MARKETVIEW

Washington, D.C. Metro Retail, Mid-year 2021

Back in Business: Retail Openings Outpace Closures First Time Since March 2020

Unemployment Rate 5.0%

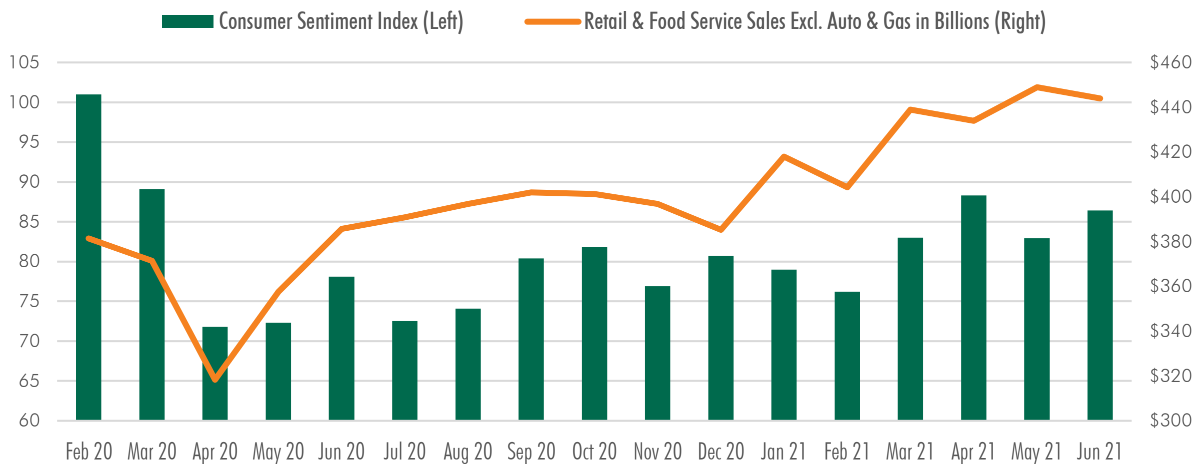
Retail Related Employment 501,600

Investment Sales $247M

Under Construction 1.8 MSF

*Arrows indicate change from previous quarter.

Figure 1: U.S. Retail Economic Pulse



Source: University of Michigan, U.S. Census, Q2 2021

- **Cautious Optimism**: While new COVID cases had been on a steady decline across the D.C. metro region as vaccine rollout continued, the Delta variant has caused a recent flare-up, which has caused indoor mask mandate to be reinstated in the District and in Baltimore City by early August. 55% of the vaccine-eligible population in the region has been fully vaccinated.
- **Inflation Concern**: Nationally, retail sales activity has been exceeding pre-pandemic levels since June 2020, partly due to the increase in home prices and wages. Consumer confidence remains stable albeit still down from pre-pandemic levels as supply bottlenecks stir inflation fears.
- **Falling Vacancy**: Despite the recent rise in new COVID infections, brick-and-mortar retail continues to recover. In Q2 2021, the region posted more retail openings than closures.
- **East of the River**: Multiple mixed-use projects have broken ground East of the Anacostia River, a traditionally underserved area on its way to have its first Lidl opening early 2022.
- **Restaurants Bullish**: As the most active retailer segment, 104 national and regional restaurant operators, mostly in the quick-service category, are currently seeking space in the market.
- **Capital Markets Reactivated**: Investment sales activity rebounded with more than $247 million of transactions in Q2, more than double of the $112 million from the same time last year.

ECONOMIC RECOVERY

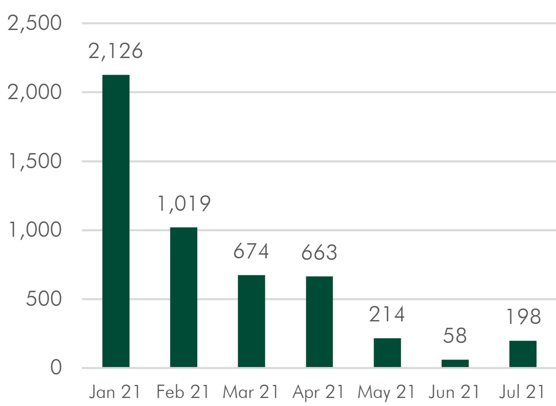
Mobility metrics could be leading indicators of real estate market conditions and the broader economic recovery:

- Key retail corridors in D.C. have seen foot traffic uptick to as much as 80% of pre-pandemic levels, up from 54% in Q1 2021.
- Tourism and business travel have increased as regional airport traffic has returned to 55% of pre-pandemic levels.
- Public transportation has lagged with Metrorail ridership remaining at only 21% of pre-pandemic levels, as most workers find alternative ways to commute or work from home.

As more brick-and-mortar retail locations reopened across the region, retail employment has recorded steady improvements. From January to June of this year, the D.C. metro has added 40,400 retail jobs, 8,000 jobs per month, making it one of the fastest recovering sector (Figure 4).

In addition, there are currently 1.65 million retail job openings nationally (Figure 5). As labor participation improves and additional workforce becomes available, brick-and-mortar retail will be positioned for further recovery and growth.

Figure 2: Regional Average Daily New COVID Cases



Source: DC, VA and MD Health Departments, Q2 2021

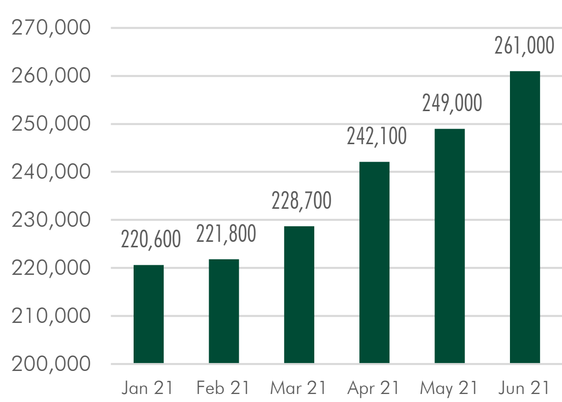
Figure 3: Regional Mobility Recovery

Recovery Indicators	% of Pre-Pandemic Average Q1 2021	% of Pre-Pandemic Average Q2 2021
Foot Traffic*	54%	⬆ 80%
Air Travel (IAD+BWI+DCA)	47%	⬆ 55%
Metrorail	14%	⬆ 21%

Source: MWAA, FHA, WMATA, Placer, Q2 2021

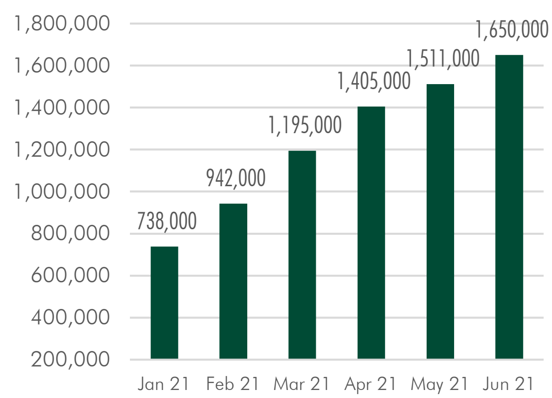
*Based on average stats for Georgetown, Capitol Riverfront, Golden Triangle and 14th Street

Figure 4: Number of Retail Jobs in D.C. Metro Region



Source: Bureau of Labor Statistics, Q2 2021

Figure 5: Number of Unfilled Retail Jobs Nationally



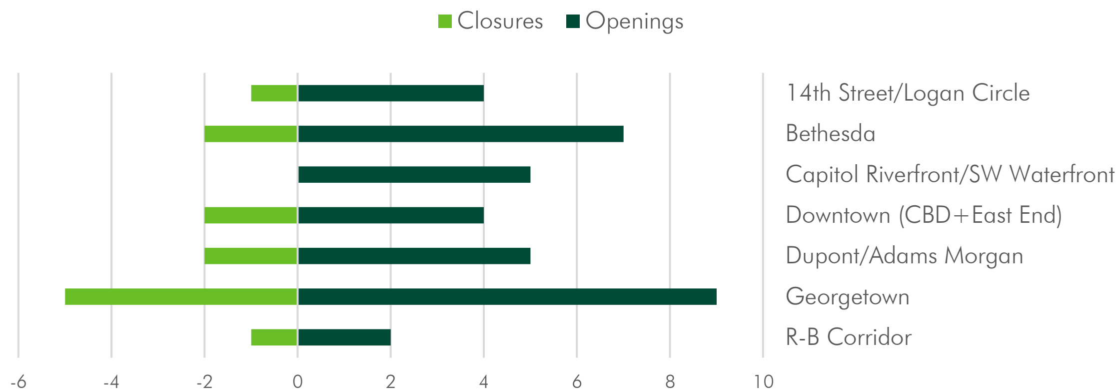
Source: Bureau of Labor Statistics, Q2 2021

RETAIL OPENINGS & CLOSURES

For the first time since the onset of the pandemic, the region recorded more retail openings than closures, as business confidence improves, and retailers open to take advantage of the summer months. During Q1 2021, we tracked 46 retail closures within select key retail corridors in the region. In the second quarter, the number of closures dropped to 13. Moreover, there were 36 openings in Q2, up from 31 in the first quarter.

Levain Bakery, &Pizza and Wawa are some of the retailers that opened additional locations in the region during the quarter. Vin Sur Vingt—a New York City-based wine bar—opened its first location outside of Manhattan on 14^{th} Street, underscoring the corridor's unwavering vitality. Tatte Bakery, Target, and Five below continue their plans for expansion in the region.

Figure 6: Select Q2 2021 Retail Openings & Closures



Source: CBRE, Q2 2021

Figure 7: Select Notable Q2 2021 Lease Transactions

Tenant	SF	Address	Project	Neighborhood	Tenant Type
Target	33,970	900 Army Navy Dr	Pentagon Row	Crystal City	Big Box
Swingers	24,000	1250 Half St SE	The Kelvin	Capitol Riverfront	Entertainment
Dollar Tree	15,235	9321-9463 Annapolis Rd	Enterprise Plaza	Lanham	Discount Store
Five Iron Golf	12,717	575 7th St NW	Terrell Place	East End	Entertainment
Rockville Spa & Patio	11,200	11130-11134 Rockville Pike	11130 Rockville Pike	North Bethesda/Potomac	Beauty
Tatte Bakery	10,502	850 10th St NW	CityCenter	East End	Fast Casual
The Heights Food Hall	10,105	5310 Western Ave	Shops at Wisconsin Place	Chevy Chase	Restaurant
Georgetown Hill Early School	9,635	7235 Wisconsin Ave	7235 Wisconsin	Bethesda	Education
Five Below	9,475	1200 S Fern St	Pentagon Centre	Pentagon City	Discount Store

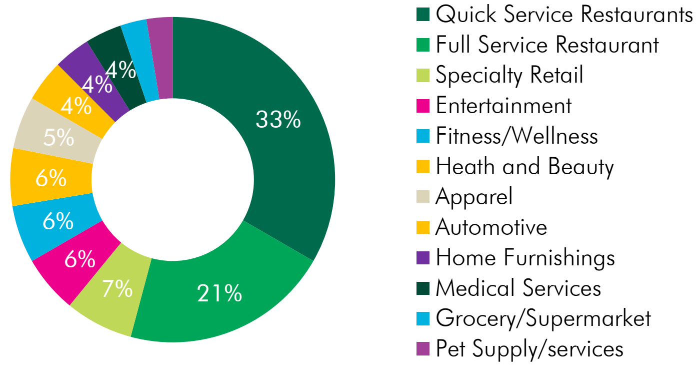
Source: CBRE, Q2 2021

TENANTS IN THE MARKET

Tenant activity has seen an uptick during the quarter while many opportunistic retailers take advantage of the tenant-favorable market conditions. More than 200 national and regional tenants are actively touring the market, with restaurants making up more than half of the list. Multi-market tenants such as Matchbox, King Street Oyster Bar, Silver Diner and Chick-Fil-A continue to seek expansion in the region.

Automotive-related retailers such as carwash (Sam's Xpress, Edge, Green Clean), dealership (Nissan, Carvana, Polestar), and repair shops (Caliber Collision, O'Reilly) have been active, as consumer demand for vehicular services increases. In addition, fitness and entertainment concepts are actively looking for space as people are eager to shed the "Quarantine 15" and many consumers return to social activities that were put on hold earlier in the pandemic.

Figure 8: Tenants in the Market by Type



Source: CBRE, Q2 2021

DEVELOPMENT PIPELINE

Retail construction activity increased across the region, with more than 50 projects totaling 1.8 million sq. ft. currently underway (Figure 9). Grocery-anchored projects are still the most prevalent. Amazon opened its first wave of Amazon Fresh locations in the region, one in each of the State within our region: the District (Logan Circle), Northern Virginia (Franconia), and in Suburban Maryland (Chevy Chase) and it has 9 more stores in planning. Two D.C. developments east of the Anacostia River broke ground this quarter: the Crest at Skyland Town Center and MLK Gateway. Both projects will bring needed affordable apartment units and Class A office space to the underserved area.

Figure 9: Select Notable Retail Development Pipeline

	Projects	SF	Selected Notable Projects
District of Columbia	30	700,000	City Ridge, The Wharf Phase II, Skyland Town Center, Art Place at Fort Totten, Central Armature Works, Bryant Street, 2100 Penn, The Parks at Walter Reed, Press House, Crest, MLK Gateway, NoMa CNTR, Eckington Yards, Signal House
Fairfax	5	310,000	RTC Next, Halley Rise, The Heming, Reston Station
Arlington	10	300,000	Metropolitan Park (Amazon HQ2), 600 N. Glebe Road Harris Teeter Site
Alexandria	2	210,000	Carlyle Crossing, The Foundry
Prince George's	5	200,000	Knox Road, The Aster at College Park
Montgomery	2	50,000	Chevy Chase Lake

Source: CBRE, Q2 2021

INVESTMENT SALES

Grocery-anchored shopping centers have garnered the strongest demand during the pandemic, a continued trend in the current environment. Demand continues to outpace supply in the market, driving further cap rate compression. In the second quarter, $247 million of transactions were closed, the highest quarterly volume since the beginning of the pandemic.

Private equity firms hoping to take advantage of the low interest rate environment continue to drive demand, while the debt market remains attractive. 10-year treasury rate fell to 1.3% in June 2021, down from 1.9% in late 2019. We expect the number of retail properties offered for sale and trading to ramp up as we move through the remainder of 2021, driven by pent-up demand from private equity investors with capital to deploy who believe in the strong underlying fundamentals of the retail sector.

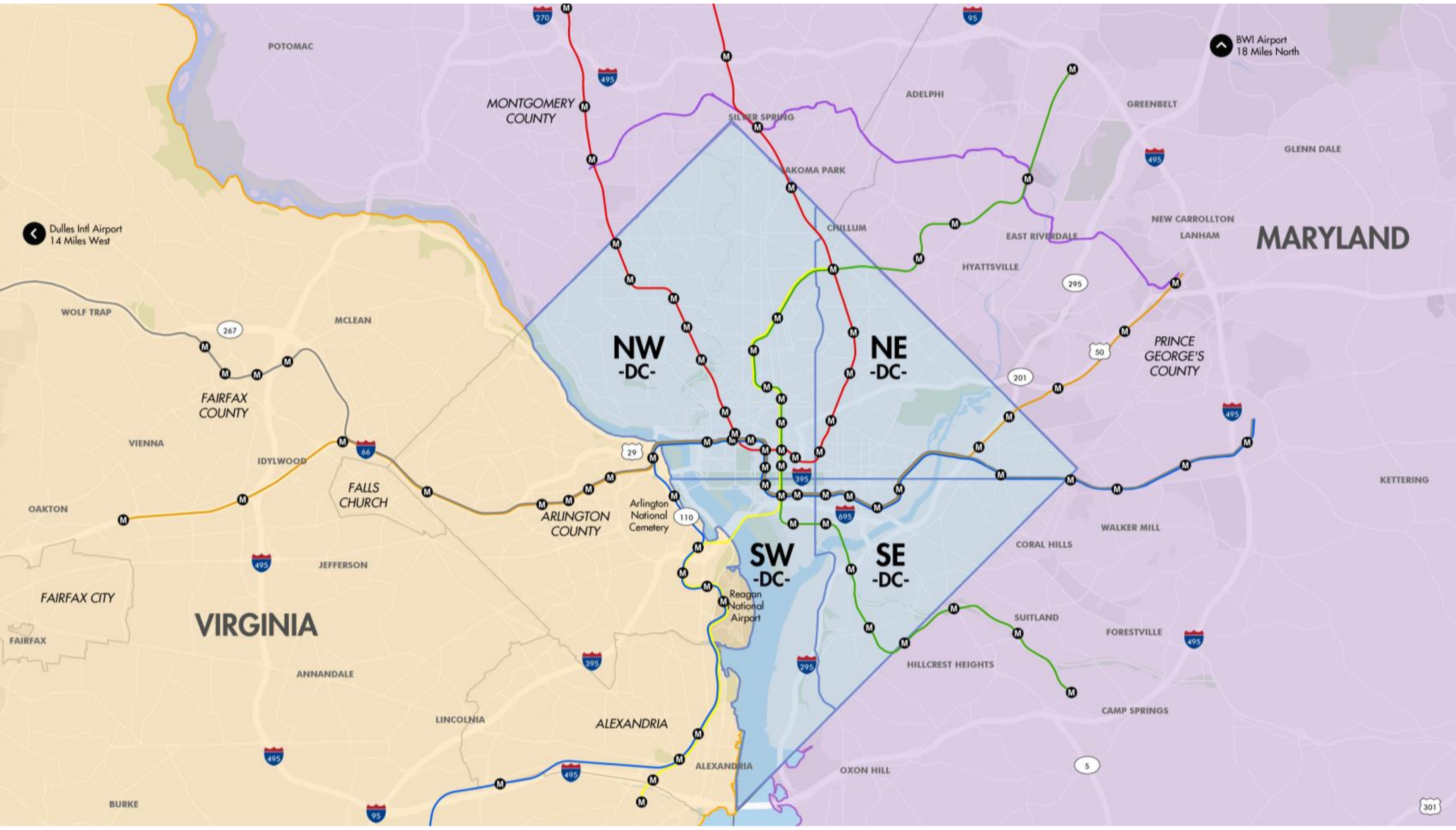
Figure 10: Notable Q2 2021 Shopping Center Sales

Project	Address	City	SF	Sale Price (Millions)	Anchor	Buyers
Mazza Gallerie	5300 Wisconsin Ave NW	Washington, DC	294,112	$52	AMC / TJMaxx	Tishman Speyer
Chesterbrook Shopping Center	6224 Old Dominion Dr	McLean, VA	89,664	$32.1	Safeway	Federal Realty
BJ'S Wholesale Club	16520 Ballpark Rd	Bowie, MD	108,532	$30.25	BJ's Wholesale	Bowie BJW Borrower LLC
Parkridge Center	11096 Bulloch Dr	Manassas, VA	312,277	$22.5	Kohl's	Willard Retail, Buchanan Partners

Source: Real Capital Analytics, Q2 2021

OUTLOOK

Looking ahead, we anticipate the retail market to continue its positive trajectory of recovery, despite headwinds from the Delta variant. Brick-and-mortar retailers are expected to continue to pivot and invest in platforms that will help adapt to the new normal. Office occupancy may hopefully rebound more significantly after the summer, which will bring additional foot traffic and consumer activity to CBD areas.



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