# INVESTMENT FORECAST

**Retail**

*Washington, D.C.*

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

## Rising Wages Contribute to Increased Disposable Income, Restoring Retailer and Investor Confidence

**Consumer spending encourages retailer expansion.** Fundamentals steadily improved throughout the final nine months of 2021, providing optimism for the metro's retail sector. Increasing wages and excess savings, due to government stimulus, enhanced consumer spending power, prompting a surge in retail sales. This elevated demand for available space among vendors, with tenants absorbing nearly 1.3 million square feet over the last three quarters of 2021. Several factors indicate this momentum will carry over into 2022. Employers will add nearly 100,000 positions this year, and the metro's plethora of high-paying jobs continue to stimulate in-migration, supporting a further rise in retail spending. Additionally, many firms are planning to return to their offices this year and business travel should continue to rebound. This will notably improve foot traffic and consumer activity, especially in submarkets with a large office inventory like Downtown D.C., Alexandria, Fairfax County and the Dulles Corridor. Although supply additions are expected to increase this year, completions still remain below the region's trailing 10-year average and roughly two-thirds of this space is already pre-leased. Elevated space demand and limited supply pressure will allow for slight vacancy compression this year.

**Improving fundamentals prompt a rise in investment activity.** Transaction velocity returned to pre-pandemic levels in 2021, as fundamental progression and a low interest rate environment stimulated deal flow for retail assets across the metro. Investors are targeting well-positioned properties in densely populated neighborhoods. Inside the district, retail assets garnering the most interest are in Northwest D.C., particularly in Uptown, Georgetown and Dupont Circle, where asking rents are the most expensive in the metro. Outside of the core, low vacancy rates relative to other submarkets in the region are driving activity in Fairfax County. Meanwhile, robust rent growth in Frederick County and Prince George's County is piquing buyer interest in suburban Maryland.

### 2022 Market Forecast

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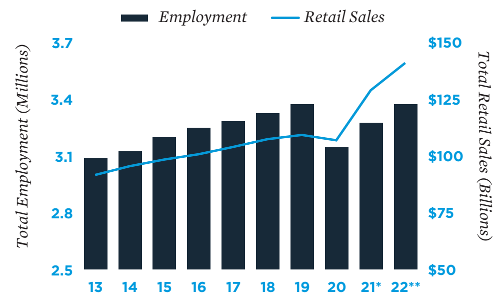
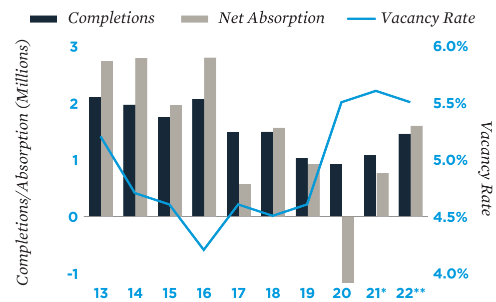
| **Employment** up 3.0% | Following the addition of 127,000 positions last year, the metro's employment base will expand by 98,000 jobs in 2022. |
| **Construction** 1,450,000 sq. ft. | Deliveries will rise from the 1.1 million square feet completed last year. Developers will expand inventory by 0.6 percent, with the bulk of completions concentrated in Northern Virginia. |
| **Vacancy** down 10 bps | Net absorption will slightly outpace supply additions, contracting vacancy to 5.5 percent in 2022. This compression negates the 10-basis-point increase registered last year. |
| **Rent** up 3.0% | Tightening availability will support rent growth this year, pushing the average asking rate to $28.57 per square foot. Last year, a 5 percent increase was recorded. |
| **Investment** | Phase 2 of the Metrorail's Silver Line opens this year, which will likely boost retail sales and heighten investor interest in the Dulles Corridor submarket. |

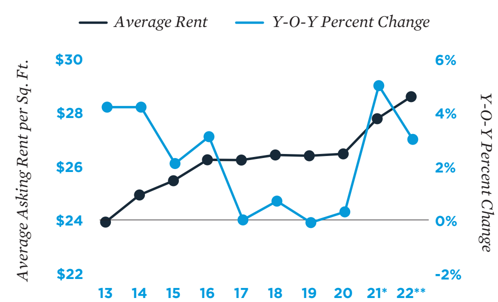
### Economic Trends




### Supply and Demand




### Rent Trends




** Estimate; ** Forecast*
*Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.*


**Daniel Taub**
*Senior Vice President*
*Director IPA Retail*
*Tel: (212) 430-5100 | dtaub@ipausa.com*