



FIRST QUARTER 2017
WASHINGTON, DC METRO
RETAIL OUTLOOK



WASHINGTON AREA ECONOMY SNAPSHOT

JOB GROWTH

▶ **62,400** new jobs during 12 months ending February 2017

UNEMPLOYMENT RATE

▶ **3.9%** at February 2017, down from 4.0% at February 2016


AVERAGE HOUSEHOLD INCOME



\$121,439 in 2016, 57.7% higher than the U.S. average


PROJECTED JOB GROWTH

 **AN AVERAGE OF 39,500** per year in 2017-2020

WASHINGTON AREA RETAIL MARKET SNAPSHOT

 **5,300 retail jobs were added** during the 12 months ending February 2017 on a net basis.

 **Neighborhood and community shopping center effective rents rose** by 1.0% in Northern Virginia since First Quarter 2016, to \$26.30/SF. In Suburban Maryland, effective rents in the same types of centers rose by 1.1%, to \$23.56/SF.

 **Vacancy rates for neighborhood and community shopping centers** in Northern Virginia and Suburban Maryland are 5.2% and 7.6%, respectively, unchanged since First Quarter 2016 in Northern Virginia and down 60 basis points in Suburban Maryland.

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ECONOMY & OUTLOOK

The Washington area economy is in the midst of a robust expansion driven in large part by the private sector. A net total of 62,400 jobs were added to the Washington area economy during the 12 months ending February 2017. Job growth in the Leisure/Hospitality sector in particular was notable with 17,800 jobs added over the year — the fastest 12-month growth rate for that sector since 2000. Robust job growth in the Professional/Business Services and Education/Health Services sectors continued unabated, with the two sectors contributing just under 30,000 additional jobs to the region's economy during the 12-month period.

The unemployment rate in the Washington metro area is 3.9% as of February 2017, down 10 basis points from February 2016. The region's unemployment rate is currently the third lowest among its peer metropolitan areas, trailing Boston and Denver. The rate is also 100 basis points lower than the national rate of 4.9% as of February 2017. We expect the Washington metro area's unemployment rate to continue to remain well below the national rate for the remainder of 2017.

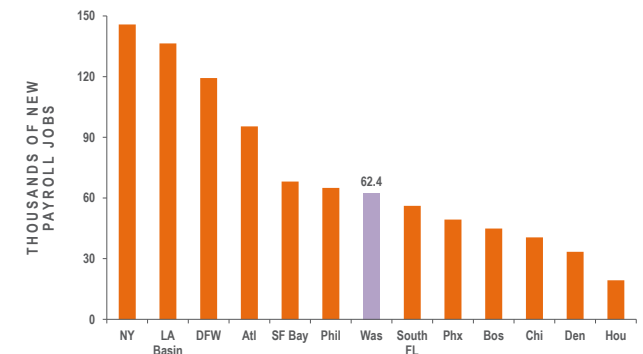
The economic growth of the Washington metro area will continue to be driven by the private sector in the period ahead, as federal employment and procurement have both been stagnant over the past several years. By 2020, we expect that the Federal Government's contribution to Washington's Gross Regional Product will decrease to approximately 27%, down from the current level of 37%.

Despite the growing regional importance of the private sector, President Trump's initial FY2018 budget proposal to Congress prompts immediate cause for concern for the Washington region's economy, which is heavily reliant on federal spending, since it calls for steep budget cuts to nearly every federal agency. If enacted by Congress, the president's budget would certainly have a detrimental effect on the Washington area economy, which is home to nearly 400,000 federal workers, as thousands of layoffs would likely accompany the proposed spending cuts. The positive news is that the federal budget as proposed has almost no chance of being enacted by Congress without significant changes. Additionally, the sizeable increase in defense spending would itself be a boon to the Washington region, which is home to the headquarters of most major federal contractors.

Aside from the public sector uncertainty, the Washington economy is poised to strengthen further in 2017. We predict that another 51,000 new jobs will be created in the region in 2017 (primarily in the private sector), with the pace of annual job growth slowly declining in subsequent years. Overall, we expect annual job growth in the metro area to average 39,500 over the next four years.

PAYROLL JOB GROWTH

Selected Large Metro Areas | 12 Months Ending February 2017



Source: Bureau of Labor Statistics, Delta Associates; April 2017.

RETAIL PAYROLL JOBS WASHINGTON METRO AREA

YEAR	RETAIL EMPLOYMENT	CHANGE
2007	266,000	100
2008	264,800	-1,200
2009	250,300	-14,500
2010	244,100	-6,200
2011	254,200	10,100
2012	258,600	4,400
2013	259,600	1,000
2014	264,000	4,400
2015	269,500	5,500
2016	271,800	2,300
2017	277,100	5,300

*Employment total at February of each year; change reflects the 12 month period ending each February.

Source: Bureau of Labor Statistics, Delta Associates; April 2017.

AVERAGE HOUSEHOLD INCOME

Washington Metro Area
\$80,600

2000
(Actual)

U.S.
\$56,600

Washington Metro Area
\$121,439

2016
(Actual)

U.S.
\$77,008

Washington Metro Area
\$131,168

2021
(Projected)

U.S.
\$84,021

Source: ESRI, Delta
Associates; April
2017.

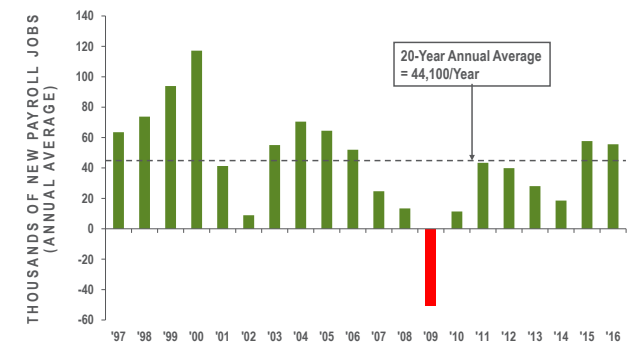
Retail sector employment growth in the Washington metro area was very strong during the 12 months ending February 2017, with a net gain of 5,300 jobs during the period. This was a 1.9% increase since February 2016, while retail employment grew 0.8% nationally over the same period.

Average household income in the Washington metro area grew by 51% from 2000 to 2016, compared to just 36% nationally, and it currently exceeds the national average by 58%. By 2020, the Washington metro area's average household income is projected to rise another 8%, compared to an increase of 9% nationally. The elevated household incomes in the Washington area yield greater discretionary spending and support demand for retail goods and space.

The Bloomberg/University of Michigan index of consumer sentiment in the U.S. registered at 96.9 in March 2017, a considerable increase from March 2016 when the index was 91.0. This reading is comfortably above the long-term average and is a dramatic improvement from its two-year low of 87.2 in October 2016. Consumer sentiment was likely impacted by the uncertainty before the presidential election after a long and divisive campaign, but it has responded well since President Trump's election victory.

PAYROLL JOB GROWTH

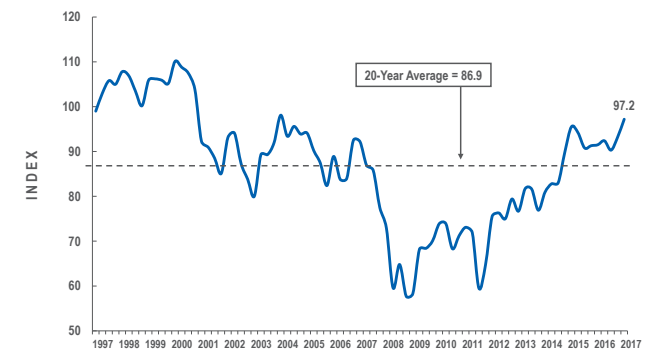
Washington Metro Area



Source: Bureau of Labor Statistic, Delta Associates; April 2017.

CONSUMER SENTIMENT

United States - Quarterly



Source: University of Michigan, Delta Associates; April 2017.

RETAIL MARKET CONDITIONS

1 The inventory of existing neighborhood and community shopping centers totals 74.0 million SF in the Washington metro area's suburbs as of First Quarter 2017. Northern Virginia has 40.3 million SF of space in these centers, and Suburban Maryland has 33.7 million SF. Northern Virginia leads the way at 13.8 SF per capita in its neighborhood and community centers, while Suburban Maryland has 13.6 SF per capita. For the Washington metro area as a whole, the average is 13.7 SF per capita of neighborhood/community shopping center space.

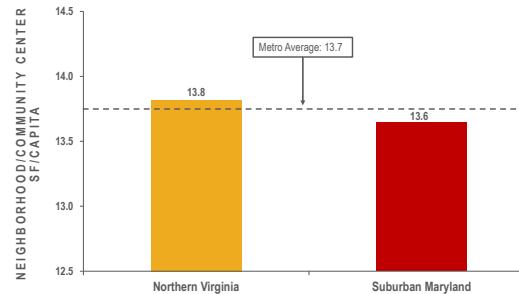
2 There is 1.0 million SF of shopping center space under construction across all shopping center types in Northern Virginia and just under 90,000 SF under construction in Suburban Maryland. Maryland also has 2.9 million SF of planned shopping center space – defined as space in centers where plans are drafted, permits and financing have been applied for, and ground breaking is all that remains to take place. This trails Northern Virginia, which has 3.8 million SF of planned space. Suburban Maryland and Northern Virginia have 6.3 and 4.4 million SF, respectively, of proposed space for which no permits or financing have been applied.

3 Vacancy rates for Northern Virginia and Suburban Maryland at First Quarter 2017 are 5.2% and 7.6%, respectively, unchanged in Northern Virginia and down 60 basis points in Suburban Maryland since the first quarter of 2016. While vacancy rates in neighborhood and community centers remain elevated relative to their pre-recession averages across the metro area, they have been declining slowly since 2012.

4 Despite the slow pace of vacancy improvement, the Washington metro area is one of the strongest performers nationally, as both Northern Virginia and Suburban Maryland are well below the national average of 9.9% vacancy, with Northern Virginia, in particular, ranking behind only San Francisco as one of the strongest retail markets among its peers. At their respective cyclical lows in 2007, neighborhood/community center vacancy rates in Suburban Maryland were 34% higher than in Northern Virginia, and the difference between the two substate areas has become more pronounced as Northern Virginia continues to recover more quickly. As of First Quarter 2017, vacancy rates in Suburban Maryland are 46% higher than those in Northern Virginia.

1 NEIGHBORHOOD/COMMUNITY CENTER SPACE PER CAPITA

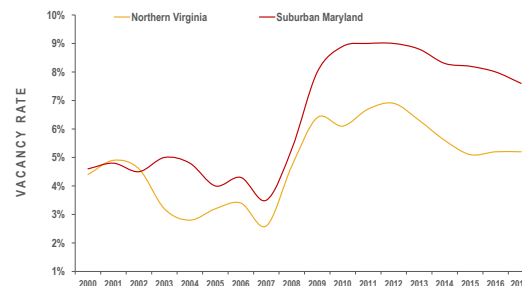
Washington Metro Area Suburbs | First Quarter 2017



Source: REIS, Delta Associates; April 2017.

3 SHOPPING CENTER VACANCY RATES

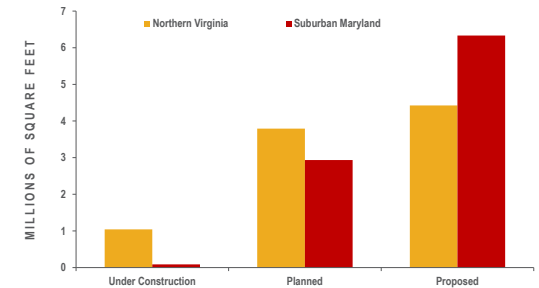
Washington Metro Area Suburbs | Neighborhood/Community Centers



Source: REIS, Delta Associates; April 2017.
* Through March 2017

2 RETAIL PIPELINE

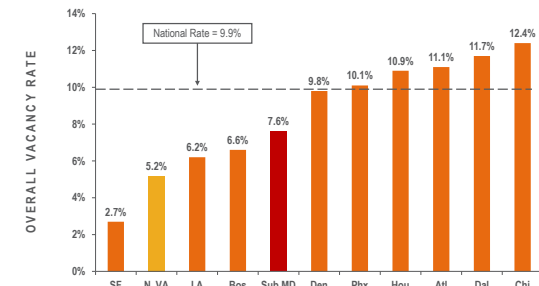
Washington Metro Area Suburbs | All Shopping Center Types | First Quarter 2017



Source: REIS, Delta Associates; April 2017.

4 NEIGHBORHOOD/COMMUNITY CENTER VACANCY

Select Metro Areas | First Quarter 2017

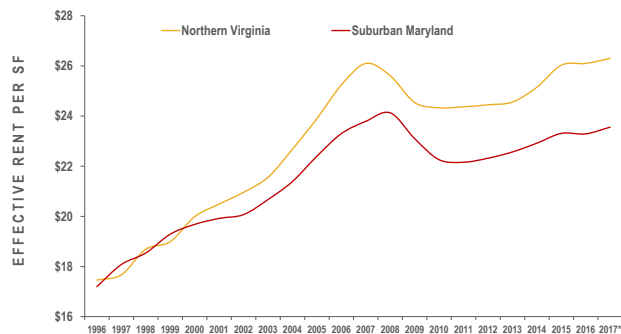


Source: REIS, Delta Associates; April 2017.

- Effective rents in neighborhood and community shopping centers have grown slowly over the past year, with effective rents rising 1.0% in Northern Virginia and 1.1% in Suburban Maryland during the 12 months ending March 2017. Average effective rents at First Quarter 2017 are highest in Northern Virginia, at \$26.30 per SF. In Suburban Maryland, average effective rents are \$23.56 per SF.

EFFECTIVE RENTS

Washington Metro Area Suburbs | Neighborhood/Community Centers



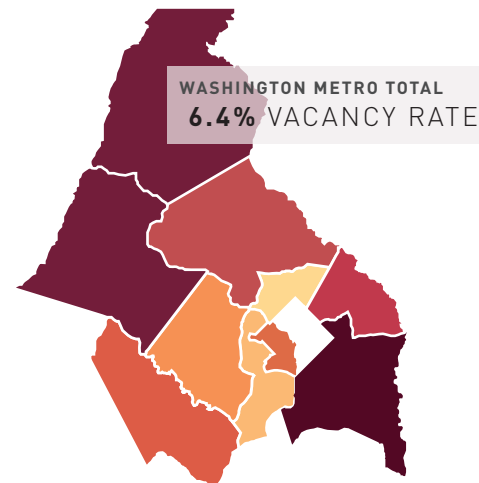
Source: REIS, Delta Associates; April 2017.

*Through March 2017

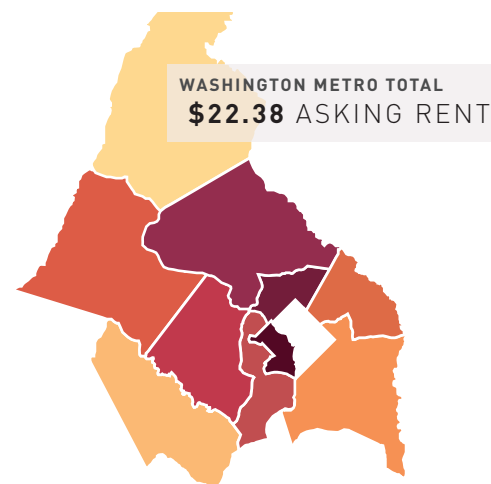
VACANCY RATES & ASKING RENTS

NEIGHBORHOOD/COMMUNITY SHOPPING CENTERS | WASHINGTON METRO AREA

VACANCY RATES



ASKING RENTS



Source: REIS, Delta Associates; April 2017.



NEW DEVELOPMENT

There are three notable grocery-anchored shopping centers, totaling 408,000 SF, under construction in the metro area at March 2017, and many more are in the planning stages.

While residents have begun to move into Apollo H Street and Whole Foods opened in March, the complimentary retail tenants are not expected to open until later this year.

There are additional grocery-anchored shopping centers in the planning stages that are not included in the adjacent table, some of which may deliver by 2018-19. However, given the long-term demand for retail goods in the Washington metro area, projects will deliver before and after that window.

NOTABLE GROCERY-ANCHORED SHOPPING CENTERS UNDER CONSTRUCTION

WASHINGTON METRO AREA | APRIL 2017

SHOPPING CENTER	JURISDICTION	RBA (SF)	ANCHOR
The Field at Commonwealth	Fairfax	180,000	Wegmans
Aquia Town Center	Stafford	160,000	Harris Teeter
Apollo H Street	District	75,000	Whole Foods
Total:		415,000	

Source: WBJ, Washington Post, Delta Associates; April 2017.

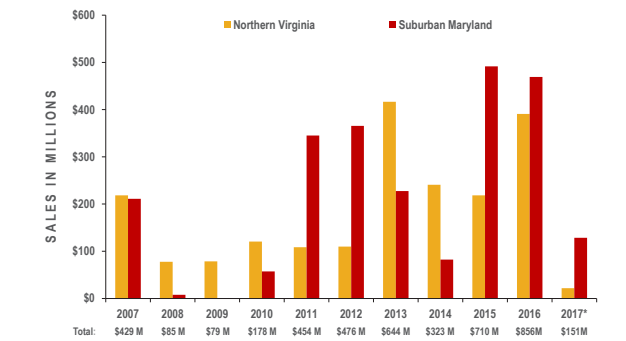
INVESTMENT SALES

There were four notable investment sales of grocery-anchored shopping centers during the first quarter of 2017. In February, MCAVA Real Estate purchased the Safeway-anchored Mount Vernon Square Shopping Center for \$14.2 million (\$193/SF) from Sun Life Financial. Also in February, InvenTrust purchased the Safeway-anchored The Shops at Town Center for \$53.6 million (\$429/SF) from The Artery Group. Also in February, Saul Centers purchased the Giant-anchored Burtonsville Town Square for \$75.0 million (\$581/SF) from BMC Property Group. Finally, in March, AMAFHH Holdings Manassas LLC purchased the H Mart-anchored Manassas Junction Shopping Center for \$7.6 million (\$110/SF) from Kodiak Properties and Finmarc Management. The dollar volume of investment sales of grocery-anchored shopping centers through the first quarter of 2017 totaled \$150.5 million (\$378/SF).

All signs point to retail centers continuing to be a favored investment. While investor returns (income and appreciation) on retail properties fell in 2016, the Washington metro area is in line with the nationwide average. In addition, retail properties had the highest investment returns of any property type in the Washington metro area over the past year.

GROCERY-ANCHORED SHOPPING CENTER INVESTMENT SALES

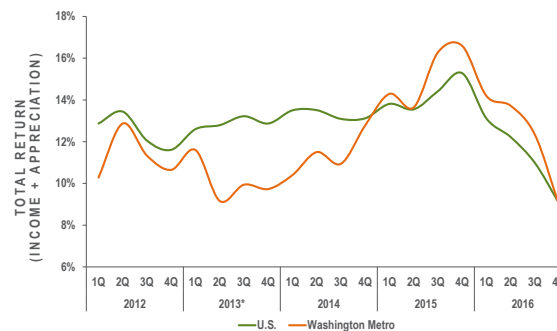
Washington Metro Area Suburbs



Note: Excludes properties under contract
Source: Real Capital Analytics, graphic by Delta Associates; November 2016.
*Through March 2017

TOTAL RETAIL INVESTOR RETURN

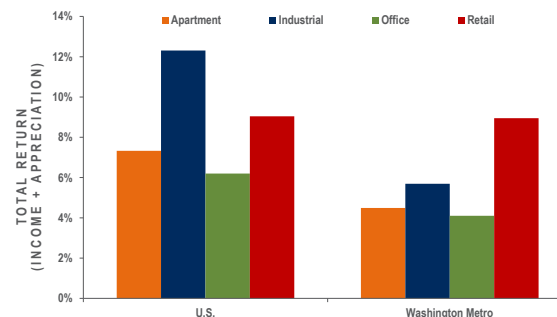
Washington Metro vs. U.S. | 2012-2016



Source: NCREIF, Delta Associates, April 2017.

TOTAL INVESTOR RETURN, SELECTED PROPERTY TYPES

Washington Metro vs. U.S. | 2012-2016



Source: NCREIF, Delta Associates, April 2017.



THE BOTTOM LINE

The Washington metro area job market has grown at a consistently strong rate, adding 62,400 jobs in the 12 months ending February 2017. Unemployment remains low for a major metropolitan area and 100 basis points below the national rate of 4.9% as of February 2017. Additionally, the Washington metro area has been steadily adding a healthy number of jobs in the Professional/Business Services sector, where wages tend to be highest, a trend that is likely to increase demand for retail goods. A total of 5,300 retail jobs were created on a net basis during the 12 months ending in February, and retail employment is projected to continue to grow in the region.

We expect job growth in the metro area to remain steady – in the range of 30,000 to 60,000 jobs per year – during the 2017-2020 period.

The regional economy is performing better at the moment than it has since 2008, and the retail real estate market in the Washington metro area is showing consistent, if modest, improvement. Among neighborhood/community shopping centers, vacancy rates and rents have been stable over the past year. Tenants seeking space are interested in newer, Class A space, and the rise of the District as a destination for living, working, and shopping represents a unique opportunity for retailers in the region. We predict that the trend toward mixed-use projects in core submarkets with a more urban feel will continue for the foreseeable future, although recent plans for new centers – and renovations of old ones – in the outer suburbs indicate that developers expect lifestyle centers with a sense of place to thrive throughout the region.

The region is in the midst of a solid expansion. Washington's private sector is strong and accounts for a growing share of the economy, making the region less vulnerable to future federal spending cuts. Retail real estate in the region avoided disaster during the recession and lackluster recovery, which is remarkable considering the dual pressures of slow job growth and booming online merchandising. Now that the demand side of the retail sales equation has improved, we expect improvements in retail real estate to continue apace.

Although the economic outlook for the region remains positive, there is still some uncertainty related to the new administration's potential impact on the role and the size of the federal government. Still, any major changes in the government would take time to plan and implement, so the status quo is likely to persist at least through 2017. During this period, the private sector will continue to show its strength, and the public sector will at least maintain its position. Therefore, overall economic growth in the Washington area over the next two years is expected to be robust. The Washington metro area has a wealth of assets – a highly skilled workforce, access to international markets, high quality education, and vast cultural resources – that will continue to give it a competitive advantage over other large metro areas in the long run.



ABOUT DELTA ASSOCIATES

Delta Associates is a firm of experienced professionals serving the commercial real estate industry for over 35 years. The firm's main practice areas are:

1. Consulting, research, and advisory services for all property types throughout the United States (including market feasibility studies, highest and best use analysis, market entry strategies, asset performance enhancement studies, market due diligence, white papers on special topics, and valuation analysis); and
2. Subscription publications for selected metro areas for the apartment, condominium, office, retail, and housing markets.

For more information on Delta Associates, please visit DeltaAssociates.com.

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Sources: Bureau of Labor Statistics, Census Bureau, Center for Real Estate and Urban Analysis at the George Washington University School of Business, Center for Regional Analysis, Delta Associates, ESRI, Real Capital Analytics, REIS, University of Michigan, Washington Business Journal, Washington Post, NCREIF.

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