

MARKET REPORT

RETAIL

Washington, D.C., Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

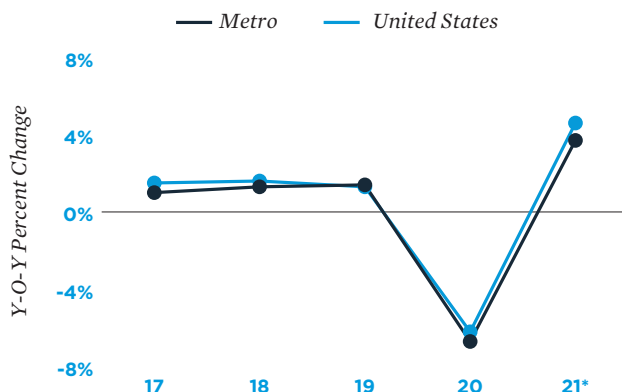
3Q/21

Demand for Retail Space Trending Up as Northern Virginia Leads Nascent Recovery

Northern Virginia retailers prove resilient. Net absorption turned positive in the second quarter, driven entirely by the 484,000 newly occupied square feet in the Virginia portion of the market. Fundamentals are strongest west and south of Arlington. As of midyear, vacancy was below the pre-recession level in Greater Fredericksburg and within 40 basis points of 2019 marks along the Dulles and I-95 corridors. The latter submarket also posted annual rent growth of 10 percent. Retailers closer to the District have more ground to make up. Asking rents slid in Greater Fairfax County, while vacancy in the Alexandria-I-395 area topped 10 percent. While the spread of COVID-19 variants has delayed some office returns, when this process occurs it will draw both residents and retailers back toward these employment hubs.

The District posts early signs of recovery. Loss of sales from fewer commuting office workers led to Downtown D.C. retail vacancy jumping 470 basis points year over year to 11.6 percent in June as well as a 8.8 percent drop in the average asking rent. Conditions are less impaired in the Georgetown-Uptown and Capitol Hill areas, which encompass some residential neighborhoods. Rents in the former submarket have only dropped 1.3 percent on average since 2019, while vacancy has decreased from recession highs in Capitol Hill. Moving forward, a vaccine mandate for federal workers may pave the way for consumer foot traffic to return in greater numbers to these core areas, benefiting retailers.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook



**115,000
JOBS**

will be created

EMPLOYMENT:

Metro employers are on track to grow the employment base by 3.7 percent this year with the creation of 67,100 jobs year-to-date through August. The unemployment rate entering September was 5.0 percent, just under the U.S. measure of 5.2 percent.



**1,600,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries will rise this year to the highest annual level since 2016, led by completions in the Alexandria-I-395 area as well as along the Leesburg-Route 7 Corridor. The largest single delivery will be the 210,000-square-foot Carlyle Crossing in Alexandria.



**40
BASIS POINT**

increase in vacancy

VACANCY:

Renewed leasing activity will slow the rate of vacancy increase after the marketwide rate jumped 90 basis points in 2020. This year is expected to conclude with a vacancy measure of 5.9 percent, 170 basis points above the pre-recession low recorded in 2016.



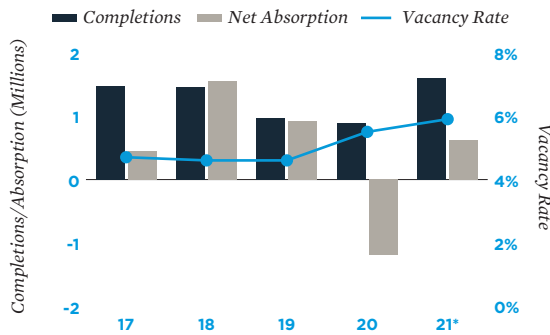
**3.4%
INCREASE**

in asking rent

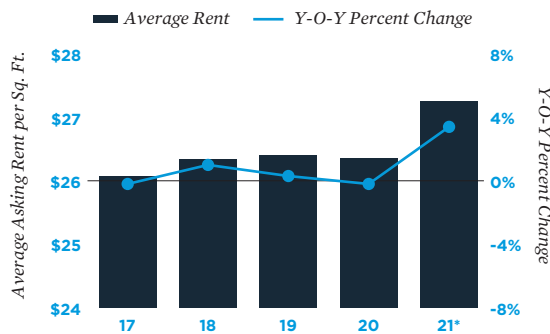
RENT:

After stagnating last year, the average asking rent is set to improve to \$27.25 per square foot in 2021. Driven by gains made in the second quarter, the year-end measure will exceed the 2019 high by 3.0 percent.

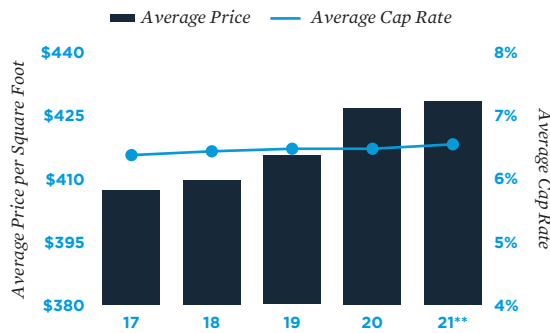
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

946,000 square feet completed

- About 14,000 fewer square feet was delivered over the 12-month period ended in June than in the prior yearlong span, with single-tenant properties comprising about 70 percent of the pipeline.
- More than 670,000 square feet was completed across northern Virginia, led by arrivals along the Leesburg-Route 7 Corridor.



VACANCY

80 basis point increase in vacancy Y-O-Y

- The positive net absorption of nearly 360,000 square feet in the second quarter helped keep the marketwide vacancy rate at 5.8 percent, where it has held since March of this year.
- Since the end of 2020, vacancy has shifted up 10 basis points in northern Virginia but 30 basis points or more in suburban Maryland and D.C.



RENT

4.4% increase in the average asking rent Y-O-Y

- After inching down slightly in 2020, the average asking rent jumped 2.8 percent in the second quarter of this year to \$27.15 per square foot.
- Rent growth over the past four quarters was driven by the single-tenant segment, up 5.1 percent on average. The mean marketed rate for multi-tenant space improved 2.4 percent over the same span.

Investment Highlights

- Single-tenant transaction velocity for the 12-month period ended in June was down about 10 percent relative to the prior yearlong span. In that time the average sale price inched up by a modest 1 percent to \$469 per square foot, with a mean cap rate of 6.3 percent.
- Investment interest skewed toward Maryland over the past four quarters, likely motivated by yields. Single-tenant assets changed hands in the area with an average first-year return near the mid-6 percent area.
- Investors have been slower to return to the market for multi-tenant assets, with sales velocity down 40 percent over the past four quarters. Less competition for properties led to a 2 percent drop in the average sale price, now at \$342 per square foot, and a 10-basis-point increase in the mean cap rate to 7.0 percent.
- Multi-tenant buyers focused on assets in Prince George County in Maryland as well as Greater Fairfax County and the Manassas-Route 29-I-66 area in Virginia. Investors were predominantly local to the market and targeted properties in the \$1 million to \$10 million range.