MARKET REPORT

Retail

Washington, D.C. Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

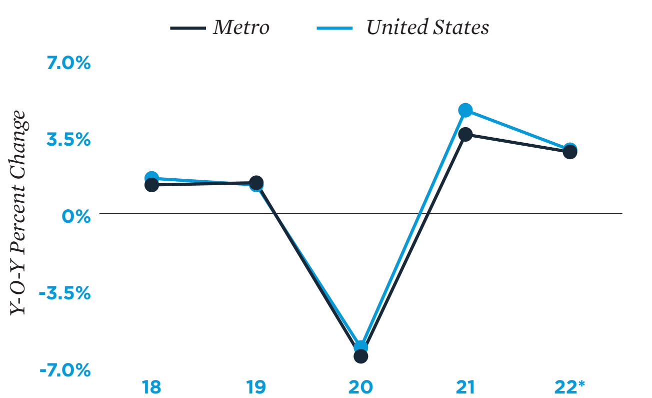
3Q/22

Retailers and Developers are Flocking to D.C.'s Growing Suburban Residential Neighborhoods

Northern Virginia garners the lion's share of leasing activity. Strong levels of population and job growth have spurred dynamic single- and multifamily development in Northern Virginia. Additionally, hybrid and remote work schedules boosted midweek foot traffic in the region's growing suburban nodes, and both retailers and developers have taken notice. Virginia submarkets accounted for more than 70 percent of new supply additions and nearly 90 percent of total net absorption metrowide over the past year ending in June. Locales like Fairfax County, Manassas, Fredericksburg, Alexandria, Woodbridge and Leesburg noted strong demand from a variety of tenants, including grocers, gyms, restaurants, discount retailers, outdoor suppliers, drug stores and indoor entertainment centers.

Momentum is building inside of the District. Passenger arrivals at Reagan National and Dulles International Airports through the first six months of this year have more than doubled relative to 2021, indicating tourism and group travel are on the upswing. Elevated visitor volumes are bolstering downtown foot traffic, which in turn is heightening retail demand in D.C. proper. More space was absorbed in the District through the first six months of 2022 than in the previous three years combined. This strong activity helped slice 50 basis points off local availability in the first half alone, lowering the rate to 6.2 percent. With less than 75,000 square feet of new supply underway here as of August, retail fundamentals inside the District will likely continue to improve in the near- to mid-term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

93,000 JOBS
will be created

EMPLOYMENT:

Employers added 51,000 jobs through the first eight months of 2022, largely driven by robust hiring in the education and health services sector. Job growth is expected to remain elevated through the second half, lifting total employment by 2.8 percent annually.

1,250,000 SQ. FT.
will be completed

CONSTRUCTION:

Construction activity will accelerate from last year's pace as developers increase retail inventory by 0.6 percent in 2022. Roughly 50 percent of space in the active pipeline is slated for delivery in the Dulles Corridor.

10 BASIS POINT
decrease in vacancy

VACANCY:

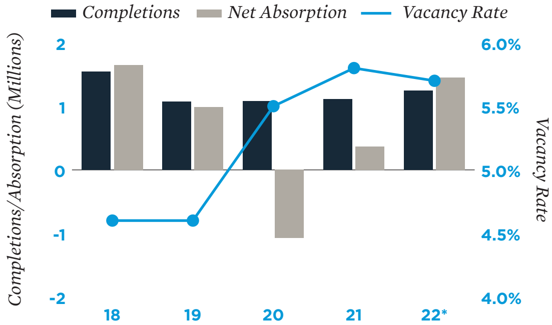
Net absorption will reach nearly 1.5 million square feet in 2022, facilitating annual vacancy compression in D.C. for the first time since 2016. Still, at 5.7 percent, the rate remains 110 basis points above the 2019 level.

4.0% INCREASE
in asking rent

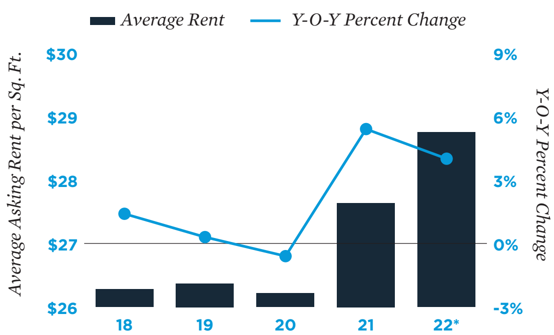
RENT:

Rent growth slows from the 5.4 percent gain recorded last year, but remains well above the 10-year trailing average of 1.7 percent. The average asking rate will rise to $28.75 per square foot by year-end, marking a new record high for the metro.

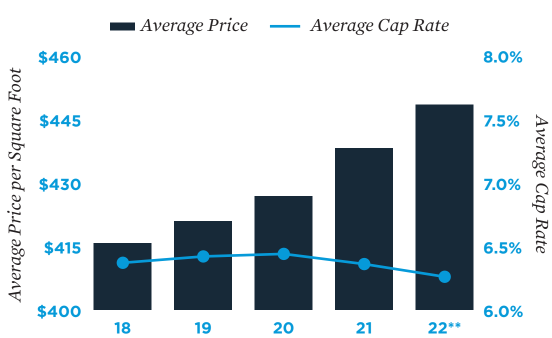
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

1,085,000 sq. ft. completed

- Developers increased retail inventory in the D.C. metro by 0.5 percent over the past four quarters ending in June.
- Construction activity will likely remain elevated in the Dulles Corridor and Leesburg-Route 7 Corridor submarkets, as Phase 2 of the Metrorail Silver Line extension is slated to open in October of this year.

VACANCY

0 basis point change in vacancy Y-O-Y

- Local vacancy in Washington, D.C. and Northern Virginia fell by 50 basis points and 30 basis points, respectively, during the trailing 12-month period ending in the second quarter.
- Meanwhile, availability in suburban Maryland rose by 30 basis points, as just over 75,000 square feet of retail space was returned to the market.

RENT

4.7% increase in the average asking rent Y-O-Y

- Suburban Maryland observed the largest rent growth among the three regions in the metro year-over-year ending in June, driven by double-digit gains in Bethesda-Chevy Chase and Frederick.
- The average asking rent for single-tenant and multi-tenant assets increased by 4.7 percent and 4.4 percent, respectively, metrowide.

Investment Highlights

- Transaction velocity for multi-tenant assets increased nearly 90 percent in the trailing 12-month period ending in June relative to the previous yearlong span. Heightened competition for available listings in this segment resulted in the average sale price rising by 6 percent in the past year to $385 per square foot. Mean first-year returns for multi-tenant properties held steady in the mid-6 percent range.
- Investors targeting assets in the multi-tenant sector have been most active in the Northern Virginia region of the metro. Neighborhood and community centers are highly coveted in growing residential submarkets, such as the Dulles Corridor, Leesburg-Route 7 Corridor, Greater Fairfax County, Greater Fredericksburg and Prince William County.
- Restaurants, fast food establishments, drug stores, auto parts shops and department chains are changing hands most often in the single-tenant sector. Properties in this segment trade for an average of $510 per square foot, with mean cap rates in the high-5 percent span. Inside of the District, buyer activity is most pronounced in the Georgetown-Uptown submarket. Meanwhile in Suburban Maryland, Prince George's County, Frederick and the I-270 Corridor recorded strong interest from investors.