

DISTRICT RETAIL: THE FOCUS SHIFTS DOWNTOWN EAST



BUSINESS BRIEFING

A Publication of Cushman & Wakefield Retail Research Services

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INTRODUCTION Power Attracts Power

Washington, D.C. is the nation's power center. The Capital city offers iconic monuments, world-class museums, unique neighborhoods, top-rated restaurants, and an abundance of shopping options. Increasingly, visitors and Washingtonians alike have incredible ease of access to a growing mix of live-work-play neighborhoods spanning out all across the city. Residential development, restaurants, and even office tenants have all begun to shift east of 15th Street NW – away from what were once considered D.C.'s traditional retail submarkets – and into more 24/7 communities.

What's next? High street retail has begun to spread east, paving the way for luxury retailers downtown, something D.C. has not seen before. **Why here? Why now?**

In the key markets east of 15th Street NW, population has grown by 41% in the last ten years, the current average income tops \$110,000 per year and more than 6,400 housing units are under construction or proposed. Growth in retail rents and leasing activity outpaces the rest of the District and total retail sales are expected to grow by 27% in the next five years. These markets have established a vibrant live-work-play environment to meet the increasingly affluent population with high-end housing and an exciting restaurant scene that has become a destination for residents and visitors alike. Shopping is the final piece in the transition with a number of notable brands expanding or entering the market in the last year alone. With the new addition of luxury retailers, this market will solidify its status as a premier shopping destination for years to come.

Cushman & Wakefield of Washington, D.C., Inc.
2001 K Street NW
Washington, D.C. 20006

www.cushmanandwakefield.com

THE CATALYSTS

Over the past few years, residential, hotel, mixed-use, and restaurant development has made the shift east of 15th Street NW, pulling both retail and office tenants from more traditional markets like the CBD, West End, Georgetown and Chevy Chase and into the East End, Mount Vernon Triangle, 14th Street-Logan Circle, Penn Quarter-Chinatown and NoMa-H Street NE submarkets. These five submarkets, hereinafter referred to as Downtown East, have experienced incredible growth and gentrification in recent years and are the focus of this report as they will lead the way for additional development and retail growth to come.

DEMOGRAPHIC CHANGES PAVE THE WAY

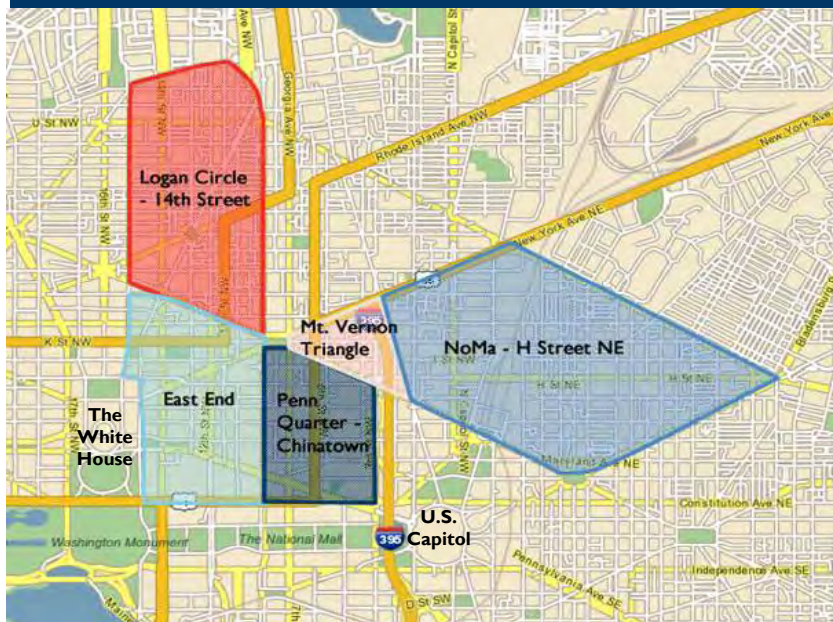
Since 2000, the population in Downtown East has grown by 41.2%, compared to only 11.0% for the District overall. There are currently over 50,000 people living in the area, up from 35,000 in 2000, with a daytime population of a staggering 182,000 people. The number of households in Downtown East has grown over 60% since 2000, and is expected to grow another 15% in the next 5 years.

The majority of this group consists of young professionals, typically between the ages of 24 and 34, with the next largest group between 34 and 44 for both males and females. Almost two-thirds of the population is college educated, with an average household annual income of \$110,900 per year. 63% of the population is unmarried and 64% rents. The expansion of career and social opportunities have drawn this young, professional, and affluent crowd to the area, resulting in a boom of high-end housing.

41.2% Growth

Since 2000, the Downtown East population has increased by 41.2% to 50,487 with a daytime population of 181,522

KEY MARKETS IN DOWNTOWN EAST



Source: Claritas, Alteryx, Inc.

RESIDENTIAL DEVELOPMENTS BRING BIG CHANGES

During the recession and recovery, Washington was one of the few cities still adding jobs. As of November 2013, Washington had gained back 188% of total jobs lost during the recession. Of the people living in Downtown East, 69% are employed by private companies, with 25% working for government entities—a slightly higher percent of private employees than the D.C.-wide total of 66% privately employed and 29% government employed. Law firms make up a significant portion of major employers in the area, with a number of firms including Covington & Burling LLP, Arnold & Porter LLP, and Crowell & Moring LLP headquartered in the area.

Multifamily investors took note of this employment stability, pouring money into the rapidly expanding areas of Downtown East. Over 2,400 units are currently under construction and approximately 4,400 units have delivered in the last five years. Currently Downtown East accounts for 18.3% of existing housing inventory in D.C. and 33.9% of total units under construction. Additionally, there are over 4,000 units of potential development in the proposed pipeline for Downtown East alone.

Many of these newer projects are anchored by grocery stores including Safeway, Giant, Harris Teeter, Whole Foods, Trader Joe's, and Walmart, among other amenities including gyms, full service restaurants, and fast casual eateries. With owners seeking to attract the busy and affluent professionals that make up the daytime population, these amenities provide the necessary convenience and 24/7 lifestyle to gain new residents. In the near past, young professionals desiring the live-work-play environment would have to go to suburban transit-oriented areas such as the Rosslyn-Ballston corridor and Bethesda-Chevy Chase to gain all of the amenities that are now being offered in these thriving urban neighborhoods. For those working in the city, this presents a much closer and more convenient option. Looking at the rapidly changing demographics in each market, and current apartment pricing, it's obvious these efforts are working—one bedroom rental units in new buildings across Downtown East are able to command pricing in the \$2500 - \$3500 per month range.



6,400

Units currently under construction and proposed in Downtown East

33.9%

Total units under construction in the District are in Downtown East

DOWNTOWN EAST DEMOGRAPHICS

	EAST END	MT. VERNON TRIANGLE	14 th STREET - LOGAN CIRCLE	PENN QUARTER - CHINATOWN	NOMA - H STREET NE	DOWNTOWN EAST TOTAL	D.C. TOTAL
2000 - 2013 Population Growth	109%	52%	37%	121%	23%	41%	11%
2013 - 2018 Population Growth Forecast	16%	17%	14%	17%	14%	15%	10%
Daytime Population	58,181	1,990	12,780	84,183	24,389	181,522	728,081
Average Household Income	\$113,087	\$76,331	\$118,488	\$127,078	\$98,887	\$110,900	\$99,700

Source: Claritas, Alteryx, Inc.

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RESTAURANTS GROW AND THRIVE

Once considered stuffy and old-fashioned, the D.C. restaurant scene has stepped out of the background and evolved, almost overnight, into a stirring destination that both diners and restaurateurs are excited to be a part of. Led in large part by the residential growth outlined above, restaurants are expanding rapidly across Downtown East with the I4th Street–Logan Circle area leading the charge.

The city’s densest residential area, I4th Street-Logan Circle, currently posts the highest revenue in the District for food service and drinking places. Thirty percent of its total retail inventory is dedicated to full service restaurants and approximately 30 new restaurants opened last year alone and more coming throughout 2014. Notable openings included Stephen Starr’s Le Diplomate, Mike Isabella’s Kapnos, and additional outposts of the popular Matchbox and Ted’s Bulletin.

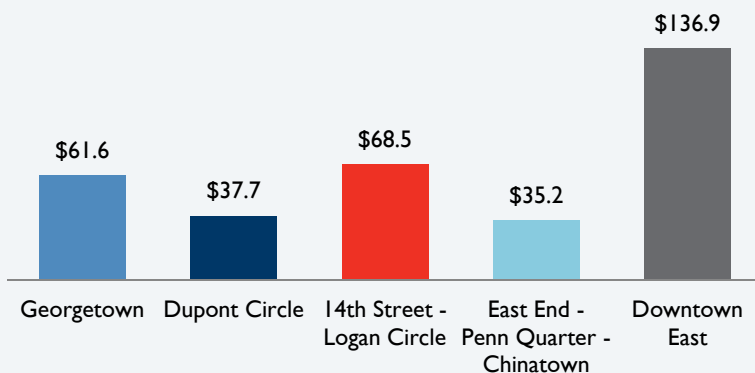
The total I4th Street-Logan Circle food service and beverage sales demand for 2013 was just shy of \$70 million and more than double every other Downtown East submarket. Full service restaurants made up around half of total I4th Street-Logan Circle sales at \$32 million. This volume outpaced several more established dining and retail destinations, including Georgetown and Dupont Circle. Restaurants in the East End and Penn Quarter-Chinatown posted \$35 million in food service and beverage sales for 2013, the fourth highest total across the District. These neighborhoods will have their fair share of notable 2014 openings bringing out-of-town expansions for Daniel Boulud, Del Frisco’s, and Joe’s Seafood, Steak and Stone Crab.



**\$70
Million**

2013 food service and beverage sales in I4th Street – Logan Circle, the highest of any market in DC

2013 FOODSERVICE AND BEVERAGE SALES (\$ MILLIONS)



Source: Claritas, Alteryx, Inc.

Demographics have been shifting over the past five to ten years, but this evolving restaurant scene has really only developed over the past 24 to 36 months to satisfy the growing residential and daytime population of young affluent professionals. It has become an exciting destination that draws not only locals, but Washingtonians across the area, and tourists to the Downtown East markets, making the area prime for additional fashion and consumer goods prospects to come.

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CHANGING THE GAME : CITYCENTER DC

At the heart of Downtown East, the CityCenterDC development is finally coming to fruition after a decade of work and will capitalize on all of the growth factors outlined above to provide a model for future development in the area. The 10-acre mixed-use project comes with nearly 700 housing units, 515,000 square feet (sf) of office space and 300,000 sf of retail space expected to be populated by a mix of restaurants and luxury retailers, which have been notably missing from this market up until now. Construction began in 2011 and the entirety of Phase I will be open this year.

Both the condominium and apartment buildings delivered at the end of 2013 with strong pre-leasing and sales activity. The 458 apartment units are a mix of studios to three-bedrooms, ranging from \$2130 - \$7760 per month in rent. The 216 condo units are some of the most luxurious and expensive in the District. On average, the cost is approximately \$900 per square foot (psf) and 75% of the condo units have sold to date.

The two office buildings, with over 500,000 sf of space, are substantially complete and were nearly fully-leased while still in the early stages of construction. Law firm Covington and Burling LLP signed a 20-year lease at the end of 2012 for 420,000 sf. In 2013, the American Hospital Association took an additional 42,000 sf, filling the majority of the remaining space along with owners Hines and the Qatar Foundation International. Covington's move has spurred other law firm relocations to new construction, and with several office developments in the works in Downtown East, additional high-profile tenants are expected to make the move to the area. Covington's commitment to the project—bringing with it first year associate starting salaries as high as \$160,000—will bolster both the residential and retail components of CityCenterDC.

In addition to the components mentioned above, CityCenter will feature open space, parks and performance areas, and pedestrian-only walkways that will be lined with restaurants and boutiques. Just northeast of CityCenter, a \$550-million Marriott Marquis Convention Center Hotel project with over 1,000 rooms and 31,000 sf of retail opens in May. Hines is in talks to bring a Conrad hotel to the project site, as well.

The project has specifically honed in on luxury retailers, with huge success, aiming to completely change the downtown shopping experience. Luxury was once only found in Chevy Chase and Tysons Galleria, but never in the city itself. Tumi and Allen Edmonds opened at the beginning of this year and construction has begun on Kate Spade, Burberry and Longchamp stores. Zadig & Voltaire, Hugo Boss and Salvatore Ferragamo have all signed on recently, with additional prominent brands still in discussions. Restaurants will include Daniel Boulud's DBGB kitchen and bar, Del Friscos's Double Eagle Steakhouse, Mango Tree, and potentially a DC outpost of New York's Momofuku noodle bar. With Phase I almost entirely open, prospective tenants can see the story of CityCenter coming to life and the project will elevate the quality of retailers in Downtown East, drawing more luxury and high-end brands to the project and surrounding neighborhoods.



300,000 sf

Retail availabilities within the
CityCenter project



THE IMPACT

RETAILERS RESPOND

Aside from a few pockets of smaller shops and a Macy's at Metro Center, retail in Downtown East was hard to find ten years ago. Shopping options in D.C., particularly apparel and accessories, were limited to staple markets like Georgetown and just over the Maryland border in Chevy Chase, or to major shopping malls like Tysons Corner Center and Tysons Galleria.

Recently, it seems retailers have caught on to the rapid development and demographic shift in Downtown East and several notable brands have expanded into the area. Anthropologie, J. Crew, T.J. Maxx, Forever 21, Lou Lou Boutique have all joined East End / Penn Quarter staples H&M, Guess, Urban Outfitters and Banana Republic. Whole Foods, lululemon, Mitchell Gold + Bob Williams and Trader Joe's all call 14th Street-Logan Circle home. NoMa-H Street NE has Walmart and a Whole Foods on the way. Catering to the residential component, Mt. Vernon Triangle has a Safeway, Ace Hardware, Vida Gym, and a number of fast-casual restaurant concepts.

More than ten notable brands have expanded Downtown East in the last three years, bringing not only an uptick in retail leasing activity, but an increasingly upscale and luxury tenant base, with the addition of the new store openings mentioned at CityCenter.



DOWNTOWN EAST RETAILERS PRE-2011

Lululemon	Banana Republic	Macy's
Urban Outfitters	Johnston & Murphy	Guess
American Apparel	Nine West	H&M
Express	Victoria's Secret	Zara

BRANDS THAT EXPANDED DOWNTOWN EAST IN PAST THREE YEARS

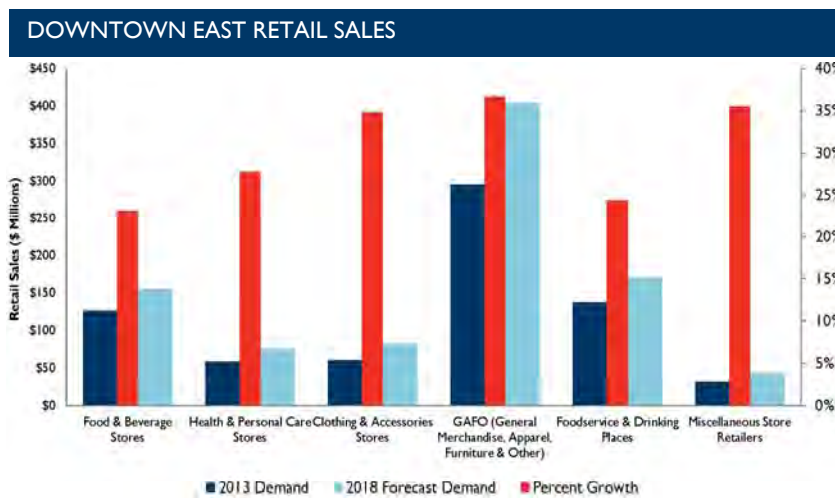
Tumi	Anthropologie	Leica Camera
J.Crew	T.J. Maxx	Walgreens
Burberry	Kate Spade	Longchamp
Tesla Motors	Trader Joe's	Edmund Allen

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TRANSFORMATIONAL GROWTH

All of the growth factors outlined above have had a dramatic effect on annual retail sales in Downtown East, which currently total \$1.2 billion (including food service & drinking places) and account for approximately 10% of the District's total. Over the next five years, retail sales in Downtown East are expected to grow by 26.7% to just over \$1.5 billion, outpacing the 21.4% growth forecast for the entire city. Clothing & Accessories stores alone are projected to grow by 35% in the next five years.

For 2013 sales, General Merchandise Apparel Furniture and Other (GAFO) lead all other categories in Downtown East retail sales totaling \$295.6 million, followed by Food Service & Drinking Places and Food & Beverage Stores, with \$136.9 million and \$125.8 million, respectively.



Source: Claritas, Alteryx, Inc.

26.7% Growth

By 2018, total retail sales in Downtown East are expected to grow by 26.7% to \$1.5 billion

MARKET INDICATORS CORRESPOND

Not surprisingly, the growth in retail sales and the increasing number of retailers entering the market have had a noticeable impact on Downtown East retail indicators including leasing, absorption, and asking rental rates. Looking at the past few years, Downtown East has outpaced the overall D.C. market, and other more established submarkets, in a number of factors and point to signs of continued future growth.

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The annual growth in retail leasing activity in Downtown East has outpaced overall District growth for the last three years. After seeing an uptick in activity between 2010 and 2011, growth across D.C. slowed to 8% for both 2012 and 2013, while Downtown East posted a more significant increase in activity (11% and 15%, respectively for those years). Retail leasing activity in Downtown East has also accounted for over 20% of total D.C. leasing activity for each of the last three years, accounting for 24% of total new retail leases in the District in 2013.

Consequently, Downtown East has also accounted for a significant percentage of overall retail absorption in recent years, outpacing DC in 2011 and representing 58% of overall absorption in 2013 with nearly 200,000 sf absorbed. Retail space in Downtown East is being taken up quickly, and future development will be necessary to satisfy the growing demand.

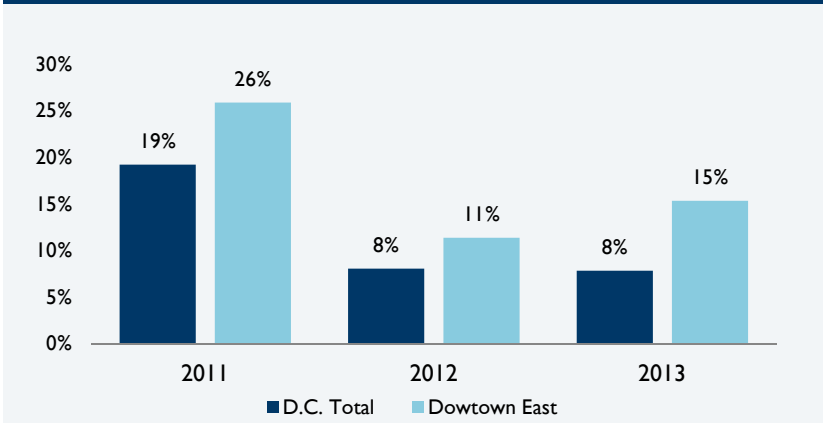
24%

Downtown East posted 24% of all new retail leases in the District in 2013

58%

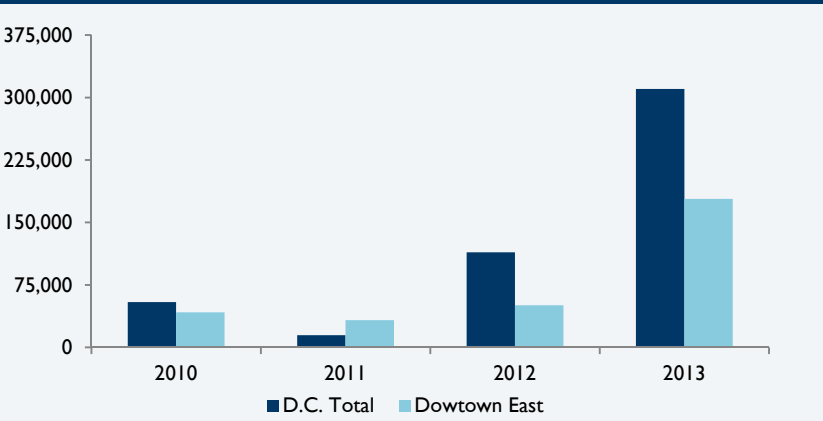
Downtown East accounted for 58% of overall retail absorption in the District in 2013.

ANNUAL % GROWTH IN RETAIL LEASING ACTIVITY



Source: Cushman & Wakefield Research, CoStar

OVERALL RETAIL ABSORPTION



Source: Cushman & Wakefield Research, CoStar

ASKING RENTS AT TOP OF MARKET

With vigorous demand, limited prime availability, and a wave of luxury growth on the horizon, Downtown East has been able to command asking rents at the top of the Washington market. Penn Quarter-Chinatown boasts the highest rents of any of the District retail submarkets, asking up to \$215.00 psf. Though its growth has leveled off compared to some other markets that are just starting to see an increase in activity, the high market asking rent still increased by 8% year-over-year from 2012.

Understandably, given the enormous increase in restaurant activity outlined above, 14th Street-Logan Circle asking rents experienced the highest annual growth for 2013 at 20%, currently commanding up to \$90.00 psf compared to a max of \$75.00 just one year ago. NoMa-H Street NE also saw a significant annual increase, growing by 18% from \$55.00 to \$65.00 psf. This is expected to continue to grow as new high-end projects enter the market and activity increases around the new Walmart and Whole Foods.

While all of the Downtown East markets have experienced rental rate growth in the last year (13.0% average overall), D.C.'s former top high street markets—Georgetown, Dupont Circle and Chevy Chase—remained stagnant, with only a slight uptick in Georgetown rents spurred by activity surrounding the Georgetown Park Mall redevelopment.



\$215 psf

Market high rent in Penn
Quarter-Chinatown

13.0%

Average year-over-year asking
rental rate growth for all
Downtown East markets

AVERAGE RETAIL ASKING RENT

	2012 MARKET HIGH RENT (\$/psf/year)	2013 MARKET HIGH RENT (\$/psf/year)	% GROWTH
Downtown East	\$95 - \$105	\$100 - \$110	12%
East End	\$100	\$110	10%
Mt. Vernon Triangle	\$50	\$55	10%
14th Street-Logan Circle	\$75	\$90	20%
Penn Quarter- Chinatown	\$200	\$215	8%
NoMa-H Street NE	\$55	\$65	18%
Georgetown	\$155	\$165	6%
Dupont Circle	\$110	\$110	0%
Chevy Chase	\$100	\$100	0%

Source: Cushman & Wakefield Research, Cushman & Wakefield Retail Services

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THE FUTURE

24/7 DEVELOPMENT, UPSCALE AND LUXURY

Downtown East is growing into a highly coveted hub for D.C.'s elite businesses, top retailers, and the young and prosperous professional crowd. The shift east is real and can be seen in all of the factors outlined above. The increase in both residential and workday population has added thousands of people in and around these neighborhoods, providing the need for easily accessible living, dining, and shopping options that cater to their 24/7 desires and upscale tastes.

CityCenter represents a culmination of all of these factors—it has succeeded at attracting new residents, new businesses, and new retailers to create an exciting destination within the market. It has also served as a catalyst to attract luxury retailers downtown, a first for D.C., and as a model for development suited to the needs of the market.

However, one project alone will not be able to satisfy future demand in the market and more are already in the works. The Marriott Marquis will finish soon with an additional 31,000 sf of retail availability. Proposed projects including 900 New York Avenue NW & 600 Massachusetts Avenue and Square 450 could bring approximately 100,000 sf of additional retail space in the coming years. Development will also push out into surrounding neighborhoods like Shaw as availabilities are eaten up.

The success experienced so far in Downtown East will encourage developers to continue to include luxury retail components in their projects, attracting more high-profile retailers to the market and solidifying Downtown East's status as the premier retail destination perhaps not only within the city, but the region as a whole.



Urban Luxury

Downtown East is bringing luxury retail to the heart of the city and will continue to grow as a 24/7 destination providing upscale retail opportunities

For more information, contact:



Maria Sicola
Executive Managing Director
Head of Americas Research
T (415) 773 3542
maria.sicola@cushwake.com



Paula Munger
Managing Director, Research
Mid-Atlantic | Southeast
T (703) 847 2785
paula.munger@cushwake.com



David Dochter
Executive Director
Retail Services
T (202) 739 0387
david.dochter@cushwake.com



Ronnie Davis
Managing Director
Americas Retail Research
T (404) 853 5249
ronnie.davis@cushwake.com



Sarah Dreyer
Manager
Washington, D.C. Research
T (202) 739-0371
sarah.dreyer@cushwake.com



Matthew Alexander
Executive Director
Retail Services
T (202) 739 0385
matthew.alexander@cushwake.com



Pam Flora
Director
Americas Retail Research
T (858) 558 5634
pam.flora@cushwake.com



Ian Niemeyer
Retail Research Intern
T (404) 853 5376
ian.niemeyer@cushwake.com



Chris Hunt
Associate
Retail Services
T (202) 739 0388
chris.hunt@cushwake.com

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Cushman & Wakefield of Washington D.C., Inc.
2001 K Street NW
Washington, D.C. 20006