

MARKET REPORT

Retail

Washington, D.C. Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

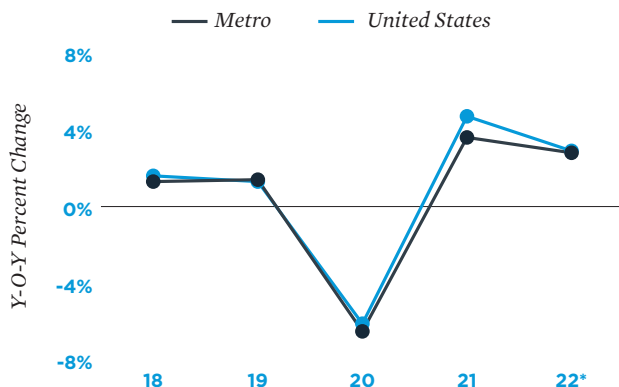
2Q/22

Retailer Demand Booming in Virginia; District Still Impeded by Reduced Traffic

Leasing surge provides reasons for optimism. Although metrowide vacancy remains 100 basis points above the pre-pandemic rate entering the second quarter, recent leasing activity indicates the market may be turning the corner. Vendors absorbed over 950,000 square feet during the first quarter, marking the largest total in a three-month span since 2016. Home to strong population growth, Northern Virginia has been the standout destination for retailer expansions, with the region accounting for nearly 80 percent of the space absorbed over the past year ending in March. Specifically, retail fundamentals are strongest in suburban nodes like the Woodbridge-I-95 Corridor, Greater Fredericksburg, Dulles Corridor and Greater Fairfax County. In these submarkets, retail vacancy rates are at least 100 basis points below the metro average.

Recovery continues in the District. The prevalence of remote and hybrid work schedules, coupled with reduced business travel, has significantly impacted foot traffic in the District. Still, local vacancy compressed 10 basis points over the past year and catalysts for further improvement are lined up. Group, business and international visitations are expected to increase this year as travel restrictions continue to ease, which will likely provide a boost to local foot traffic and consumer spending. Additionally, near-term supply additions will be minimal, steering expanding retailers to the region's existing vacant stock. Nevertheless, availability will likely remain above pre-pandemic levels until in-office operations normalize.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**93,000
JOBS**
will be created

EMPLOYMENT:

Employers are on track to increase the metro's workforce by 2.8 percent in 2022, spearheaded by gains in traditional office-using segments. Entering April, total employment in the retail trade sector was 6,700 jobs below the pre-pandemic level.



**1,300,000
SQ. FT.**
will be completed

CONSTRUCTION:

Delivery volume increases on an annual basis, yet remains below the 10-year trailing average of 1.6 million square feet. The Dulles Corridor and Frederick will receive the bulk of supply additions, each adding at least 200,000 square feet of inventory.



**40
BASIS POINT**
decrease in vacancy

VACANCY:

Metrowide vacancy contracts on an annual basis for the first time since 2018, driven by strong leasing activity in Northern Virginia. The rate will fall to 5.5 percent this year, 90 basis points above the pre-pandemic rate.

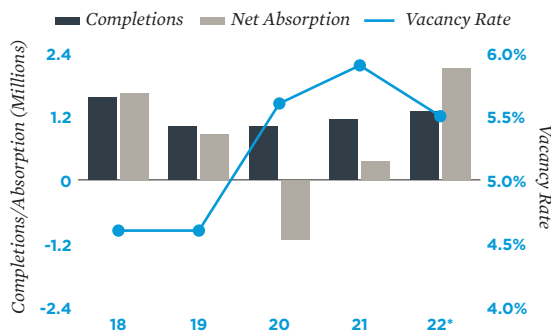


**3.5%
INCREASE**
in asking rent

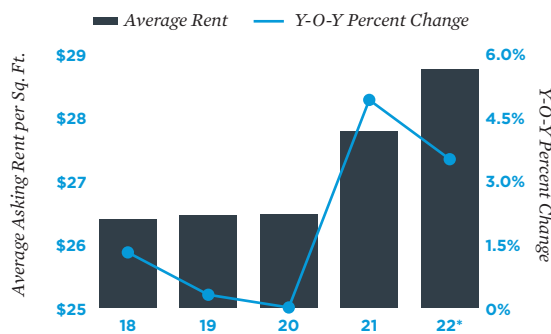
RENT:

The absorption of more than 2 million square feet of space stimulates sizable rent growth for a second straight year. By year-end, the average asking rate will reach \$28.75 per square foot, roughly 35 percent above all other major Mid-Atlantic metros.

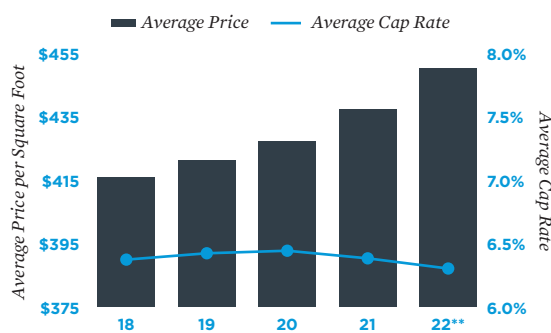
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

1,215,000 sq. ft. completed

- Builders expanded retail inventory by 0.5 percent year-over-year ending in March, with the Manassas-Route 29-I-66, Leesburg-Route 7 Corridor and Alexandria-I-395 Area submarkets receiving over half of all deliveries.
- Entering the second quarter, three-fourths of the 1.5 million square feet of retail space underway throughout the metro was pre-leased.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Retailers absorbed nearly 1.9 million square feet over the past year ending in March, driven by single-tenant leasing velocity. This activity lowered metrowide availability to 5.6 percent.
- Multi-tenant vacancy fell 10 basis points during the past four quarters to 6.3 percent, 100 basis points above the single-tenant rate.



RENT

5.5% increase in the average asking rent Y-O-Y

- Recent rent gains were propelled by the single-tenant segment, where the average asking rent increased by 6.6 percent to \$29.00 per square foot, while the multi-tenant rate rose 2.2 percent during this span.
- Overall, the average asking rate rose to \$28.01 per square foot, with East Prince George's County recording the largest rent increase.

Investment Highlights

- Single-tenant transaction velocity rose by more than 70 percent during the trailing 12-month period ending in March. A competitive bidding environment for available listings contributed to a 4 percent rise in the average sale price to \$519 per square foot, with cap rates averaging in the low-6 percent range.
- Buyer activity was most pronounced in Maryland over the past four quarters, likely driven by lower entry costs relative to D.C. and Northern Virginia. Single-tenant listings in Prince George's County, Frederick and along the I-270 Corridor received plenty of buyer interest. Here, properties often trade at cap rates above the metro average. Inside the District, Georgetown-Uptown remains the most liquid retail submarket, as local median household incomes are among the highest in the metro.
- Multi-tenant deal flow returned in force over the past year, with trading activity more than doubling the amount of transactions recorded in the previous 12-month period. Neighborhood and community centers were often targeted, with these properties changing hands most often in Greater Fredericksburg and Manassas-Route 29-I-66. In both locales, entry costs often fall below the metro's multi-tenant average of \$381 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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