at less than \$300,000. Sales by personal service establishments were not available.

<b>CLUSTER</b>	<b>RETAILER COUNT</b>	<b>2008 RETAIL SALES</b>	<b>RESTAURANT COUNT</b>	<b>2008 RESTAURANT SALES</b>
<b>1-2</b>	<b>16</b>	<b>\$ 4.7 million</b>	<b>9</b>	<b>\$ 5.3 million</b>
3-8	193	\$ 98.3 million	84	\$81.7 million
Total	209	\$103.0 million	93	\$87.0 million

SOURCE: Florida Department of Revenue; H. Blount Hunter Retail & Real Estate Research Co.

Based upon a comparison of the amount of theoretically supportable space and the amount of existing space, the West Atlantic study area is under-served by “convenience goods” retailers and has greater representation in personal services than warranted solely by neighborhood demand.

*Targeted future retail uses might include a community-sized grocery store as a replacement for current food stores, more restaurants, 1-2 small “comparison goods” and “convenience goods” stores, and additional personal services. The total amount of food store space in the West Atlantic Avenue corridor is appropriate for market demand; however, space is currently scattered across several small facilities—none matching the format of a traditional supermarket. Residents’ requests for a “new grocery store” reflect frustration with selection and pricing strategies of current good stores. Construction of a new supermarket will be challenging without some form of subsidy because chain operators can acquire space in existing vacant buildings elsewhere in Delray Beach at more favorable lease terms. Accommodating a single 25,000 square foot grocery store and necessary parking will be challenging given the dimensions of available sites in the West Atlantic Avenue corridor, therefore flexibility with waiver requests and conditional use permits may be necessary. Plans to improve the largest existing grocery store in the neighborhood could address some of this demand; however, community representatives expressed a clear desire for a national chain operator with value-pricing.*

#### **Neighborhood-Focused Retail Strategy:**

- ✓ Retain corridor commercial uses that are appropriate for this “gateway” location near Interstate 95. This includes a gas station and existing drive-through fast food restaurant.
- ✓ Focus on providing basic consumer goods and services for adjacent neighborhoods. The two most obvious voids are a small-format community grocery store and an independent pharmacy.
- ✓ Encourage clusters of small-format retail spaces oriented to key activity zones (i.e. near courthouse, library) that can be accessed easily by pedestrians.

#### **Community/Regional Retail Strategy:**

New businesses on West Atlantic Avenue can be developed with the intention of tapping into the economic vitality of a larger region. This is currently occurring elsewhere in Downtown Delray Beach. Businesses on Atlantic Avenue east of Swinton Avenue are capitalizing on nearby neighborhoods plus tourists and residents drawn from a broad area in Palm Beach and Broward counties. West Atlantic Avenue has comparable location and access advantages of East Atlantic Avenue and could tap the same customer segments as businesses on East Atlantic Avenue.

Predicated upon effective promotion and continued evolution of merchandising, Downtown Delray Beach had \$220.2 million of sales potential in restaurants, comparison goods, and

convenience goods based upon the sizes of consumer segments available to it in 2009.<sup>2</sup> This is eleven times greater than the estimated sales that neighborhoods can be expected to generate in businesses on West Atlantic Avenue.

Sales data from the Florida Department of Revenue indicates that retailers and restaurants in Downtown Delray Beach achieved sales of \$190.0 million in 2008. Downtown Delray Beach has “room to grow” to reach the sales target identified for 2009. Downtown’s sales potential is not capped at \$220.2 million nor is it limited to the planning clusters located to the east of Swinton Avenue. As these customer segments grow, spending potential increases. As the merchandise content of Downtown Delray Beach evolves, spending parameters in the sales projection model would change resulting in an increase in sales capacity in Downtown. These projections of increased sales are predicated upon capturing more spending by current Downtown patrons and growing the base of Downtown users. Increased spending of \$30.2 million would support as much as 100,000 square feet of new retail space in Downtown Delray Beach at sales productivity of \$300 per square foot (assuming all new sales supported new space rather than existing merchants). By capturing one-quarter to one-half of the new space, West Atlantic Avenue’s retail streetscape would change tremendously. The CRA’s two sites could accommodate much of the new retail space that could be added to the West Atlantic Avenue corridor in a clustered “critical mass” with adjacent parking.

***West Atlantic Avenue faces greater sales potential by tapping into the broad base of opportunity facing Downtown Delray Beach than by limiting its audience to nearby residents. Retail development on West Atlantic Avenue can continue to serve some of the daily needs of nearby residents especially if a larger grocery store can be accommodated.***

### **Important Elements of New Retail Space**

Additional street-level retail space is a highly desirable element for future development in the West Atlantic Avenue area. New retail space would optimally occur as a continuation of storefronts in existing buildings. For example, the CRA’s SW 7<sup>th</sup> Avenue parcel is surrounded by existing retail storefronts on the east and west. Adding additional retail storefronts would create contiguous retail space from SW 4<sup>th</sup> Avenue almost as far as SW 8<sup>th</sup> Avenue although on only one side of West Atlantic Avenue. Uninterrupted storefronts stimulate pedestrian activity, but double-loaded blocks would ultimately create a more efficient shopping environment.

As a “pioneering” location, restaurants can be expected to account for half or more of the retail space. New buildings should therefore be designed to accommodate venting ducts and utility requirements of restaurants.

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<sup>2</sup> “Downtown Delray Beach: 2004 Patron Profile, Cluster Analysis, and Retail Development Strategy Update” July, 2005, H. Blount Hunter Retail & Real Estate Research Co.

The CRA's parcels can accommodate retail space at ground level with parking at the rear. Any new retail space should be flexible to allow for evolving use over time since the first generation tenant is not always a long-term tenant. **New retail space in the West Atlantic Avenue corridor should have the following characteristics of functional retail space in an urban setting:**

1. Retail space organized into clusters of at least 10,000 square feet with continuous store frontage along sidewalks
2. Strong "retail architecture" differentiating first level retail space from upper level uses
3. Non-tinted storefront windows; glass coverage equal to at least 50 percent of storefront
4. At-grade store entrances; store entrances on building corners where possible
5. No deep recesses on building facades; "pop out" store fronts and display windows where possible
6. Defined sign band above windows for retail signage; possibility for blade signs with appropriate lighting
7. Store depth limited to 80 feet; width of store bays variable; minimal column obstructions within; 10-12 foot (minimum) finished ceiling height
8. Flexible capacity for use by tenants ranging in size from 700 to 5,000 square feet
9. When possible, retail should be "double loaded" (retail space facing retail space on opposite sides of the street)
10. Landscaping that highlights entrances and creates shade for outdoor seating areas without blocking signage

## OFFICE DEVELOPMENT ON WEST ATLANTIC AVENUE

Office space is a highly desirable element for future development in the West Atlantic Avenue area:

1. Office development can expand the employment base if new tenants come from beyond Delray Beach.
2. An expanding base of office employment can generate new jobs for neighborhood residents.
3. Office employees generate spin-off sales by supporting nearby businesses—especially restaurants and personal service establishments.
4. Office-using businesses typically operate during the daytime only, making them compatible with surrounding neighborhoods.

***The Atlantic Grove project demonstrated the willingness of small businesses to locate in the West Atlantic Avenue area. A location beyond the established office district in Downtown did not inhibit office tenants from purchasing condominium office space in Atlantic Grove.***

***Additional office space should be encouraged as an element of new developments on West Atlantic Avenue. Current financing conditions make it virtually impossible to develop speculative office space. Reportedly a 20,000 square foot office building proposed for West Atlantic Avenue by an established local developer cannot obtain financing. Lenders will demand pre-leasing commitments for at least 50 percent of rentable area. Unless a build-to-suit tenant can be identified, office development will be predicated upon securing one or more tenants. As a general rule, small tenants react to space once a building is under construction or completed. The timing of securing tenants is uncertain and could result in a long time lapse between project announcement and the commencement of construction. The process can seem to be very circular as construction can't begin without tenants but many tenants won't commit to space until they can see the finished product.***

An overview of the Delray Beach office submarket illustrates the challenge of modeling supply and demand in order to project the amount of office space that may be supportable on West Atlantic Avenue.

The Palm Beach County office market has more than 26.6 million square feet of competitive space with a prevailing vacancy rate of 24 percent.<sup>3</sup> Vacancy is highest in Class A and B buildings as a reflection of over-building in recent years and weakness in demand by large corporate users. While there is only minor construction activity underway, the 6.3 million square feet of vacant space in Palm Beach County will most likely require many years to be absorbed. Real estate brokerage firm CBRE estimates Palm Beach County's current office

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<sup>3</sup> Grubb & Ellis Palm Beach County Office Trends Report, 3<sup>rd</sup> Q 2010

employment at 109,200 workers—a decrease of 4.0 percent over the past five years and a decline of 3.0 percent within the past 12 months.

Delray Beach is an office submarket within Palm Beach County. An experienced broker described Delray Beach's office market as "secondary" and non-corporate. The Delray Beach office market lives in the shadow of corporate hubs Boca Raton and West Palm Beach. Delray Beach's office market—particularly in the Downtown area—consists primarily of small local service providers such as attorneys, accountants, architects, stock brokers, mortgage bankers, and real estate firms.

The Delray Beach office submarket has approximately 3.2 million square feet of space and is a submarket of Palm Beach County's competitive office market. The office market's vacancy rate and future leasing dynamics have been greatly impacted by the departure of Office Depot from its headquarters complex on Congress Avenue. This facility, encompassing more than 566,000 square feet, accounts for a substantial portion of the Delray Beach office market and a significant amount of the vacant space in the submarket. This single large vacant project distorts the office market, but once removed from inventory and aggregate vacancy, the Delray Beach office submarket still has significant excess capacity estimated at approximately 400,000 square feet.

As of the 4<sup>th</sup> quarter of 2010, the Delray Beach office submarket was 27 percent vacant. Excluding the Office Depot complex, the Delray Beach office submarket's estimated vacancy rate is roughly 16 percent.

In the 4<sup>th</sup> quarter of 2010, the Delray Beach office submarket's prevailing average asking rent was approximately \$14.65 per square foot (triple net) or approximately \$21.15 per square foot for full service rent. One active local broker reports that the current asking rent for office space in the Atlantic Avenue corridor is \$12-\$15 per square foot (triple net) with landlords achieving rents of \$10-\$12 per square foot with some allowances for carpet or other tenant improvements. Rent level does not appear to be a barrier to demand for space in the Delray Beach office subsector as it is below the countywide average asking rent of \$17.58. Greater inhibitors of demand are the limited nature of the corporate community in Delray Beach and the lack of spaces for small tenants.

The Delray Beach office submarket's leasing activity is erratic and unpredictable. Average annual leasing activity from 2005 through 2010 equaled 137,536 square feet. Using this simple average without adjusting for new economic realities, there is a 6.3 year surplus of inventory throughout the entire Delray Beach submarket (including the former Office Depot headquarters complex).

Summary data provided by CBRE is presented in the table on the following page. Note the limited amount of Class A space in the overall Delray Beach office submarket as well as the unusual rent inversion where average rent for Class C space (presumably much of the Downtown inventory) exceeds average rent for Class B space.

<b>OFFICE INVENTORY, VACANCY AND RENT TRENDS</b>						
<b>DELRAY BEACH OFFICE SUBMARKET (Multi-tenant buildings 10,000 SF+)</b>						
		<b>BLDG.</b>	<b>TOTAL OFFICE</b>	<b>VACANT</b>	<b>VACANCY</b>	<b>AVERAGE</b>
		<b>COUNT</b>	<b>SQ. FEET</b>	<b>SQ. FEET</b>	<b>RATE</b>	<b>RENT/SQ. FOOT</b>
<b>4th Q 2010</b>	CLASS A	1	30,845	3,500	11.3%	\$33.16
	CLASS B	56	2,269,144	801,431	35.3%	\$20.93
	CLASS C	<u>39</u>	<u>869,980</u>	<u>63,205</u>	<u>7.3%</u>	<u>\$24.64</u>
	TOTAL	96	3,169,969	868,136	<b>27.2%</b>	\$21.15
<b>4th Q 2009</b>	CLASS A	---	---	---	---	---
	CLASS B	56	2,269,144	874,574	38.5%	\$22.82
	CLASS C	<u>39</u>	<u>869,980</u>	<u>74,360</u>	<u>8.5%</u>	<u>\$21.35</u>
	TOTAL	95	3,139,124	948,934	<b>30.2%</b>	\$23.07
<b>4th Q 2008</b>	CLASS A	---	---	---	---	---
	CLASS B	56	2,269,144	334,607	14.7%	\$21.87
	CLASS C	<u>39</u>	<u>869,980</u>	<u>57,577</u>	<u>6.6%</u>	<u>\$24.56</u>
	TOTAL	95	3,139,124	392,184	<b>12.5%</b>	\$22.21
<b>4th Q 2007</b>	CLASS A	---	---	---	---	---
	CLASS B	56	2,269,144	372,460	16.4%	\$22.11
	CLASS C	<u>39</u>	<u>869,980</u>	<u>34,385</u>	<u>4.0%</u>	<u>\$25.13</u>
	TOTAL	95	3,139,124	406,845	<b>13.0%</b>	\$22.40
<b>4th Q 2006</b>	CLASS A	---	---	---	---	---
	CLASS B	56	2,269,144	246,424	10.9%	\$22.83
	CLASS C	<u>39</u>	<u>869,980</u>	<u>23,065</u>	<u>2.7%</u>	<u>\$26.85</u>
	TOTAL	95	3,139,124	269,489	<b>8.6%</b>	\$23.25
<b>4th Q 2005</b>	CLASS A	---	---	---	---	---
	CLASS B	53	2,221,592	170,429	7.7%	\$23.29
	CLASS C	<u>39</u>	<u>869,980</u>	<u>31,603</u>	<u>3.6%</u>	<u>\$21.47</u>
	TOTAL	92	3,091,572	202,032	<b>6.5%</b>	\$23.04
<b>4th Q 2001</b>	CLASS A	---	---	---	---	---
	CLASS B	41	1,919,580	204,871	10.7%	\$19.46
	CLASS C	<u>38</u>	<u>855,045</u>	<u>41,668</u>	<u>4.9%</u>	<u>\$16.29</u>
	TOTAL	79	2,774,625	246,539	<b>8.9%</b>	\$18.97

SOURCE: CBRE; Co-Star

The picture may be brighter for the Downtown Delray portion of the submarket as inventory is tight. Downtown Delray Beach is a specialized niche within the Delray Beach office

submarket. Downtown currently enjoys high office occupancy. There is limited inventory of office suites in the 1,500-2,000 square foot range with very limited availability of larger spaces. Tenants seeking blocks of space larger than 5,000 square feet would not be able to find office space in Downtown Delray Beach. Much of the office space in Downtown Delray Beach would be considered Class B or “secondary space.” Some residential buildings have been converted into offices, especially in the Swinton Avenue corridor. (The CRA itself occupies this type of space.) Class A office space is in limited supply. One of the most active office brokers in Delray Beach encouraged the development of Class A office space along West Atlantic Avenue with the caveat that target tenants would be likely to materialize once a building has been completed. Small tenants tend to wait until 6 months prior to lease expiration to begin searching for office space; they seldom look 18-36 months ahead, so few would commit to leasing space in a new building with a relatively long development horizon.

The CRA’s financial incentives for office building development can enhance a developer’s return during the early years of operation; however, the program may not close all financial gaps needed to assure development or stimulate demand for office space. The Land Value Investment Program (LVI) and the additional parking incentive available in the West Atlantic Redevelopment Area can facilitate the creation of new space without inducing demand for space. The modest amount of office space absorbed annually in the Delray Beach submarket places a limit on the amount of office space that can be targeted in the West Atlantic Avenue corridor. Assuming 50,000 net annual absorption, the Delray Beach office submarket has a five-year surplus. A new building with 25,000 square feet of office space would need to “capture” half of the assumed annual office demand in the entire Delray Beach office submarket. A larger office building would be under even greater pressure to “capture” an inordinate share of the submarket’s annual office absorption.

Although the Delray Beach office subsector is relatively small, bolstering office employment is a laudable goal. Office workers spend an average of \$1,500 annually on food during and immediately after the workday—most of it within a short walk of place of work. Office workers also support retailers and service establishments close to work. Given the nature of the business base, Downtown Delray Beach is unlikely to land a large “corporate” tenant that would generate significant demand for Class A office space. A more probable scenario is for Downtown Delray Beach to appeal to an increasing number of small professional firms. In particular, the West Atlantic Avenue area may appeal to attorneys, real estate/mortgage firms, and others who would value proximity to city hall and the South County courthouse complex. West Atlantic Avenue could also appeal to the medical community including doctors, ambulatory surgery, and cosmetic medical professionals. Employees and patients would both appreciate easy access to Interstate 95 and convenient parking in surface lots. Attracting office users of this type should be the focus of an aggressive municipal economic development program as it is beyond the capacity of the CRA to actively prospect for office tenants. Stimulating demand to help developers fulfill lenders’ pre-leasing requirements is separate from the CRA’s financial incentive program. In today’s economic climate, lenders will require at least 50 percent pre-leasing by qualified tenants.

The CRA's Land Value Investment Program (LVI) could impact on pro-forma rent in a new office building by deferring the cost of land acquisition and providing for graduated land lease payments starting at \$1.00 per year for developments that contain office space equal to at least 50 percent of net floor area in multi-use buildings where not more than 25 percent of the net floor area can be devoted to residential space. A mixed-use building with retail space at ground level with one or more floors of office space on upper levels could take advantage of this incentive. Rent-sensitive small office tenants could afford rent in a new Class A building rather than secondary space in an older building if the developer applies cost savings to rent.

***Office development can be an important element of revitalizing the West Atlantic Avenue area. Some jobs may be appropriate for nearby residents. Office workers create demand for meals and services near their place of employment. Offices are compatible with nearby residential areas because they generally do not generate nighttime activity or noise. A corporate relocation could create immediate demand for space in a build-to-suit building. Under normal circumstances, an office building of 20,000 to 50,000 square feet of office absorption in the Delray Beach office submarket would be absorbed in 6 to 12 months. Office space should be encouraged as a use and a building element throughout the West Atlantic Avenue area. Conditional use requests to allow office uses to occupy 100 percent of the ground floor of a Class A office building in the West Atlantic Avenue corridor should be supported by the City and CRA to accommodate corporate tenants, if requested.***

## *HOTEL DEVELOPMENT ON WEST ATLANTIC AVENUE*

Individual stakeholders and members of community visioning sessions suggested a hotel on West Atlantic Avenue. While the economics of hotel development are difficult at present, this use has merit on several levels:

1. Job generation
2. Tax generation
3. Visitor base expansion
4. Spin-off sales to existing businesses

A well-operated hotel does not represent an undesirable or inappropriate use at least according to the community representatives who participated in the visioning sessions on November 3 and 4.

A hotel that expands Delray Beach's visitor base could be a highly desirable element for future development in the West Atlantic Avenue area. The opportunity for an upscale limited-service hotel is palpable given the dearth of options for leisure and business travelers.

The Delray Beach Chamber of Commerce Visitor Directory lists 15 hotels, guest houses, and short-term apartment rental facilities in Delray Beach. Most have fewer than 50 rooms, virtually all are oriented to the beach, and only two have national chain affiliations with all-important reservations networks. Existing hotels in Delray Beach are "resort-oriented" properties that focus primarily on the area's vacation market segment. These properties target leisure travelers rather than business travelers who are typically more price sensitive. Peak season "rack rate" prices for 2011 generally range from more than \$200 to nearly \$500:

Marriott Delray Beach:	\$279 - \$449
Residence Inn:	\$269 - \$479
Seagate Hotel and Spa:	\$279 - \$559
Colony Hotel:	\$209 - \$289
Cranes Beach House:	\$225 - \$530
Hamilton House:	\$275 - \$338
Wright by the Sea:	\$255 - \$495
Parliament Inn	\$162 - \$340
Bermuda Inn:	\$136 - \$158

Delray Beach's matrix of lodging options lacks properties in the popular niche of mid-price branded hotels that are equally appropriate for business and leisure travelers. This segment of hotels generally prices rooms at \$100 - \$150 per night. This has been the fastest growing hotel category in recent years, and all major hotel operators have one or more concepts in this sector and have aggressively expanded their mid-price hotel offerings. Customer loyalty programs give chains an edge over independent properties among some consumers, including frequent travelers.

Examples of traditional mid-price (limited service) hotel brands include:

Marriott Hotels:	Springhill Suites, Fairfield Inn, Courtyard by Marriott
Hilton Hotels:	Hampton Inn, Hilton Garden Inn
Starwood Hotels:	Four Points by Sheraton
Intercontinental Hotels:	Holiday Inn, Holiday Inn Express
Wyndham Hotels:	Wingate Inn, Wingate Garden
Carlson Hotels:	Park Plaza

Major hotel operators are creating upscale concepts within the limited service category featuring contemporary architecture with a focus on lobby areas as social gathering spaces:

Intercontinental Hotels:	Indigo
Starwood Hotels:	Aloft
Choice Hotels:	Cambria Suites
Hilton Hotels:	Element
Wyndham Hotels:	Park Inn

The following table presents distances from Delray Beach to the closest locations of selected limited-service hotel chains. A limited-service hotel in Delray Beach would fill a relatively significant geographic void between Boca Raton and Boynton Beach. Downtown Delray Beach's dining, shopping, and cultural amenities would become competitive advantages for a new hotel on West Atlantic Avenue.

<b>HOTEL BRAND</b>		<b>Distance from Delray Beach</b>
<b>Hampton Inn</b>	Boca Raton	5.4 miles
	Boynton Beach	6.0 miles
	Deerfield Beach	10.1 miles
	Lake Worth	12.6 miles
	Wellington	15.7 miles
	West Palm Beach	16.2 miles
	Fort Lauderdale/Cypress Creek	18.2 miles
<b>Hilton Garden Inn</b>	Boca Raton	3.0 miles
	Palm Beach	16.2 miles
<b>Wingate</b>	Boca Raton	11.7 miles
<b>Holiday Inn Express</b>	Boynton Beach	5.4 miles
	Boca Raton	12.2 miles
<b>Springhill Suites</b>	Boca Raton	4.7 miles
<b>Courtyard by Marriott</b>	Boynton Beach	5.4 miles
	Boca Raton	7.1 miles
	West Palm Beach	16.0 miles
<b>Fairfield Inn</b>	Boca Raton	6.6 miles
	Palm Beach	10.8 miles

A limited-service hotel on West Atlantic Avenue could expand Delray Beach's visitor base by capitalizing on four customer segments that are being ignored or are not well-served by Delray Beach's existing hotels:

1. transient motorists traveling on Interstate 95
2. business travelers seeking standardized accommodations at reasonable corporate rates
3. vacationers willing to trade proximity to the beach for lower priced accommodations (perhaps enabling longer visits)
4. friends and relatives visiting local residents (VFR) who are price sensitive

A hotel developed on West Atlantic Avenue would activate the street if windows and "active areas" are built up to the sidewalk. The optimal location for a car entry porte cochere might be on a side Avenue to maintain the pedestrian continuity of the sidewalk along West Atlantic Avenue. Any proposed hotel should have interior corridors rather than exterior balconies. Architecture should be sensitive to the prominent location of the CRA's parcels on this major Downtown corridor.

One of the benefits of a limited-service hotel is the natural "push" of occupants to restaurants in the community since this property type does not have on-site dining (beyond breakfast facilities). A limited-service hotel located on West Atlantic Avenue would spin-off guests to nearby restaurants.

A limited-service hotel would offer minimal on-site meeting space and therefore not compete with existing hotels for functions and meetings. Typically, limited-service hotels have 1 or 2 small rooms that serve guest meetings. It is rare for limited-service hotels to have meeting space larger than 1,600 square feet (the combination of two adjacent 800 square foot rooms) that can be used for small groups. These facilities are generally not offered for public use for weddings and receptions.

Some hotel developers may be able to proceed without traditional bank financing; however, it is an economic reality as of December 2010 that hotel financing prospects are extremely limited. Banks and insurance companies hold many loans on existing under-performing hotels that are "under water" (i.e. property value currently lower than loan debt). Many of these loans are on hotels that are wonderful properties in excellent locations that are under-performing because of curtailed leisure and business travel. Until these bad loans are eliminated, financing for new properties—even ones that make strong economic sense—will be difficult to obtain.

The prototypical facilities of upscale limited-service brands could induce new lodging demand in Delray Beach (i.e. expand the hotel market) given the community's visitor amenities including its beautiful beach, its commercially active Downtown, and its broad array of cultural/entertainment offerings. A developer working with the CRA could match the design of a new hotel to the aesthetics of Delray Beach to assure that a new building reflects its setting.

The CRA can apply the Land Value Investment Program (LVI) and the Development Infrastructure Assistance Program (DIA) incentives to hotel development.

***An upscale limited-service hotel (possibly as large as 100-150 rooms) would be an appropriate use on West Atlantic Avenue and would generate direct and indirect fiscal benefits for Delray Beach. While there is apparently a viable niche for this type of facility, the overall state of the financing market tempers expectations that a hotel can be developed in the foreseeable future—unless the developer can self-fund the project or find non-traditional sources of financing. Hotels typically have active uses at ground level; lobbies, restaurants, and public spaces with visibility from street level requiring non-hotel uses such as retail storefronts. For this reason, conditional use requests to allow hotel uses to occupy 100 percent of the ground floor of a new building should be supported by the City and the CRA.***

## *UNIQUE USES ON WEST ATLANTIC AVENUE*

West Atlantic Avenue can target unique “destination uses” that cannot be accommodated elsewhere in Downtown Delray Beach. The following one-of-a-kind uses could establish West Atlantic as a destination in its own right rather than merely an extension of the eastern portion of Atlantic Avenue.

Because of the unique nature of these potential uses, none is subject to traditional demand modeling; however, each seems appropriate in light of the consultant’s experience with Downtown Delray Beach and other developments in the West Palm Beach-Boca Raton area:

- “House of Blues” type music venue
- Movie theater with food/beverage service
- Caribbean “straw market”
- Artists’ live/work community

### “House of Blues” Type Music Venue

A “House of Blues” type music venue would augment the entertainment available in Downtown Delray. House of Blues facilities offer Gospel Brunch along with converts in facilities with full food/beverage service. The 13 House of Blues venues are located in large cities or major tourist destinations; capacity ranges from 850 to 2,500 people. While it may be difficult to attract the attention of House of Blues, a similar venue could be created to take advantage of South Florida’s music and entertainment scene.

Many urban areas have independent operators of small-scale music/entertainment venues. Blues Alley and the 9:30 Club (Washington, DC), Fox Theater (Denver), and The NorVa (Norfolk) and are examples of venues that operate 3-5 nights per week with varying levels of food/beverage. Live music venues such as these provide programming opportunities for diverse audiences.

### Movie Theater with Food/Beverage Service

Delray Beach already has a traditional multiplex movie complex to serve the community’s needs. But this complex is not well-suited for the next step in the industry’s evolution. The newest trend in movie industry is theaters with wine bars or restaurants. A single-screen theater showing classic, foreign, and independent films could fill a void in the Delray Beach area. Such a facility could host film festivals and, depending upon design, could be used for video conferencing or special events.

The Living Room Theater at Florida Atlantic University in Boca Raton has recently opened providing a combined movie/dining experience. This may delay the time when a theater could be sustainable on West Atlantic Avenue. A single-screen independent movie theater focusing

on non-commercial fare can still be evaluated as a potential anchor use on West Atlantic Avenue.

### Caribbean “Straw Market”

There has been discussion of establishing a Caribbean “Straw Market” in the area with the idea at times being raised by members of the West Atlantic Redevelopment Coalition (WARC). This type of market could provide an outlet for locally-produced arts and crafts in keeping with a heritage theme. It might be successful as an interim use during the current economic downturn since financing larger scale development may be difficult. If this use is to be considered, it will be critical to ensure that the quality level of the market is high enough to attract private investment for redevelopment of adjacent areas. Establishing a “Straw Market” will take time especially in an untested location.

### Artists’ Live/Work Community

In keeping with Delray Beach’s image as a center for artists, the CRA could invite Minnesota-based Artspace (or a similar organization) to develop a live/work community for artists. This use in the West Atlantic Avenue area could become a major destination and establish a theme for related development. Examples of “artists’ colonies” in Florida include the Hermitage (Englewood), the St. Petersburg Clay Company Artists-in-Residency Program, and the Art Center of South Florida in Miami. The Hathaway Creative Center in Waterville, ME (67 loft apartments, 130,000 sq. ft. of office and retail space, and studios/gallery space) is a model of a successful live/work space that targets “creative people” beyond the traditional visual arts.

An initiative of this type could compliment the CRA’s program to activate The Warehouse in Pineapple Grove as a large gallery for artists. Providing residential space for artists would differentiate this development from pure gallery space.

## **RECOMMENDATIONS FROM COMMUNITY VISIONING**

Members of the community interviewed for this assignment suggested other uses that could establish West Atlantic Avenue as a destination:

- Conference center/meeting center
- Jazz club
- Music recording studio
- Medical center
- Performing arts venue (600-800 seats)

### Conference Center/Meeting Center

A conference center/meeting center was mentioned several times during conversations with stakeholders and was also suggested by community members in visioning sessions. A facility

of this type could induce hotel development if provided as publicly-funded infrastructure. A conference center/meeting center should not be expected to operate at a profit and would likely require on-going public subsidy to “break even” on operating expenses. A specialized feasibility study would be necessary to determine potential support for a conference center/meeting facility.

Three of Delray Beach’s existing hotels have meeting rooms that are more appropriately sized for local social functions (such as weddings and banquets) rather than corporate meetings.

- The Marriott offers 14 meeting rooms with 14,000 square feet of space. Total seating capacity is 1,335; the largest room is a ballroom encompassing 8,184 square feet.
- The Residence Inn has 2 meeting rooms with a total of 800 square feet. Capacity is 80 people.
- The Seagate Hotel has two small function rooms. Their ballroom is 1,912 square feet and can accommodate up to 190 [people for a reception or 175 in theater-style seating. Their Boardroom is 380 square feet and accommodates 12 people.
- The Sundry House has capacity to host 130 guests in social functions but does not have space that would serve corporate meeting needs.

An interview with the sales manager of the largest hotel-based meeting facilities in Delray Beach generated insight that may help the CRA evaluate the desirability of a meeting center as an element of redevelopment of West Atlantic Avenue. Most current demand for meeting space in Delray Beach comes from local sources for social functions. The demand is oriented to weekends and does not generate significant demand for room-nights in hotels. Delray Beach is not an established meeting or convention destination; the community is not “losing” group meetings because existing facilities are booked to capacity. Delray Beach faces strong competition from West Palm Beach and Boca Raton (as well as Fort Lauderdale and other cities outside of Palm Beach County) in attracting group meeting business, and adding dedicated conference center/meeting center space would require a full-time sales organization similar to the Palm Beach County Convention and Visitors Bureau to generate bookings. A non-beach location could be a competitive disadvantage for a new conference center/meeting center since “the beach” is the key selling point used by the Marriott in soliciting group business. Delray Beach’s vibrant Downtown is also a selling point. As a caveat, meeting delegates prefer to stay and meet in the same hotel, and they also prefer to have amenities within walking distance.

Any new meeting space added to West Atlantic Avenue cannot be justified on the basis of excess demand over existing meeting capacity. Meeting space in a hotel on West Atlantic Avenue would be largely dependent upon groups that could be accommodated in the number of sleeping rooms in the host property without the expectation of drawing large groups that would require sleeping rooms in Delray Beach’s hotel core at the eastern terminus of Atlantic

Avenue. Groups requiring more rooms than available in the host hotel would not consider booking rooms in these distant hotels because they are beyond a convenient walk and would require the expense and inconvenience of shuttles.

Hotel meeting space typically functions as a revenue generator for food and beverage service as well as room revenue. In exchange for a room discount, groups contract for in-hotel catering. The host hotel benefits when rooms that would go unoccupied are filled (even at a discount) and from food/beverage revenue. During peak season, hotels in Delray Beach would be reluctant to discount their room rates to attract group business. A new hotel offering significant conference/meeting space would need extensive food/beverage facilities to attract groups and for the revenue to be earned from group catering. Few limited service hotels have catering kitchens or restaurant facilities that could be used to support meeting business. One industry analyst indicated that the cost of developing and “carrying” meeting space in a hotel adds \$50 per night to the required room rate. A conference/meeting center of any magnitude would require any proposed new hotel to grow in room count and move up the lodging hierarchy to a full-service property.

Civic meeting facilities seldom have sustainable stand-alone economics. User fees typically do not cover the cost of debt service and operating expenses. In some cases, meeting facilities cover debt service but not operating expenses or vice versa. “Planned deficits” are part of feasibility consultants’ deliverables when evaluating the economics of meeting centers and convention facilities. Profits from meeting facilities—if there are any—come from hotel occupancy taxes; meeting facilities must draw substantial numbers of non-local users occupying hotel rooms to generate enough bed tax revenue to support facility costs.

Municipalities tend to “justify” the direct fiscal losses associated with meeting facilities in terms of indirect fiscal impact from related development and economic activity. If a public investment in a meeting facility leverages the development of new hotels and restaurants, community leaders may feel their investment is justified. There is potential for negative results with any strategy to leverage private investment with public infrastructure.

The ability to attract out-of-market users depends upon the unique appeals of Delray Beach, the strengths of competing destinations, air service accessibility, and hotel room costs. During peak winter season, Delray Beach’s hotels will be reluctant to discount their “resort-priced” rooms to attract meeting delegates. Delray Beach’s distance from PBI and FLL airports may prove to be a barrier to drawing air travelers.

Leaders may also cite intangible civic benefits of public investment in a meeting facility that creates a multi-purpose center that is heavily used by the community groups. Facilities that are heavily used by local groups may contribute to enhanced “quality of life” but at a cost that may be surprising.

There has been much press coverage of the “arms race” in conference and convention centers among cities. Boca Raton and West Palm Beach already have extensive facilities that are heavily supported by county-wide convention and visitors bureaus. There is

extensive competition within South Florida for small corporate meetings and conferences. A conference center/meeting center should not be proposed simply because Delray Beach doesn't have such a facility but if a viable niche in this competitive area can be identified and exploited.

### Jazz Club

Several stakeholders lamented the passing of an established jazz club in Downtown Delray Beach. A venue of this type would be appropriate anywhere on Atlantic Avenue—east or west of Swinton Avenue. Any venue offering alcohol and live entertainment would be regulated under existing state and local regulations and should be sensitive to noise and congestion issues due to close proximity to residential neighborhoods.

### Music Recording Studio

The South Florida music scene is vibrant, and a recording studio (as described by one community stakeholder) could succeed based upon the skills and contacts of the owner. Success is impossible to predict for this type of endeavor.

There may be an opportunity to expand the concept of a recording studio into a broader offering of music education and performances that would benefit the youth population and contribute to Delray Beach's image as a community with a broad cultural base.

### Medical Center

Medical offices, ambulatory surgery facilities, and cosmetic surgery centers could be attracted to an easily accessible location with ample free parking. Establishing this type of business cluster would be dependent upon generating interest by a key institution such as Delray Medical Center as an "anchor" tenant.

With a clear "medical" theme in place, office development could proceed incrementally as demand for space grows.

### Performing Arts Venue

Several stakeholders discussed the possibility of establishing a 600-800 seat performing arts venue to enable Delray Beach to accommodate performances and events that are too large for the 323-seat Crest Theatre at Old School Square. Community members who suggested this type of facility felt there would be sources of local philanthropic support that could be tapped in a fund raising campaign. The facilities at Old School Square are not perceived as operating at full capacity, and on-going public financial support is required. A new performing arts venue would compete with numerous facilities from Riviera Beach to Boca Raton. Small venues are often limited in the acts that can be booked because admission revenue is limited by seat count and price limits. A comprehensive assessment of capacity and utilization of

local and regional performing arts venues would be necessary as part of a specialized feasibility study for this type of facility.

A new performing arts venue would generate patronage that would directly benefit nearby restaurants. While the CRA's sites may be able to accommodate a venue of this type, parking requirements would need to be addressed. Such a venue would almost certainly require annual public operating subsidies. As in the case of a conference center/meeting center, a performing arts center must be able to fulfill needs on a regional basis rather than focusing solely upon the inventory of facilities within Delray Beach.

## APPENDIX

**Visioning Workshop**  
**Delray Beach Cluster 1 and 2**  
**November 3, 2010 6:00 pm**  
**November 4, 2010 9:00 am**

MEETING BASICS

1. Participants were organized into small groups to facilitate discussion.
2. Each group selected a designated recorder and spokesperson.
3. Facilitators introduced themselves and asked participants to introduce themselves and identify any group they represent.
4. Facilitators probed and made sure all people have a chance to participate.
5. Facilitators kept the discussion focused and on point.

FACILITATOR GUIDELINES

Goal of meeting was presented:

The Delray Beach CRA is seeking community input into the planning process for Clusters 1 and 2. The CRA is particularly interested in the ideas of nearby residents and land owners/business operators.

The community visioning workshops are not designed to reach immediate consensus. Instead, they allow members of the community to share their ideas in conjunction with a real estate market analysis that will assess demand for various types of sustainable development in Clusters 1 and 2.

- How do you define “Downtown Delray Beach” in terms of geography and function?
- How do you use Downtown Delray Beach?
- What is the visual indicator that you’ve arrived in Downtown Delray Beach when approaching from the west?
- What neighborhood do you live in?
- What could improve the physical connection between Clusters 1 and 2 and the remainder of Downtown Delray Beach?
- What is the visual indicator that you have arrived in Clusters 1 and 2?
- Is it important for Clusters 1 and 2 to have an identity that is different from other clusters in Downtown Delray Beach?
- What are the important civic places in the Clusters 1 and 2?
- What memories (or part of history) should be preserved?
- Are the important places in Clusters 1 and 2 well connected? Safe?
- Where do you go today for daily needs such as groceries and pharmacy items? Are there other retail goods that you expect to purchase close to home that you cannot buy near your home? Where do you go now to buy these goods?
- Are there any personal services or convenience services that are missing in your neighborhood? (day care, medical offices, Laundromat, bank, video store, etc.)

- What is missing (land uses) in your neighborhood? Where should it/they be located?
- Are there any uses that you specifically would NOT want in Clusters 1 and 2?
- How could the development of Clusters 1 and 2 positively impact your neighborhood? Downtown Delray Beach?
- How would you feel if shops and restaurants opened in Clusters 1 and 2 to serve your neighborhood plus other residents of the community? Tourists?
- How would you feel about an office building or hotel in Clusters 1 and 2?
- What kind of changes would benefit (your) business?
- If you are a restaurant or shop owner, where would you locate your business?



**NOVEMBER 3 WORKSHOP**



**NOVEMBER 3 WORKSHOP**



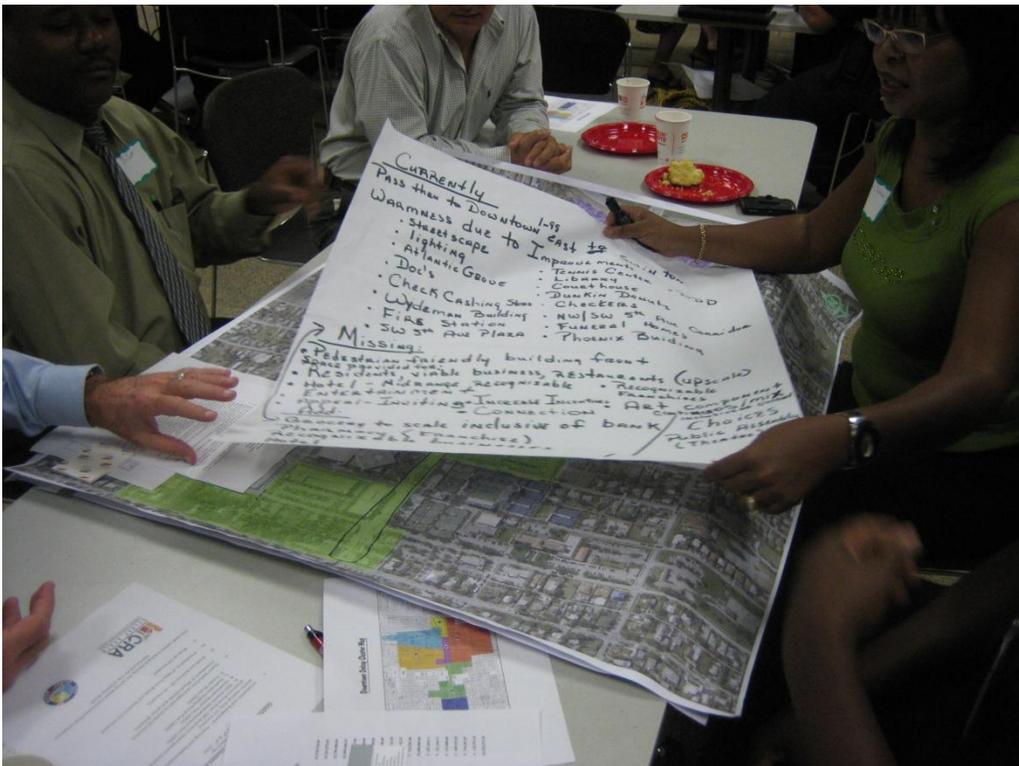
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**NOVEMBER 4 WORKSHOP**

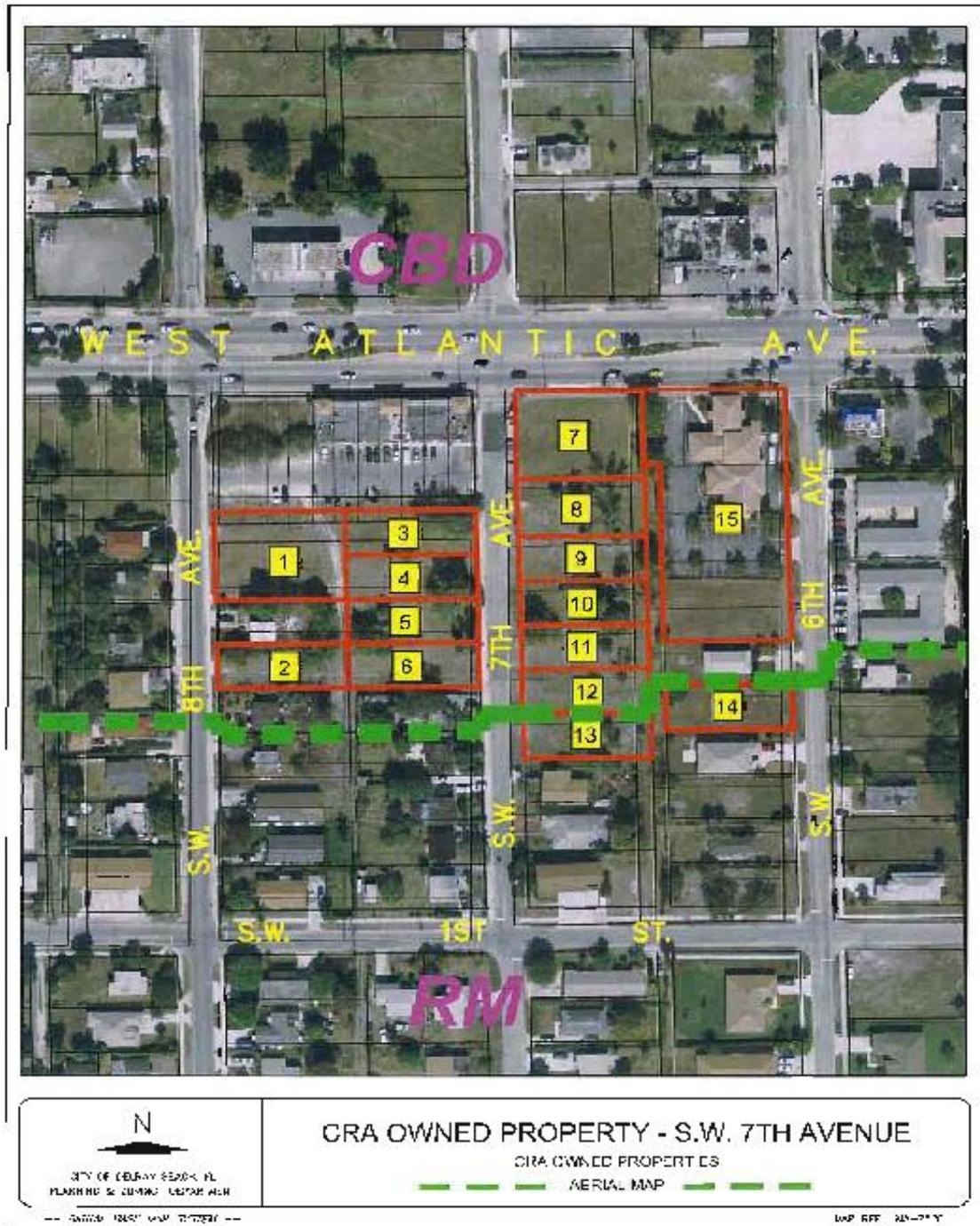


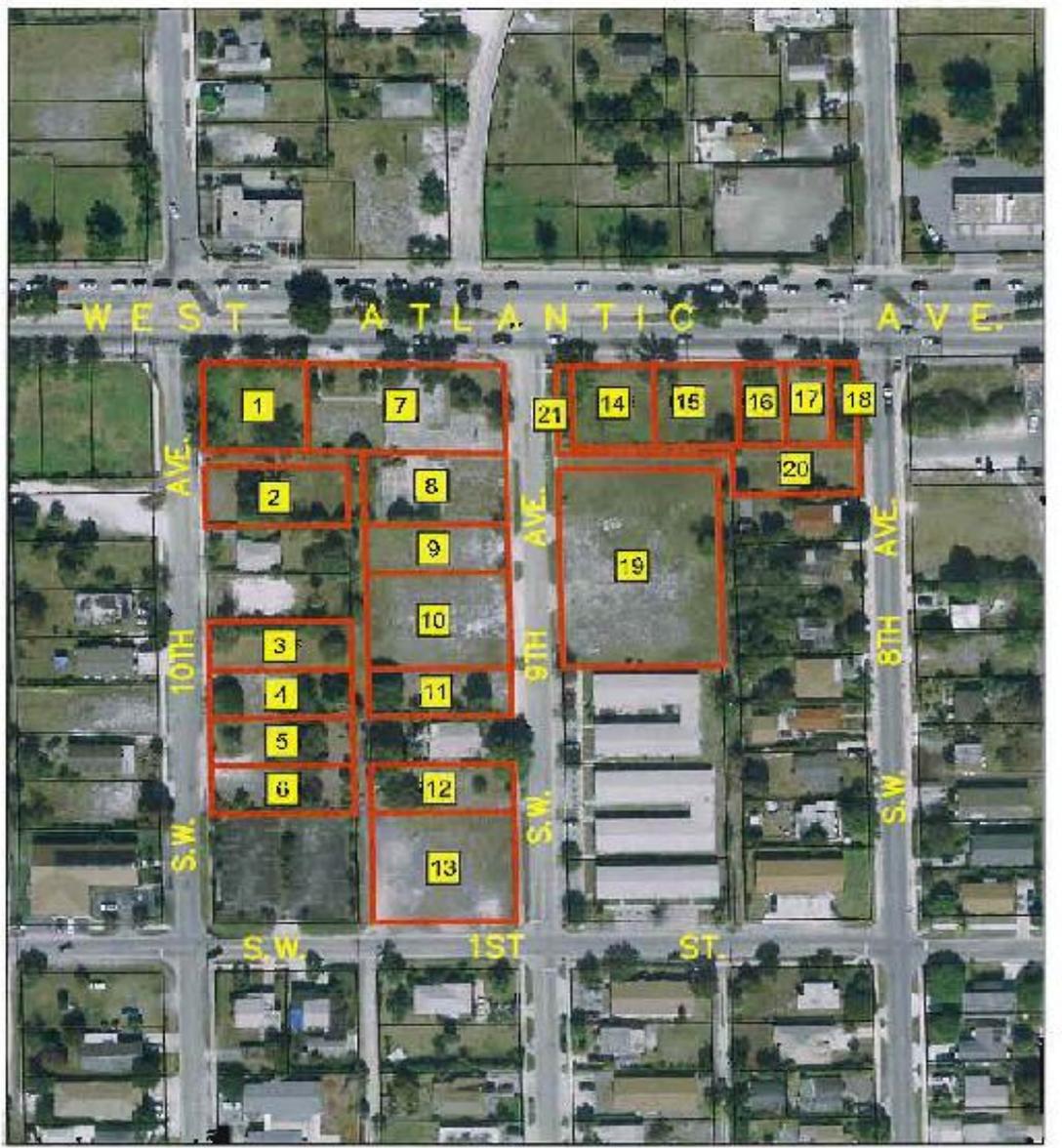
**NOVEMBER 4 WORKSHOP**



**NOVEMBER 4 WORKSHOP**







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CRA OWNED PROPERTY - S.W. 9TH AVENUE

AERIAL MAP

--- 2014 CAD MAP SYSTEM ---

MAP REF. LAR 2524