# MARKET ECONOMICS

A first step towards revitalization of the Takoma Central District is understanding what type of viable development is possible to support community goals for the area. The following review of market economics for the Takoma Central Distirct basically concludes that the revitalization program for the area should rely not so much on adding substantial new retail space, but should instead encourage a more diverse quality of retail uses in existing space, with limited new space in targeted locations. To strengthen and support this retail market, and support increased transit use, the program also calls for more people living within and in close proximity to the district and the Metrorail station.

## Market Opportunities

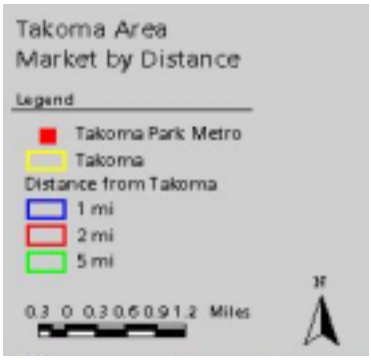
### Retail Market Demand

The retail market demand model provides a method for identifying the amount and type of viable retail space within Takoma's Central District. The following preliminary demand model assesses the potential support provided by two key market segments: local residents and non-resident Metro users.

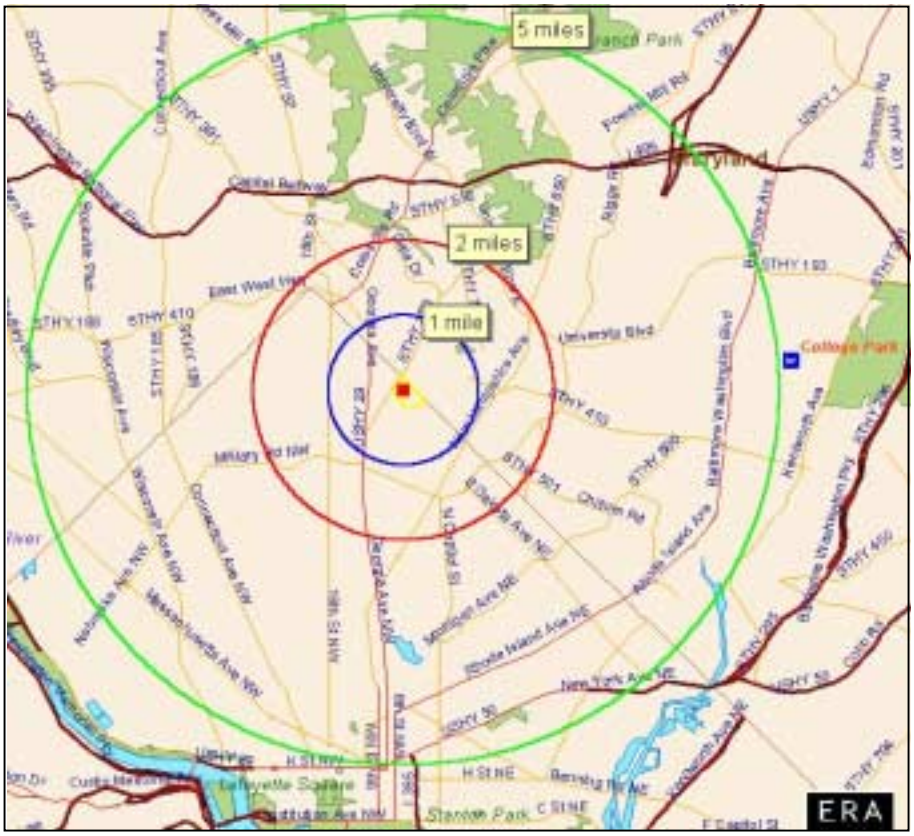
A trade area has been defined to include those residents living within a two-mile radius of Takoma (see Figure D), an appropriate trade area for neighborhood-oriented retail (a regional mall typically pulls residents from a 10-15 mile radius). Neighborhood-oriented retail is consistent with the community's revitalization goals and is appropriate in Takoma given the existing large retail center being developed in nearby Silver Spring, Maryland and the lack of a major arterial road through the community, a typical requirement for large-scale retailers. Small-scale retail space is also consistent with the neighborhood-oriented and specialty type retail character in the Old Town Takoma Park, MD business community, and such space will accommodate the potential development of similar specialty retail uses on the DC side as revitalization initiatives strengthen the attraction for visitors from outside the local trade area.

The resident trade area for Takoma includes approximately 45,883 households with an average household income of $58,117. Total expenditure potential for the resident market is based on the number of households, average disposable household income, and a typical spending pattern for goods (apparel, general merchandise and furniture) of 21% of disposable income (per spending surveys conducted by the US Census).

**Figure D**
**Trade Area Map**




*Source: Economics Research Associates*




Based on data provided by the Washington Metropolitan Area Transit Authority (WMATA), approximately 1.6 million riders exit the Takoma Metro station annually. It is assumed that a portion of these individuals live within the two-mile resident trade area and are thus already accounted for within the resident market area. The total expenditure potential for both market segments (local residents & non-resident Metro users) is approximately $445 million, as shown in Table A.

**Table A**
**Retail Market Demand**

| | |
|---|---|
| **Resident Market (2 mile radius)** | |
| Households | 45,883 |
| Average Household Income* | $58,117 |
| Total Annual Spending Potential | $442,291,436 |
| **Non-Resident Metro Riders** | |
| Annual Exits at Takoma Station | 1,567,540 |
| Adjustment for Residents living within 2 mile radius | 627,016 |
| Total Annual Spending Potential @ $5 avg. per capita | $3,135,080 |
| **Total Market Demand** | **$445,426,516** |

**Source: CACI, 2000 (demographics software program based on U.S. Census)*

Table B below highlights the total expenditure potential for each market segment, as well as the amount of expenditure potential which can realistically be "captured" in Takoma. The capture rates are based on rates in similar neighborhood-oriented, retail districts near large urban areas. A range of capture rates has been included so that the amount of supportable space is not over or understated. An inflow factor of 10% has also been included to acknowledge that some spending will occur from individuals located outside of the trade area (such as visitors to the district). By dividing the total expenditure potential with average sales productivity figures of $175 to $200 per square foot, it is therefore determined that the Takoma retail market (DC & MD) can support approximately 100,000 to 150,000 sq. ft. of retail space.

An inventory of the Takoma retail market area reveals that there currently exists about 120,000 sq. ft. of retail space, well within the 100,000-150,000 sq. ft. range that is supportable by the community from a market perspective. Approximately 20% (24,000 sq. ft.) of the existing space is vacant, and other retail uses appear over-allocated (such as auto-related tenants). Thus, at a very minimum, 24,000 sq. ft. of retail space can be added in existing vacant space in order to better satisfy market demand and create a more attractive retail environment. At a maximum, new retail uses of up to 30,000 sq. ft. may also be viable in targeted locations.

**Table B**
**Supportable Retail Space**

| | Total Annual Spending Potential | Capture Rate | | Captured Spending Potential | |
|---|---|---|---|---|---|
| | | Low | High | Low | High |
| *Resident Market (2 mile radius)* | $442,291,436 | 4% | 5% | $17,691,657 | $22,114,572 |
| *Non-Resident Metro Riders* | $3,135,080 | 40% | 45% | $1,254,032 | $1,410,786 |
| **SUBTOTAL** | **$445,426,516** | | | **$18,945,689** | **$23,525,358** |
| Inflow at 10%* | | | | $1,894,569 | $2,352,536 |
| **TOTAL** | | | | **$20,840,258** | **$25,877,894** |
| ***Supportable Retail Sq.Ft.*** | | | @ $200 PSF | **104,201** | **129,389** |
| | | | @ $175 PSF | **119,087** | **147,874** |

** Accounts for visitation from outside of the area.*
*** Includes DC & MD portions of Takoma retail market*

*Source: Economics Research Associates*

## Retail Market Summary

- Small commercial sites such as those in Takoma are not conducive to regional retailers, who typically require large floor plates and locations along major arterial streets.

- A competitive environment (most significantly from Silver Spring) limits the amount of additional retail space that can be supported in Takoma.

- Neighborhood-oriented retail is the most appropriate type of retail use for the Takoma Central District. Such retail implies smaller floor spaces (1,500 to 4,000 sq. ft.) that support uses such as food service (bakeries, deli's, coffee shops), cleaners, book stores/newsstands, barber/beauty shops, repair shops, bicycle shops and florists.

- There is potential for additional specialty type retail uses (such as those in Old Town Takoma Park, MD) as revitalization efforts progress.

- When viewed as an aggregate retail market with Takoma Park, MD, the Takoma Central District has sufficient capacity and space to accommodate the market generated by local neighborhood demographics and non-resident customers.

- The aggregate Takoma retail market can support total retail space of approximately 100,000 to 150,000 sq. ft.

- An inventory of retail space revealed that 120,000 sq. ft. of retail space currently exists in the Takoma retail market area, an amount that is within a supportable range from a market perspective.

- Roughly twenty percent (24,000 sq. ft.) of existing retail space is vacant and certain retail uses appear over-supplied (such as auto-related tenants).

- At a minimum, 24,000 sq. ft. of retail space can be added within existing space in order to better satisfy market demand and enhance the retail environment.

- At a maximum, up to 30,000 sq. ft. of new retail space may also be viable in targeted locations.

- Strong emphasis should be placed on enhancing and attracting desired retail services near the Metro station and along 4$^{th}$, Cedar and Carroll Streets.

## Housing Market Demand

Single-family homes in Takoma

Watkins apartment building on Cedar St.

The strengthening of the District of Columbia as a healthy, viable urban community requires new opportunities for creating diverse housing choices and increasing the city's residential population. According to the Metropolitan Washington Council of Governments, for the first time in several years the District of Columbia is projected to gain population (at least 36,600 new residents are projected over the next ten years) and housing supply is severely constrained throughout much of the District. To help achieve the citywide goal of accommodating new residents, leverage strong market demand for housing and promote the traditional residential character of much of the Takoma community, new housing is encouraged within the Takoma Central District. Adding to Takoma's existing housing supply will enhance the neighborhood's market potential to attract the desired quality of retail services, as well as improve existing underperforming or underserving retail uses in the area.

To assess demand for housing within the Takoma area, various demand indicators were analyzed, including population projections, resale value of existing homes and the residential rental market. Housing demand indicators within the area are positive. Resale values of homes in the Takoma area have been escalating over the past several years. Local municipal sources indicate that the resale value of single-family detached homes increased from $157,500 in 1990 to $170,300 in 1999, and resale values have continued to increase significantly since 1999. In order to project demand for new housing, it is assumed that, given the size, scale and largely built-out character of the Takoma community, the area will capture a relatively small percentage (1%-1.5%) of the net new growth forecast for the District. As shown in Table C below, based on future market demand, approximately 183 to 275 new housing units can be accommodated within the study area through the year 2010.

**Table C**

**Housing Market Demand**

| | |
|---|---|
| **DC Population Growth Projections*** | |
| 2000 | 518,100 |
| 2005 | 523,500 |
| 2010 | 554,700 |
| **Net New Growth 2000-2010** | **36,600** |
| **Takoma Capture of New Population Growth** | |
| @ 1% | 366 |
| @ 1.5% | 549 |
| *Average Household Size of Study Area* | 2 |
| **Future Housing Market Demand 2000-2010**** | |
| @ 1% | **183** |
| @1.5% | **275** |

*Source:*
*Metropolitan Washington Council of Governments*
*Economics Research Associates*

* Based on forecasts from Metropolitan Washington Council of Governments

**Not including approx. 140 units proposed as of 2000 under existing market demand.

The normal market forces that are indicating a demand for new housing in Takoma are further reinforced by the presence of the Metro station. Transit service promotes a well-integrated residential and commercial hub and encourages pedestrian activity and fewer automobile trips.

The projection for future housing demand does not include the approximately 140 units of new housing proposed as part of the Eakin Youngentob and Eichner projects in the Central District. These projects were already proposed in 2000 and determined to be economically feasible by their developers based on existing market conditions rather than future housing demand. Therefore, they were part of *existing* market demand as of 2000 rather than projected 2000-2010 *future* market demand.

**Housing Market Summary**

- The citywide market for single-family homes is relatively strong – resale prices of existing homes are increasing, residents are moving back to the District, and the rental market remains strong.

- Takoma's *future* market demand can accommodate 183 to 275 new housing units; this does not include 140 housing units currently proposed as part of *existing* market demand.

- The proximity of the Metro station promotes a well-integrated, mixed use hub with strong pedestrian activity and reduced vehicle trips. This reinforces the normal market forces that are indicating a demand for new housing within the Takoma area

## Office Market Demand

Office/mixed-use building on Willow Street

Discussions with various local brokers and property owners were conducted to most accurately depict demand for office space within the smaller Takoma market. A brief summary of comments from such discussions is included in Table D below. As with the retail market, large office space users in the Takoma market area generally locate in Silver Spring. There also exists a large inventory of older, obsolete office buildings in the eastern part of Takoma Park, MD along New Hampshire Avenue.

The majority of existing office space in the immediate area of Takoma is concentrated within the Takoma Professional Building on Carroll Street, and includes tenants such as small private businesses, non-profits, and professionals (such as lawyers and accountants). Other office space is scattered throughout the study area, including uses such as a contract lighting company and a real estate company. It is estimated that there is currently 140,000 sq. ft. of office space within the Takoma Park,

Maryland area, including the Takoma Professional Building, and an additional 50,000 - 75,000 sq. ft. scattered throughout the greater Takoma office market area.

Given the proximity of Silver Spring and current trends in the market, the strongest office market demand in Takoma is projected to be small-scale (3,500 - 5,000 sq. ft.) professional space, with lease rates in the range of $18/sq. ft. Representative tenants could include foundations and local service businesses (such as graphic designers). Demand for new office space should not exceed 40,000 to 50,000 sq. ft. (approximately ten new small-scale office tenants), and can be accommodated in buildings with existing office space and within new mixed use developments close to the Metro station.

**Table D**
**Office Market: Takoma/Takoma Park Region**

| | Summary Comments from Local Brokers & Property Owners |
|---|---|
| **Takoma Professional Building** | Fully leased, current lease rate of $18.50 per sq. ft.; building was only 50% occupied for some time; average space leased is 3,500 sq. ft; took ten years to lease up the space after Seventh Day Adventists vacated |
| **2nd Floor Office Space- Old Town Takoma Park** | Demand for space for graphic companies, professionals, web designers, foundations, small space users |
| **Old Town Takoma Park on Westmoreland** | Kidney Dialysis moving out; $18 psf + electric; demand is moderate; mostly nearby residents looking for office space (psychiatrists, non-profits, attorneys) |

## Office Market Summary

- Demand for new office space in the Takoma study area does not exceed 40,000 to 50,000 sq. ft. (approximately ten new small-scale office tenants), and can be accommodated in existing buildings and new mixed-use projects. Office users best suited for the Takoma market include small space users (3,500-5,000 sq. ft.) such as local professionals, business services and foundations.

## Industrial Market Demand

Industrial space in metropolitan Washington is comprised primarily of warehouse/distribution, flex-tech and research and development properties. The metropolitan area's inventory of industrial space totals 145 million sq. ft., of which nine percent was vacant in 1999.
With a significant amount of new industrial space under construction (virtually all in suburban sub-markets), vacancy levels are expected to

increase slightly over the coming year. Due to the availability of vacant industrial space throughout the metropolitan area, and the amount of existing occupied space, the demand for new industrial space in Takoma is limited.

Industrial area along Spring Street

Industrial space within the study area is currently concentrated along Blair Road/Spring Street and along Vine Street, and includes approximately 37,000 sq. ft. of space. With limited sites available in the Takoma neighborhood for redevelopment, and given the presence of the Metro station, mixed use commercial and residential uses are more appropriate since they will encourage pedestrian activity and enhance retail viability within the area. Industrial uses such as those found within close proximity to the Metro station are not preferred transit-oriented uses. Therefore, new industrial uses should be discouraged within the Central District and strategies should be implemented for eventual transition of existing industrial sites to other preferred uses.

### Industrial Market Summary

- The demand for new industrial space (including warehouse, distribution and research and development properties) within the Takoma study area is limited given industrial space availability elsewhere in the District and surrounding suburban areas.

- With limited sites available in the Takoma neighborhood for redevelopment, and given the presence of the Metro station, industrial uses such as those found within the Takoma Central District are not preferred transit-oriented uses. New industrial uses should be discouraged within the Takoma Central District and strategies should be implemented for eventual transition of existing industrial sites to other preferred uses.

## General Market Issues

A number of general market issues were identified for the Takoma Central District during the market assessment process. These include:

- Fragmented land ownership, such as that found in much of the Takoma Central District, can make it difficult for diverse owners to reach consensus on development strategies, or for larger developers to aggregate and redevelop existing buildings for new projects. However, this condition can be a key factor in supporting renovation of existing buildings for small-scale, neighborhood-oriented retail revitalization.

- To help retain and reuse existing building stock that is suitable for small-scale renovation, new mixed use projects such as those supported by the retail and residential market demand should be encouraged to locate on key opportunity sites that are controlled by one or two landowners. These include properties on the west side of 4th Street, those west of the Metro site, the Metro site itself and selected parcels north and south of Carroll Street.

## Market Economics Revitalization Strategies

To respond to the unique market opportunities and constraints of the Takoma Central District, the following strategies are recommended (and summarized with projected market demand in Table E below):

1. **Target initial public and private investment in the Takoma Central District towards projects and locations that can encourage and leverage other new private development.** Public investment could include streetscape, green space and pedestrian improvements, parking facilities, and intersection improvements.

2. **Use the relatively large, available and publicly owned parcel at the Metro station site as a key location to accommodate substantial new near-term investment in the Takoma Central District.** A public/private partnership to redevelop this site for transit, mixed use and public space can be implemented relatively quickly and can provide a significant incentive for attracting other new investment into the area.

3. **Organize a business management group or non-profit community development corporation (preferably inter-jurisdictional) to deal with issues such as beautification, tenant recruitment, property owner negotiations and marketing.** Non-profits can be funded through a variety of mechanisms, including municipal appropriations, special assessments on properties, and membership contributions. Main Street designation and management for the district may be a preferred approach for coordinating such activities.

4. **Investigate a zoning overlay district that ensures retention and establishment of small to moderate scale ground floor retail uses in a continuous pattern along Carroll Street, thus providing a better connection to Old Town Takoma Park, MD.** Transit-oriented overlay districts are often used to encourage pedestrian oriented development and encourage a mix of uses (such as neighborhood shopping) in close proximity to transit stops. Such districts can also discourage expansive land uses such as storage yards and warehouses.

5. **Investigate incentives to improve/develop key parcels and determine which incentives provide the largest pay-off.**
   - Historic tax credits for substantial rehabilitation of income-producing properties that are eligible for, or listed on, the National Register of Historic Places.
   - Low interest loan pools funded by consortium of local banks to help cover costs for renovations or expansions.
   - Tax abatements, often used by local governments as an incentive for property owners to rehabilitate deteriorated buildings (exemptions are often in place for 5-10 years).
   - Regulatory relief such as reduced or shared parking and increased densities.

6. **Address vacant or abandoned properties through targeted code enforcement.** This could include verifying the structural integrity of buildings and ensuring that yards are maintained and vehicles are not abandoned on properties.

**Table E**
**Market Demand & Revitalization Strategies Summary**

| | Retail | Housing | Office | Industrial |
|---|---|---|---|---|
| **Market Demand** | Min. 24,000 sq. ft. of new retail uses in existing vacant space; max. 30,000 sq. ft. of retail uses in new space | 183-275 new units * | Small-scale uses, up to 50,000 sq. ft. in mixed-use projects | No new industrial space; phase out existing space |
| **Revitalization Strategies** | •Public improvements (streetscape, etc.)<br>•Use of publicly owned sites<br>•Business mgt. Group / Main St.<br>•Zoning overlay / regulatory relief<br>•Special assessment districts<br>•Historic tax credits<br>•Low interest loan pool<br>•Tax abatements<br>•Code Enforcement | •Public improvements (streetscape, etc.)<br>•Use of publicly owned sites<br>•Historic tax credits | •Low interest loan pool<br>•Zoning overlay / regulatory relief<br>•Historic tax credits | |

* Not including approximately 140 units planned as of 2000 under existing market demand.