March 2016

WASHINGTON DC: THE CAPITOL OF RETAIL TRENDS

HOW MILLENNIAL CONSUMERS ARE SHAPING THE DISTRICT'S NEIGHBORHOODS

MILLENNIALS, THE URBAN SURGE AND THE DISTRICT

In 2014, Nielsen published a report, Millennials — Breaking the Myths, that outlined a couple of key trends that those of us in commercial real estate had seen building throughout the post-Recession recovery period that began in 2010. The report surveyed thousands of millennials (this demographic group currently ranges in age from 20 to 35 years of age) and found that, in general, millennials prefer subways to driveways and that they would rather live in cities than in the suburbs.

Certainly commercial real estate metrics all fall in line with this basic hypothesis. Urban multifamily markets have been white-hot going on five years for a number of America's gateway marketplace cities and this trend has long since spread to the nation's secondary and even some tertiary markets. Urban office occupancy growth has far surpassed suburban over the past five years. And urban retail, despite the challenges of e-commerce and a frugal consumer, has generally outperformed as well.

The Nielsen report found that the markets where millennials are most highly concentrated tend to combine the urban experience with a rich cultural, arts and music scene. In fact, the report found that Austin, Texas had the highest concentration of urban millennials (almost 1.2 times the national average) and that with the exception of Washington, D.C. most of the top markets for millennials were in western cities. But Washington, D.C. featured prominently in the report, ranking sixth nationally in terms of major U.S. cities when it comes to the concentration of millennials. That being said, millennials are currently living in cities at a higher rate than any other generation and Nielsen's polling indicated that 40% of them said that they would like to live in an urban area in the future. The report concluded that, for the first time since the 1920's, growth in U.S. cities outpaced growth outside of them.

This embrace of urban living has had a demonstrably clear impact on the District in the post-Recession era. It's transformed neighborhoods and it has revitalized the urban landscape of Washington, D.C. This rebirth has arguably had no stronger impact than on the District's retail scene. In this report, we will explore how all of these trends have played out and continue to reshape the District, but let's start with a quick look at a critical component of this evolution: local job growth.

WASHINGTON, DC OVERVIEW

THE LOCAL PERSPECTIVE

WASHINGTON, DC DEMOGRAPHICS

NEIGHBORHOOD POP BY AGE	2015 POP
Median Age: 34 years	
0 to 14	96,318
15 to 19	38,624
20 to 24	60,441
25 to 34	147,398
35 to 44	90,485
45 to 54	77,665
55 to 64	69,700
65 to 74	41,366
75+	32,853

HOUSEHOLD INCOME LEVELS	2015 POP
Average Household Income: $106,812	
$0 - $24,999	65,301
$25,000 - $34,999	20,776
$35,000 - $49,999	30,188
$50,000 - $74,999	43,451
$75,000 - $99,999	32,566
$100,000 - $149,999	44,447
$150,000+	55,371

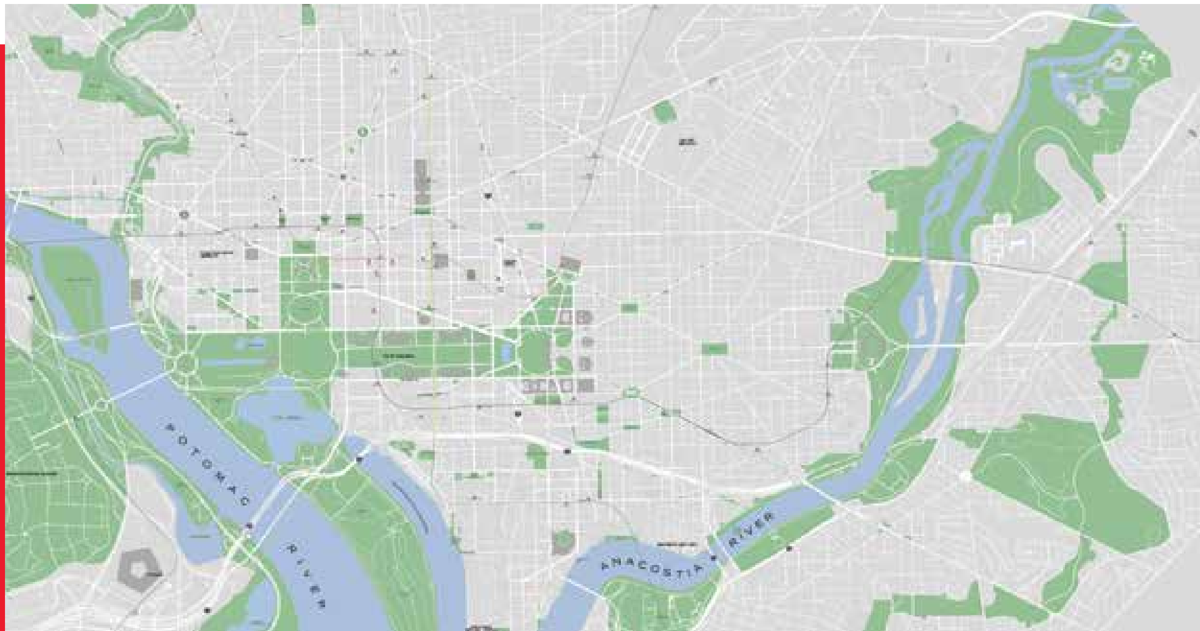
HIGHEST LEVEL OF EDU ATTAINMENT	2015 POP
High School	90,076
Some College, No Degree	63,368
Associates Degree	14,360
Bachelor's Degree	106,895
Graduate Degree	130,071

Ratings provided by walkscore.com

74 WALK SCORE

71 TRANSIT SCORE

69 BICYCLE SCORE



D.C. URBAN (AND SUBURBAN) JOB GROWTH DRIVEN BY PRIVATE SECTOR

For obvious reasons, the D.C. metro has long been considered the ultimate "government town." Yet something interesting has happened in the Washington, D.C. metropolitan area in recent years in terms of government employment. According to the Bureau of Labor Statistics (BLS), total nonfarm employment for the D.C. region as a whole (the greater metropolitan area includes the entire District of Columbia, as well as portions of Virginia, West Virginia and Maryland), unemployment as of the close of 2015 stood at just 3.9%. This is the lowest level of unemployment the region has recorded since July 2008. These numbers reflect a total nonfarm employment base in excess of 2.6 million people. Revised numbers from the BLS indicate that just over 100,000 new jobs were created in the region over the course of 2015, making last year the strongest employment growth year in more than a decade (99,000 jobs were created in 2005).

Government employment accounts for just over 598,000 jobs throughout the greater D.C. region, or 22.8% of total employment. Government employment grew by just under 21,000 new positions in 2015, compared to roughly 80,000 private sector jobs. What's more telling is that since 2011 (when the federal government began implementing austerity measures), public sector employment has increased by less than 67,000 jobs or just 15.9% of the more than 420,000 new jobs that have been created in the region over the past five years. It has been the private sector, not the public sector that has been driving employment growth in the region over the past few years and those numbers are even more pronounced at the city level.

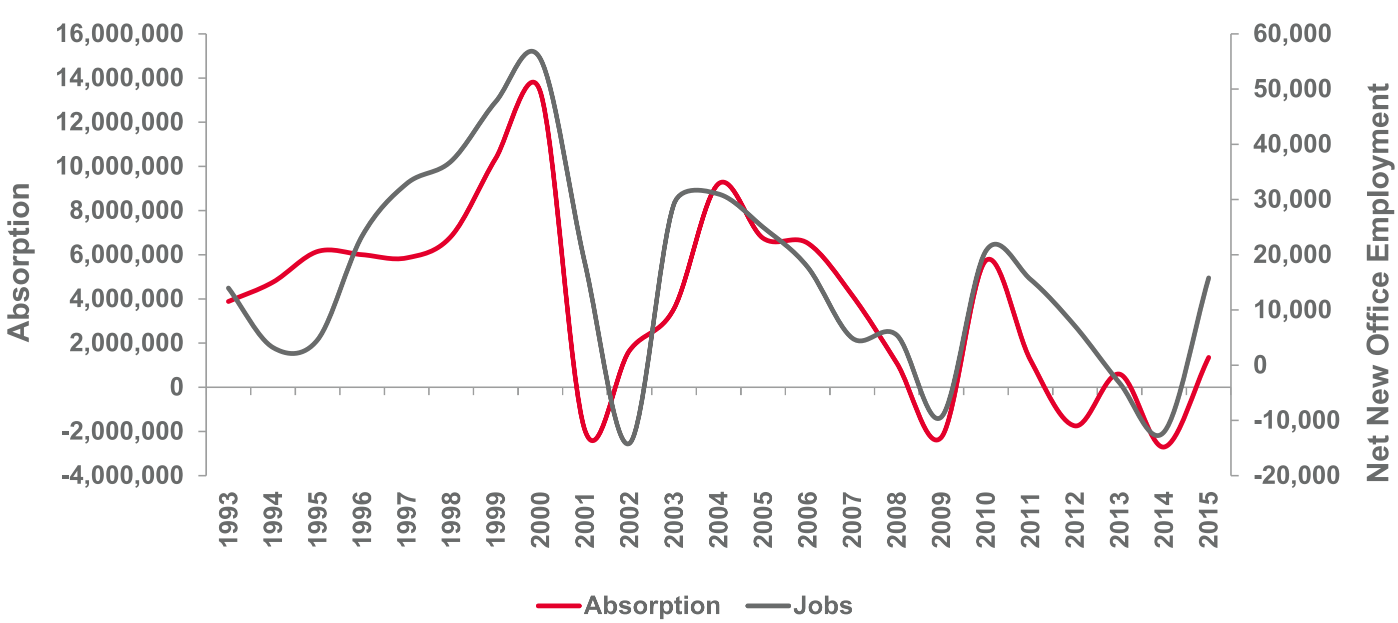
Looking at employment trends within the District itself, the unemployment rate stood at 6.6% as of the close of 2015 though higher than regional totals, this metric has been on the same basic trajectory—this level of joblessness marks the lowest level of unemployment in years. According to the BLS, there were roughly 772,000 actual nonfarm jobs in the District as of December 2015, of which more than 237,000 of those positions (30.7%) were government jobs. Since 2011, total employment in the District has increased by more than 52,000 positions. But, the number of actual government jobs within Washington, D.C. actually fell by more than 8,000 during this same time frame. And so, at least within the boundaries of the district, the private sector has accounted for 133% of all job growth over the past five years.

While the private sector (particularly professional and business services) has driven job growth in both the District and its suburban markets over the past few years, the impact of this trend on the local office market has been anything but even.

The 123.1 million square foot (MSF) District office marketplace closed 2015 with an overall vacancy rate of 10.8%. This number is down from the 11.20% reading of one year earlier. Overall vacancy had peaked at 11.5% in Q3 2014 but has been gradually falling ever since. At 10.4%, the urban office vacancy rate in 2011 (when government austerity measures began) isn't far from where it stands today. The same cannot be said of Washington, D.C.'s suburban markets.

Suburban Maryland office vacancy currently stands at 18.6%. While this is down marginally from the 18.8% rate that was in place exactly one year earlier, vacancy levels here have been elevated above the 18.0% mark for the past two years. It had stood at 15.3% at the close of 2011. The same trend has played out in the Northern Virginia office marketplace. Vacancy now stands at 18.3%. This metric has fallen from 18.8% over the past year, but it had soared over the previous three years as a result of the Defense Base Closure and Realignment Commission (BRAC). It stood at 14.2% at the close of 2011.

WASHINGTON, D.C. METROPOLITAN JOB GROWTH VS OFFICE ABSORPTION



What is most interesting about these numbers is the fact that job growth picked up by a rate of 3.8% throughout the D.C. Metropolitan Area in 2015. The rate of employment growth in just the District alone was 1.6%. Yet, the office market within Washington, D.C.'s urban core boasts leasing fundamentals that are much more favorable to landlords than their suburban counterparts, comparatively speaking. Certainly vacancy is falling and occupancy growth is on the rise in D.C.'s suburban markets, but District markets racked up more than 887,000 square feet of occupancy growth in 2015. This compares to 240,000 square feet of positive net absorption in the Northern Virginia suburban markets and 123,000 square feet of occupancy growth in the suburban Maryland markets. The region's suburban office markets are improving and will most likely continue to do so in 2016, but the District's urban office market will continue to dominate. Office users are following their workforce, especially their millennial workforce. And those young professionals continue to drive the growth of nearly every major American city, with Washington, D.C. having emerged as one of the greatest beneficiaries of this trend.

MILLENNIAL POPULATION SURGE SETS STAGE FOR RETAIL REINVENTION

People are flocking back to the city, since 2000 the District has added over 88,000 new residents. With the metro area unemployment rate still significantly below national averages, the District's strong job market has continued to attract new residents (51.3% of which have at least a bachelors-level degree). The fastest growing group has been millennials. The District has added over 47,000 new residents between the ages of 24 and 35 (a 47.0% increase) since 2000. The average household income in the District has also grown. It is important to note that while the improving job market has helped to fuel this trend, the real driver here has been the influx of young professionals and the District's urban revival over the past 15 years. Since 2000 the average household income in the District increased by a whopping 65.0% to close 2015 at $106,286 per year.

The impact on the District's multifamily housing market has been obvious. According to the Costar Group, as of the close of Q4 2015, multifamily vacancy in D.C. was just 4.4%. This is down from the 5.2% reading of a year ago despite the fact that the market added more than 1,825 new apartment units during that period. What is most striking is that the District's current overall average asking rent of $1,718 per unit has increased by 48.7% over the past five years.

Those numbers have been even more robust in D.C.'S hottest neighborhoods. The East End (or Downtown/Penn Quarter/Chinatown) multifamily market currently boasts an average asking rent of $2,402 per month. This number has climbed by 60.6% over the past five years as this neighborhood has transformed. That transformation has been all about the influx of millennials, the metamorphosis of housing markets and the rebirth of retail districts. That being said, we are now tracking more than 10,000 multifamily units under development throughout Washington, D.C. with delivery dates through 2018. We anticipate these new projects to slow or flatten rental rate growth as they come online in waves. That being said, negative growth is unlikely barring larger-scale economic upheaval (recession, etc.). Vacancy levels will be impacted, but keep in mind that the District's sub-5.0% vacancy levels over the past few years have been a major factor in driving double-digit (and unsustainable) rental rate growth. This new wave of multifamily development actually will mean more rooftops for retailers and should translate into better affordability to continue to drive the new urban lifestyle trend.

Multifamily Stats | 12-Month Forecast
Current Vacancy: 5.1% ▼
Average Asking Rent: $1,613 Per Month ▲
Units Under Construction: 9,976 ▲

According to CoStar Group

"HOLLYWOOD FOR UGLY PEOPLE" NO MORE

We track shopping center vacancy trends across more than 60 major U.S. markets. As of the close of 2015, shopping center vacancy (this number includes community/neighborhood, power, lifestyle and unanchored strip centers) throughout the greater Washington, D.C. metropolitan area stood at 4.8%, making it one of the tightest markets in the United States (it ranked fifth behind Hawaii, Boston, Pittsburgh and San Francisco). This number reflects a slight decrease from the 4.9% rate that was in place one year earlier. It also reflects just under 1.1 million square feet of occupancy growth (neighborhood/community centers accounted for the lion's share of this growth with over 653,000 square feet of positive net absorption). But growth in the D.C. suburbs has been almost exclusively driven by discounters, dollar stores, off-price apparel, grocery and food concepts. Mid-priced hard goods and apparel concepts are largely in flat or negative growth mode. Basic needs retail has ruled suburban growth nationally over the past couple of years and this trend is firmly in place in D.C.'s suburban markets. But we are seeing a different variation of this trend play out in the District's urban marketplaces where retail growth isn't just being driven by the barbell of prosperity (luxury on one side and discounters on the other), or by just food and service concepts that don't compete with e-commerce. In D.C.'s hot urban markets we may be seeing those trends, but we are also seeing a lot of innovation from concepts that don't fit so easily into those boxes and that are bucking national trends.

RETAIL ASKING RENT RANGES

SUBMARKET	LOW ASKING RENT	HIGH ASKING RENT
Georgetown	$150.00	$275.00
East End	$60.00	$250.00
14th + U Streets Corridor	$75.00	$200.00
CBD	$50.00	$120.00
Dupont	$80.00	$100.00
Spring Valley/Palisades	$75.00	$100.00
Capitol Hill (includes Hill East)	$45.00	$100.00
Mount Vernon Triangle	$45.00	$100.00
Friendship Heights	$70.00	$95.00
Tenleytown	$35.00	$95.00
Shaw/Howard University	$50.00	$70.00
Woodley Park-Van Ness Corridor	$50.00	$70.00
Columbia Heights	$45.00	$70.00
Glover Park/Cathedral Heights	$40.00	$70.00
West End/Foggy Bottom	$45.00	$60.00
Adams Morgan	$40.00	$60.00
Southwest	$40.00	$60.00
Capitol Riverfront	$30.00	$60.00
H Street Corridor	$30.00	$60.00
Union Market	$35.00	$55.00
NoMa	$35.00	$50.00
Pentworth	$25.00	$50.00
Brookland/Rhode Island Avenue	$35.00	$45.00
Bloomingdale/Eckington	$25.00	$40.00

ALL ASKING RENTS ARE QUOTED AS NNN FOR STANDARD 2,000 TO 3,000 SF SPACE. ASKING RENTS RANGE BASED ON QUALITY, LOCATION, AND USE OF SPACE.

Fueled by strong in-migration trends, the District's retail corridors have been undergoing resurgence over the past few years with whole new corridors appearing as neighborhoods undergo revitalization efforts. With favorable demographics, strong job numbers and high household incomes contributing to more disposable income, retailers have been taken notice. For a city that was once referred to as "the Hollywood for ugly people," millennial-driven population growth has been a factor in luring emerging brands and cutting-edge retailers and restaurateurs. On the retail front, Washington, D.C. has seen the emergence of an entirely new high street luxury retail district in the East End. Simultaneously, it has seen the rise of multiple new "cool streets;" emerging new retail districts that are leading the way in terms of innovation and creativity. In addition to being favorite locations of clicks-to-bricks online concepts looking to open physical locations (Warby parker, Bonobos, Marine Layer and others), these new cool streets are also emerging as the industry's new fashion incubators and the birthplace of the retail trends of the future.

The impact of these trends on the local restaurant scene has been even more pronounced; the expansion of dining options has come from all corners of the marketplace. Until the last few years, the District's restaurant scene was largely two-tiered; fast food or cheaper fare for office workers or upscale white tablecloth steakhouses for the lobbyist set, politicos and the Beltway crowd. Over the past five years in particular, the District has seen a surge in healthy concepts, in up-and-coming fast-casual options and in new food halls and artisanal markets.

For residents, experience has taken precedence; demand for the live-work-play environment has never been stronger, as has the demand for walkable and bicycle-friendly neighborhoods. The revitalization of the District's urban landscape has meant the emergence of new neighborhoods noted for unique architecture, historic buildings and walkable lifestyles. According to Walkscore.com, Washington, D.C. has an overall walkability score of 74.1. This ranks ninth out of the 141 major U.S. cities they track. The District also scores an impressive 70.6 transit score, ranking it fourth in the nation (behind only New York, San Francisco and Boston). Walkscore.com ranks D.C. tenth nationally in terms of its Bike Score (69.5).

We don't see any of these trends abating any time soon. New developments in the city, whether office or residential, are now almost always including a street-level retail component. Office tenants are demanding building amenities that go beyond the fancy lobby; they want healthy, customizable quick-service lunch options and restaurants that offer happy hours where they can catch up with co-workers and celebrate company wins. Residents of new multifamily developments are no different. Along the 14th and U Streets Corridor – where much of the new residential development has taken place – recently delivered apartment and condo buildings all offer street-level retail that feels as unique to the individual stores and restaurants that occupy the space, allowing the residential component for the most part too unnoticed by pedestrians.

For the retail submarkets outlined in this report, all four have walk scores above the District's average, the majority of them in the high 90's. Each are of the city has its own unique flavor catering to a variety of consumers and residents. Georgetown's long history and reputation of luxury retail has established it as the District's long-time high street retail submarket. The East End has experienced a transformation in recent years, becoming the main street shopping destination for national mall brands and discount retailers alike, even while luxury brands have found a new District high street with the introduction of CityCenterDC. In the 14th and U neighborhood a slew of hot, new chef-driven restaurants has allowed the area to claim its status as the place to eat. The newest emerging retail submarket in the District, Union Market, quickly garnered attention following the delivery of the food hall in 2012. Now this once gritty industrial neighborhood is a favorite of diners, shoppers and developers alike.

The urban marketplaces we have highlighted in this report are not the only District neighborhoods feeling the impact of the new urban lifestyle trend that has largely been driven by millennial consumers, but they are also all arguably the hottest urban markets in D.C. today. But urban retail is often a moving target and we anticipate more up-and-coming districts ahead. There are a few very salient and logical arguments in terms of questioning how long this trend will continue. The oldest millennials, after all, are 35 and increasingly marrying and starting families (albeit on a much delayed timeline compared to previous generations). But most of this demographic group still continues to demonstrate a preference for urban living where they can and they are also being supplemented in their numbers by affluent empty-nesters moving back into the city. How Generation Z shapes the market remains to be seen, but it is hard to assume that there will be any seismic shifts away from the preference towards urban living. In fact, we believe that the greatest challenge ahead comes not from the aging of millennials, but the rising cost of living in America's urban marketplaces. With multifamily development in the District ramping up, the arrival of more housing options should play a critical role in widening and strengthening this trend.

UNION MARKET
NEW KID ON THE BLOCK

Union Market is the District's newest up and coming retail district. A few years ago, this was just a collection of wholesale bays and a hodge-podge of vendors that catered to souvenir shops and family-operated ethnic restaurants. Opened in 1931 as Union Terminal Market, over 700 vendors sold meat, fish, dairy, and produce to the District's residents. When the city banned the outdoor sale of meats and eggs in 1962, the indoor market was built in 1967 to meet demand and to remain compliant to city standards. The delivery of The Market (the former indoor market portion) in 2012 kicked off the most recent round of new development as developers scoured the area looking for redevelopment opportunities.

Today, Union Market is rapidly gentrifying, and includes the food hall, event space, Angelika Theater, and full service restaurants. LCOR is under construction on what will be the first multifamily building; a 187-unit apartment building known as The Edison – which will include 28,000 square feet of retail – is expected to deliver in the first quarter 2017. Next to The Edison, Level 2 is currently in the planning stages for a 315-unit apartment building, with 10,000 square feet of ground-floor retail, that it's calling The Highline. The development will also include a multi-tiered park – something that is currently absent from Union Market – that will also include a walkway to The Market and other retailers. In all, there are 1,160-residential units in the propsed pipeline over the next 18 to 24 months. Additionally, JBG's partnership with Gallaudet University, which was formalized in summer 2014, will further the mixed use environment of Union Market by delivering additional residential units, academic buildings for the neighboring university, and retail opportunity in what is slated to be a 10-year, $85.2 million mixed-use development to connect Gallaudet University with the adjacent Union Market.

Retail Asking Rate Range
$35.00 - $55.00 PSF, NNN Annual

Multifamily Stats | 12-Month Forecast*
Current Vacancy: 7.5%
Average Asking Rent: $1,879 Per Month
Units Under Construction: 2,364

According to CoStar Group

The Market portion of Union Market is currently home to approximately 40 vendors, including a full-service restaurant, a local home goods store known as Salt & Sundry, and a year-round farmers market. In the summer,

The Market expands out to the parking lot with lawn games, an outdoor farmers market, and additional vendors, including a converted airstream trailer turn bar that serves up frozen cocktails to plenty of thirsty millennials.

Above The Market sits Dock5, a 13,000-square-foot warehouse event space that hosts everything from group exercise events to weddings and industry events featuring the country's top chefs. With exposed concert floors, glass garage doors, and 22' ceiling heights, the architecture of Dock5 – like much of Union Market – offers authentic industrial grit that is so rarely found in a town historically known for its office worker and policy makers. North of The Market is warehouse manufacturing space that currently houses Angelika Theater's temporary space, Cotton & Reed Distillery, Dolcezza Gelato & Coffee's factory and store, and Red Apron Butchery's kitchen (they also have a shop and restaurant within The Market). LAB 1270 is the most recent addition – opening its doors in time for the 2015 holiday season with a rotating collection of local artists, and designers.

Edens, the primary developer of Union Market and biggest driver of the retail, is rumored to be discussions with several high-end national retailers, locally-focused, organic full-service grocery stores, restaurateurs, and service providers that would replace the existing vendors along 4th and 5th Streets. In 2014, it was announced that Philadelphia-based chef Jose Garces was planning to open a 20,000-square-foot Latin market offering a range of groceries and prepared foods. It's also been reported that an existing artist collective on New York Avenue is slated to become a high-end 178-key boutique hotel that is backed by two D.C. developers – D.B. Lee Development and Brook Rose Development. The hotel is expected to have both a ground-floor restaurant and an 11-th floor restaurant with While Union Market still has a lot of development ahead, the area is poised for its delivery. With The Market packed on weekends – students from Gallaudet University, millennials, young families with strollers, and empty nesters alike – consumer demand for more is strong. In 2015, The Market is said to have collectively done approximately $20.0 million in sales. With a variety of developers looking to capitalize on the area's authentic industrial grit that is so rare in the District, and with city officials on board – there are plans to widen the pedestrian walkways under the overpasses to allow for more accessibility from the nearest Metro stop just a few blocks away – Union Market is set to become a live-work-play location in just a few short years.

UNION MARKET DEMOGRAPHICS*

NEIGHBORHOOD POP BY AGE Median Age: 34 years	2015 POP
0 to 14	5,648
15 to 19	3,062
20 to 24	1,936
25 to 34	3,945
35 to 44	10,658
45 to 54	6,211
55 to 64	5,519
65 to 74	4,464
75+	1,703

HOUSEHOLD INCOME LEVELS Average Household Income: $92,896	2015 POP
$0 - $24,999	4,371
$25,000 - $34,999	1,351
$35,000 - $49,999	1,707
$50,000 - $74,999	2,545
$75,000 - $99,999	2,170
$100,000 - $149,999	2,987
$150,000+	2,709

HIGHEST LEVEL OF EDU ATTAINMENT	2015 POP
High School	6,745
Some College, No Degree	4,691
Associates Degree	1,035
Bachelor's Degree	7,197
Graduate Degree	6,803

*Based On a 1-Mile Radius

Ratings provided by walkscore.com

97 WALK SCORE

82 TRANSIT SCORE

91 BICYCLE SCORE

EAST END

THE CENTER OF DOWNTOWN'S RETAIL RENAISSANCE

Consisting of the neighborhoods of Chinatown, Judiciary Square, Mount Vernon Square and Penn Quarter, the East End is Washington, D.C.'s old downtown quarter. The East End has reinvented itself in recent years; its retail shift has included not just the addition of dozens of national mall brands along the F Street Corridor near the Verizon Center, but the addition of an entirely new luxury retail destination, with the delivery of CityCenterDC.

The East End's transformation has been fueled by the coveted millennial demographic and the ongoing trend of urbanism. Millennials (and empty nest Baby Boomers) have consistently demonstrated a preference for urban living over the past decade and 24/7 cities that offer live/work/play environments. This trend is clearly evident in the East End, where growth has been overwhelmingly driven by age demographics. The East End has experienced staggering population growth of 122% over the past 15 years. What is most telling, however, is that most of this growth has been driven by young professionals between the ages of 24 and 34 years old. It should come as no surprise that with a median age of 33.4 years and average household income of $121,156 per year, the East End has become an attractive area for developers and retailers to invest.

In the last 15 years, the number of multifamily (apartment and condominium) residential units has more than doubled in the East End. The area added 3,482 units between 2000 and 2015. Development of new multifamily projects in the East End has recently slowed as available parcels of land for development or redevelopment have become both scarcer and pricier. However, there remain a number of proposed multifamily residential projects in the pipeline in the Mount Vernon Triangle and Capital Crossing Developments that could see the addition of as many as another 1,154 units over the next few years. We anticipate that these, and other projects, will continue to add a steady stream of new housing inventory, and new consumers, to this submarket over the next five years.

Retail Asking Rate Range
$60.00 - $250.00 PSF, NNN Annual

Multifamily Stats | 12-Month Forecast
Current Vacancy: 3.4% ▼
Average Asking Rent: $2,287 Per Month ▲
Units Under Construction: 385 ▲

According to CoStar Group

WHERE A BLEND OF ASPIRATIONAL AND VALUE BRANDS MEET

The 2014 delivery of CityCenterDC introduced many exclusive and internationally coveted retail brands to the District for the first time; Hermes, Louis Vuitton, David Yurman, Dior, Paul Stuart, Carolina Herrera, Salvatore Ferragamo and others. Additionally, other luxury labels expanded their presence in the District – Hugo Boss and Kate Space both opened additional stores.

The CityCenterDC project consists of 295,000 square feet of retail space in addition to roughly 520,000 square feet of office space and nearly 675 housing units (458 apartments and 216 condominium units).

Its opening capped a more than decade long effort by the District to boldly redevelop the once blighted East End area. In addition to marking the launch of an entirely new upscale shopping area, the delivery of CityCenterDC also introduced several new restaurants to the District; David Chang's Momofuku, Laurent Halasz' Fig & Olive, Del Frisco's Double Eagle Steak House and the Bangkok-based Mango Tree have all opened their doors to much fanfare in 2015.

While CityCenterDC has introduced a high street retail element to the East End, several mid-priced and discount national chains still remain staples of the neighborhood. Bed, Bath & Beyond, Urban Outfitters, JCrew, Banana Republic, TJ Maxx, Marshalls, Forever21, H&M, Zara, Ann Taylor, and Anthropologie have all established locations along East End's two main retail corridors – 7th Street and F Street. Other retailers with planned new locations in the East End include Sak's Off 5th and Nordstrom Rack.

The East End remains a top shopping, dining and entertainment destination for District residents, employees, and visitors. Its combination of both aspirational brands and discount retailers, as well as both white tablecloth restaurants and fast casual dining options cater simultaneously to a wide range of shoppers. The East End's growing number of residents and expanding daytime office workforce have resulted in the neighborhood's emergence as a shopping and dining destination both during the week and on weekends, with heavy foot traffic to support both. Meanwhile, sporting events, concerts and shows at the Verizon Center, along with the East End's many theatres, ensure that this submarket remains one of the District's premier entertainment destinations, creating the complete live/work/play environment that appeals to this neighborhood's strongest demographic group, the millennials.

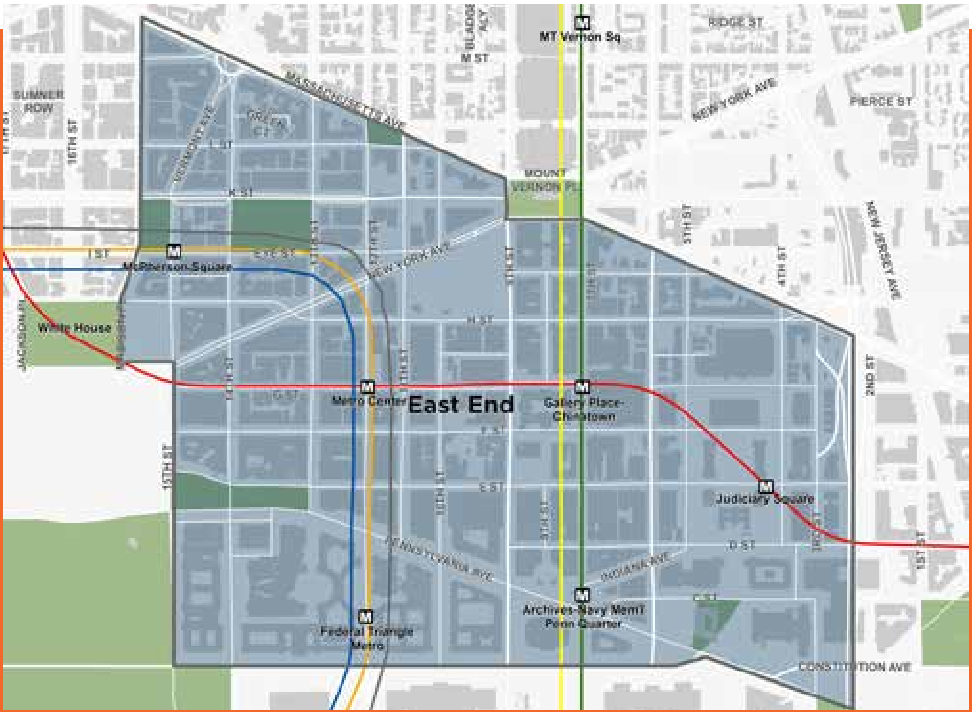
EAST END DEMOGRAPHICS

NEIGHBORHOOD POP BY AGE	2015 POP
Median Age: 33 years	
0 to 14	308
15 to 19	53
20 to 24	876
25 to 34	3,202
35 to 44	1,388
45 to 54	838
55 to 64	684
65 to 74	339
75+	366

HOUSEHOLD INCOME LEVELS	2015 POP
Average Household Income: $121,156	
$0 - $24,999	866
$25,000 - $34,999	268
$35,000 - $49,999	552
$50,000 - $74,999	673
$75,000 - $99,999	557
$100,000 - $149,999	822
$150,000+	1,384

HIGHEST LEVEL OF EDU ATTAINMENT	2015 POP
High School	464
Some College, No Degree	568
Associates Degree	85
Bachelor's Degree	2,121
Graduate Degree	3,082

*Based On a 1-Mile Radius



Ratings provided by walkscore.com

97 WALK SCORE

100 TRANSIT SCORE

88 BICYCLE SCORE

14TH & U STREET
THE FOODIE'S HAVEN

The 14th and U Street neighborhood, which we define as the U Street corridor between Florida Avenue to the west and 10th Street to the East; Logan Circle; and the 14th Street corridor between Massachusetts Avenue to the south and Euclid Street to the north – has undergone an immense transformation in the last five years. Gone are the auto shops, vacant lots, and abandoned row homes. Instead, 14th and U has become synonymous with some of the city's best restaurants, chic boutiques, and luxury condos.

Since 2000, the population of the 14th and U neighborhood has grown by 31.3%, and has become increasingly more educated – 70.8% of the population currently holds at least Bachelor's Degree, compared to just 41.9% in 2000. Most notably the average household income has more than doubled in the last 15 years – going from $50,892 in 2000 to $116,800 in 2015. By 2020, the average household income is expected to increase by another 16.7%, closing at $136,276. As gentrification has taken hold in recent years, new multifamily developments have been delivered (and quickly leased up). Historic row homes have been renovated and restored – converted most often into upscale condominiums. The number of housing units has grown by 35.4% over the past 15 years. As of the end of 2015, 98.1% of this neighborhood's single-family dwellings were occupied. For investors, the 14th and U neighborhood is one of the hottest rental housing markets in the District. Currently 70.0% of residents rent their homes, paying an average $3.92 per square foot, or $2,842 per unit per month. Developers are beefing up building amenities in order to compete for the best tenants, adding full-service concierge service, resort-like roof decks and swimming pools, spa-quality gyms, dog parks and grooming stations, secure bike rooms, and trendy retailers – just to name some of the most common additions. In turn, residents are willing pay premium prices for smaller units in order to take advantage of the amenity-rich location, both in the building and the surrounding neighborhood.

Retail Asking Rate Range
$75.00 - $200.00 PSF, NNN Annual

Multifamily Stats | 12-Month Forecast
Current Vacancy: 4.4%
Average Asking Rent: $2,237 Per Month
Units Under Construction: 226

According to CoStar Group

As the neighborhood's housing has changed, so too has the local retail landscape. Whole Foods opened their first District of Columbia store at P and 14th Streets in 2000, after much lobbying from nearby residents, and quickly became the catalyst for future retailers. Room & Board opened their store in a former automobile showroom on 14th Street shortly thereafter.

Today, 14th and U is filled with young millennials – the average age of residents in the area is 33 with almost 39.6% of residents between the age of 24 and 35 years – shopping and dining.

Depending on the time of day, you may find people waiting for a table for brunch or dinner at one of the many new chef-driven restaurants. Philadelphia-based restaurateur, Stephen Starr, opened Le Diplomate in 2013, and still remains one of the most popular eateries in the city. Across the street, Ghibellina, an upscale Tuscan-themed bistro, attracts the same crowd; young, well-educated millennials looking to enjoy good food and drink with friends. The majority of restaurants on the 14th and U Street corridors have patios and/or expansive window lines that they can open when the weather permits. This has translated into a vibrant sense of street life in this neighborhood.

Though 14th and U has become synonymous with some of the District's top restaurants, the retail fabric includes a variety of home stores and design showrooms that cater to the residents of the neighboring luxury apartments and condos, and up-and-coming brands, including the District's only Filson and Shinola stores. The boutique home goods store Salt & Sundry recently opened its second store in 2014 at S and 14th Streets – its first store is located at Union Market. San Francisco-based Marine Layer, known for its extremely soft t-shirts, opened its first east coast store outside of New York City in time for the 2015 holiday shopping season. The neighborhood's nightlife has picked up as well, thanks both to the continued strength of the local dining scene as well as the addition of a number of new bars and clubs that have popped up alongside long-established jazz clubs in recent years. The 14th and U neighborhood has undergone the most radical transformation over the past fifteen years of perhaps any other up-and-coming Washington, D.C. retail district. This metamorphosis has brought an immense amount of development and vibrancy to an area that was once run-down and a model of urban decay. Now, instead of being an area avoided by most District residents, 14th and U has emerged as one of the D.C.'s hottest neighborhoods.

14TH & U STREET DEMOGRAPHICS

NEIGHBORHOOD POP BY AGE	2015 POP
Median Age: 33 years	
0 to 14	2,201
15 to 19	412
20 to 24	2,020
25 to 34	10,914
35 to 44	5,585
45 to 54	2,955
55 to 64	1,933
65 to 74	1,004
75+	539

HOUSEHOLD INCOME LEVELS	2015 POP
Average Household Income: $92,896	
$0 - $24,999	3,045
$25,000 - $34,999	1,094
$35,000 - $49,999	1,660
$50,000 - $74,999	2,261
$75,000 - $99,999	1,770
$100,000 - $149,999	2,824
$150,000+	3,447

HIGHEST LEVEL OF EDU ATTAINMENT	2015 POP
High School	1,545
Some College, No Degree	2,194
Associates Degree	464
Bachelor's Degree	7,141
Graduate Degree	9,111

*Based On a 1-Mile Radius

Ratings provided by walkscore.com

97 WALK SCORE

85 TRANSIT SCORE

93 BICYCLE SCORE

GEORGETOWN
A MIX OF THE OLD AND NEW

The Georgetown retail submarket has maintained its reputation for aspirational brands, high-end shopping, and fine dining. Georgetown remains one of the District's toniest neighborhoods. It is also the District's oldest, founded in 1751, predating the founding of the nation's capital. The neighborhood has long been known for its nightlife thanks to Georgetown University students, though the retail focus in recent years has gradually shifted away from bars and night clubs and more towards specialty shops and national brands.

Georgetown offers only a handful of multifamily buildings sprinkled among its residential areas and at the Georgetown Waterfront. The neighborhood's active historic preservation review boards have kept new development to a minimum, though a small number of boutique multifamily projects have delivered in recent years. Currently, there are just a handful of proposed multifamily developments in the pipeline – most of which are small boutique condominiums aimed at the growing number of empty nesters looking to downsize from nearby neighborhoods. The largest proposed development is the adaptive reuse of the Georgetown West Heating Plant, which the Levy Group aims to convert into 60 upscale condos once approval is received.

Despite being the home of Georgetown University, the majority of local residents are owners. Renters comprise just 44.8% of residents. Yet, Georgetown's median age skews young at just 24.5 years of age thanks to the local student population. As such, there is a dearth of rental housing in the area and a dire shortage in terms of affordable and/or student housing, though Georgetown University is looking to help alleviate that with the delivery of a 225-room residence hall that is set to deliver in summer 2016.

Georgetown's retail is a blend of new and old. Established restaurants from days gone by still continue to attract customers, while new entries to the market have sought out Georgetown for their first D.C. location. Martin's Tavern, where JFK proposed to Jackie Kennedy; Clyde's, Café Milano, and Filomena Ristorante, among many others have all welcomed politicians and celebrities

Retail Asking Rate Range
$75.00 - $200.00 PSF, NNN Annual

Multifamily Stats | 12-Month Forecast
Current Vacancy: 5.2%
Average Asking Rent: $1,933 Per Month
Units Under Construction: 225

According to CoStar Group

and common residents alike over the years. Many landlords, however, have opted to shift their focus to retailers rather than new restaurants, forcing new restaurants to open in secondary-locations away from prime M Street and Wisconsin Avenue access. More recent newcomers have included The Sovereign, a Belgian beer bar and restaurant that opened in a walkway off Wisconsin Avenue, and Chez Billy Sud, a French restaurant that opened on 31st Street, near the historic Chesapeake and Ohio Canal Towpath.

The shift from nightlife, bar scene to retail and dining destination continues to transform Georgetown. For example, long-time student favorite Rhino Bar closed in 2015 and was replaced by a Club Monaco Store. Meanwhile, Vornado's redevelopment of the Georgetown Park Mall (in partnership with Angelo, Gordon & Co.) in 2013 introduced an expanded JCrew, Pinstripes Restaurant & Bowling Alley, DSW, and a TJ Maxx/HomeGoods store. Today, Georgetown Park Mall is 91.5% leased, compared to less than 50.0% occupied prior to the renovation. The introduction of discount retailers signaled a shift away from Georgetown's strict exclusivity of high-end retailers and towards a greater embrace of discounters, though Georgetown's large consumer base of tourists has encourage landlords to continue to seek out aspirational national brands.

Though Georgetown continues to demand the highest retail asking rents in the city, the rise of other high end retail districts in the city are starting to have an impact.

Year-over-year openings remained stable in 2015, with 43 new restaurants and retailers opening doors – up from 42 new openings in 2014.

However, the number of closings has risen by 55.0% year-over-year, with 51 stores and restaurants shuttering their doors in 2015. In an effort to remain competitive with other submarkets – particularly the 14th and U Street Corridors, which have gained a substantial number of chef-driven restaurants in recent years – business owners, along with neighborhood groups have petitioned the District Alcoholic Beverage Control Board to lift Georgetown's 27-year moratorium on new liquor licenses in order to encourage the opening of new, full-service restaurants. Whether or not they will remains to be seen, but maintaining Georgetown's reputation as a premier shopping and entertaining district is top of mind for business leaders. Should the D.C. Government lift the moratorium, it would almost certainly help Georgetown to compete against the District's other up and coming restaurant corridors.

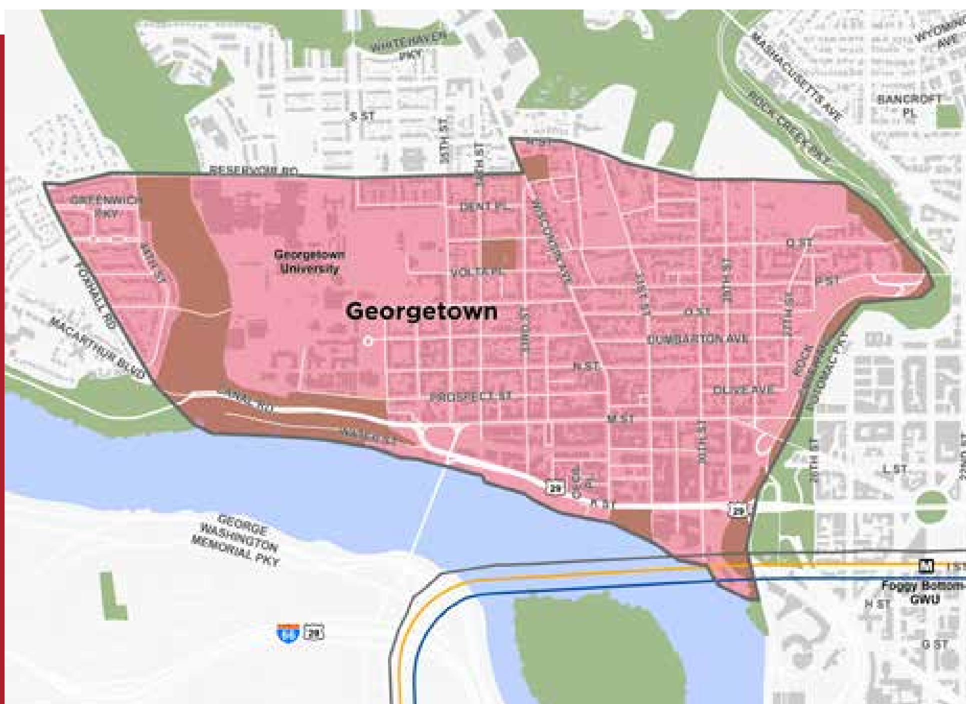
GEORGETOWN DEMOGRAPHICS

NEIGHBORHOOD POP BY AGE Median Age: 25 years	2015 POP
0 to 14	1,024
15 to 19	2,708
20 to 24	4,029
25 to 34	2,388
35 to 44	1,354
45 to 54	987
55 to 64	1,219
65 to 74	977
75+	561

HOUSEHOLD INCOME LEVELS Average Household Income: $207,337	2015 POP
$0 - $24,999	387
$25,000 - $34,999	32
$35,000 - $49,999	231
$50,000 - $74,999	495
$75,000 - $99,999	421
$100,000 - $149,999	1,101
$150,000+	2,186

HIGHEST LEVEL OF EDU ATTAINMENT	2015 POP
High School	158
Some College, No Degree	365
Associates Degree	154
Bachelor's Degree	2,783
Graduate Degree	3,960

*Based On a 1-Mile Radius



Ratings provided by walkscore.com

84 WALK SCORE

67 TRANSIT SCORE

76 BICYCLE SCORE

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