McMillan Reservoir – Convenience Retail Market Analysis

INTRODUCTION AND METHODOLOGY

Hammer, Siler, George Associates has been retained to conduct market analyses to determine the potential of the McMillan Reservoir site to support a variety of land uses. This memorandum presents the findings of our analysis into the market potential for retail development on the subject site.

Our analysis has examined the potential for convenience, personal services and shoppers goods retail stores on the property. The convenience store category includes such store types as food retail (supermarket), drug stores and other stores such as bakery shops. The personal service retail category includes such business types as beauty/barber shop, dry cleaners and travel agencies. Shoppers goods establishments include department stores, general merchandise goods (variety, dry goods, etc.), apparel and accessory stores, furniture and home furnishing stores and miscellaneous stores including jewelry, gift, book, music record, toy, sporting goods/hobby and similar type stores that could be included in a development program for the site.

The retail market potential of the site is established by examining the expenditure potential generated from two major sources: primary and secondary trade area residents, and customers that have been calculated as an "inflow" factor. The estimated market share is based upon the evaluation of several economic factors: the strength and mix of retailing within the trade area, the proximity of other retailing centers to the trade areas, and the economic characteristics of the residents of the area.

CONVENIENCE PERSONAL SERVICE MARKET POTENTIAL

Trade Area Delineation

The primary and secondary trade areas for the subject site represents the geographical area from which the majority of customer sales are generated on a sustained basis. The trade areas have been delineated based on a variety of economic and market factors, including access and driving times, competitive locational patterns and population distribution and density characteristics.

We have delineated the primary area as extending a distance of one mile from the center of the subject site. The secondary trade area extends eastward to Eastern Avenue and northward to Crittenden Street. The secondary trade area was delineated on the basis that it represents an approximate 10 minute travel time to the site and the fact that it excludes significant competition.

Trade Area Demographics

Demographic factors such as the number and size of households, average household income and total personal income provide the basis for estimating the retail expenditure potential for the trade area and subsequently, sales potential for the site. Those economic indices are discussed in the following sections.

Household Trends and Projections

For the purpose of this analysis, HSGA uses households as the consumer unit to estimate retail expenditure potentials. Table 1 presents household trends and projections for the period between 1980 and 2004. The primary trade area has experienced a significant decline in the number of households between 1980 and 1999, from 13,500 in 1980 to 11,600 in 1999.

EXHIBIT 1

Primary and Secondary Retail Trade Areas

TABLE 1. HOUSEHOLDS, PRIMARY AND SECONDARY TRADE AREAS, 1980 - 2004

Year	Primary Trade Area	Secondary Trade Area	Total
1980	13,490	10,413	23,903
1990	13,368	10,345	23,713
80-90 Percent Change	-0.9%	-0.7%	-0.8%
1999	11,614	8,877	20,491
90-99 Percent Change	-13.1%	-14.2%	-13.6%
2004	10,901	8,295	19,196
99-2004 Percent Change	-6.1%	-6.6%	-6.3%

Sources: Bureau of the Census, US Department of Commerce, Claritas, and Hammer, Siler, George Associates

We are familiar with the revitalization initiatives of Howard University for the LeDroit Park neighborhood in the primary trade area currently in the planning stages. However, in the absence of substantial investment and improvement in the short-term, the declining trend will likely continue for the next several years. In the absence of such factors, the trend is projected to continue to 2004 with the number of households declining by a further 700 households or approximately 6.1 percent.

The secondary trade area also experienced a decline in the number of households from 10,400 in 1980 to 8,900 n 1999. As with the primary trade area, in the absence of substantial investment and improvement in this area, the declining trend is projected to continue to 2004 to around 8,300 households.

Household Size

Table 2 shows that there has been a decrease in the average size of households between 1990 and 1999, a trend that is projected to continue to 2004. This is reflective of a national trend toward smaller households across the Nation.

TABLE 2. HOUSEHOLD SIZE, PRIMARY AND SECONDARY TRADE AREAS, 1990 - 2004

Year	Primary Trade Area	Secondary Trade Area
1990	2.59	2.55
1999	2.47	2.45
2004	2.42	2.41

Sources: Bureau of the Census, US Department of Commerce, Claritas, and Hammer, Siler, George Associates

In the primary trade area, the 1999 household size was approximately 2.47 persons per household, significantly smaller than the average for 1990 at 2.59 persons per household. The average size of the households in the primary trade area is forecast to decline further to 2.42 persons per household by the year 2004. There has also been a decrease in the size of households in the secondary trade area, from 2.55 in 1990 to 2.45 in 1999.

Household and Total Personal Income Trends and Projections

Household Income and Projections. A key factor in determining the amount of dollars available within a given market for retail spending is average household income. This is the most important single determinant of the amount that the individual households can spend for retail purchases.

Table 3 presents household income trends and projections for the primary and secondary trade areas for the period between 1989 an 2004. The trends and projections are in constant 1999 dollars unadjusted for inflation.

TABLE 3. AVERAGE HOUSEHOLD INCOME, 1989 – 2004

Year	Primary Trade Area	Secondary Trade Area
1989	$38,804	$51,703
1999	$44,685	$58,707
89-99 Percent Change	15.2%	13.5%
2004 Projection	$47,625	$62,209
99-2004 Percent Change	6.6%	6.0%

Sources: Bureau of the Census, US Department of Commerce, Claritas, and Hammer, Siler, George Associates

The table reveals that income levels for the trade area vary considerably between the primary and secondary trade area. For 1999, the average annual household income in the primary trade area is estimated at approximately $44,700. This represents a significant increase since 1989 of 15.2 percent. Income levels in the primary trade area are predicted to continue to grow to the year 2004 when it is projected that the average household income will be $47,600.

The average household income in the secondary trade area is substantially higher than the primary, currently estimated at approximately $58,700. This represents and increase since 1989 of 13.5 percent. This increase is expected to continue to the year 2004 when the projected household income will be approximately $62,200.

Total Household Income. Table 4 below presents trends and projections for total household income (THI) for the primary and secondary trade areas. THI has been calculated by multiplying the total number of households by the average household income. The resulting figure represents the total amount of income present within the

trade area, a portion of which is expended on retail goods. It is from THI that retail expenditure potentials are projected.

TABLE 4. TOTAL HOUSEHOLD INCOME, 1989 – 2004

Year	Primary Trade Area	Secondary Trade Area
1989	$519,208	$535,222
1999	$518,972	$521,142
89-99 Percent Change	-0.05%	-2.63%
2004 Projection	$518,853	$514,102
99-2004 Percent Change	-0.02%	-1.35%

Note: In thousands of constant 1999 dollars

Sources: Bureau of the Census, US Department of Commerce, Claritas, and Hammer, Siler, George Associates

THI in the primary trade area is projected to remain almost constant between 1999 and 2004 as the relative impacts of the projected decrease in the number and size of households and the projected increase in average household income cancel each other out. In the secondary trade area, THI is projected to fall by 2.6% as the decrease in the number and size of households collectively outweigh the impact of increased household income.

Trade Area Resident Expenditure Potential. Total retail expenditure potential for 1999 and 2004 is set out in Table 5 below. Appendix Table A provides a more detailed breakdown of the various categories contained in the Table. Retail expenditure potential is derived by comparing local sales patterns with total personal income calculated for the same year. This income to sales relationship is then used to calculate the percentage of THI that is spent on retail goods within the trade area and is projected to 2004.

Table 5 reveals that the percentage of THI for each retail category within the primary and secondary trade areas is assumed to remain constant over the 5 year period. In both trade areas retail expenditures for each category are projected to decline by a modest amount due to the anticipated decline in THI over this period.

TABLE 5. TRADE AREA EXPENDITURE POTENTIAL, 1999 & 2004

	1999		2004	
Trade Area/Sales Category	**% of Total Personal Income**	**Total Resident Expenditures ($1000's)**	**% of Total Household Income**	**Total Resident Expenditures ($1000's)**
Primary:				
Convenience	9.7%	$50,340	9.7%	$50,329
Personal Services	0.7%	$3,633	0.7%	$3,632
Secondary:				
Convenience	8.3%	$43,255	8.3%	$42,670
Personal Services	0.8%	$4,169	0.8%	$4,113

Note: In thousands of constant 1999 Dollars

Sources: Bureau of the Census, Department of Commerce, Claritas and Hammer, Siler, George Associates

Site Sales Potential

The share of total sales potential captured by any particular convenience retail center in the market is dependent on many factors: the type, tenant mix and quality level of the shopping center, the access of the complex to the trade area and, the appeal and effectiveness of competing facilities in the market. The following represents our analysis of such factors and assessment of the sales potential of a convenience retail center on the subject site.

Competitive Framework

Table 6 presents selective competitive shopping centers within and adjacent to the primary and secondary trade areas. Appendix Table B provides additional information

including the address/intersection of the center and the approximate distance from the site. Exhibit 2 illustrates the location of the centers in relation to the subject site.

EXHIBIT 2

Existing and Proposed Competitive Retail Centers

TABLE 6. COMPETITIVE STORES AND CENTERS

Center/Store Name	Location	Total GSF	Anchors
Rhode Island Avenue	4th and Rhode Island Ave. NE	192,000	Safeway, Ames Dept. Store, CVS
Brentwood Village	1311 Rhode Island Ave. NE	60,000	Food Metro, Rite Aid
O Street Market	8th and O Street NW	40,000	Giant Foods and Drug
Nehemiah Shopping Center	14th & Belmont Streets NW	20,000	Shop Express
Giant Foods	3460 14th Street NW	25,000	N/A
Safeway	3830 Georgia avenue NW	35,000	N/A
Riggs Road Shopping Center	3rd Street & Riggs Road	44,000	Tiger Market, CVS
Mall at Benning and Maryland	Benning Road and Maryland Avenue, NE	190,000	Safeway
Riggs Plaza	Riggs Road & Eastern Ave, Chillum, MD	120,000	Safeway, Rite Aid, McCrory
Sargent Road Shopping Center	Chillum and Sargent Roads, Chillum, MD	52,000	Save-A-Lot Foods, CVS
Queen's-Chillum Shopping Center	Queen's Chapel & Chillum Roads, Hyattsville, MD	77,000	Giant, CVS
Chillum Road Shopping Center	Queen's Chapel & Chillum Roads, Hyattsville, MD	61,000	Shopper's Food Warehouse
Bladensburg Road Shopping Center	Bladensburg Road and 38th Street	50,000	Shoppers Food Warehouse, CVS

Note: N/A - not available or not applicable.
GSF - gross square feet

Source: 1999 National Research Bureau Shopping Center Directory and, Hammer, Siler, George Associates

Table 6 and Exhibit 2 reveal that there is currently two competing stores of major significance in the primary trade area, the Rhode Island Avenue Center and associated

Safeway store approximately one half mile to the southeast of the site and, the CVS drug store at the intersection of Florida Avenue and 7th Street.

Both of these stores will impact the trade capture rate of a new store on the subject site, although our field research indicated that a well managed store on the subject site would be capable of competing very effectively with the Safeway on Rhode Island Avenue. Overlapping trade areas from competing centers and stores also limit the capture rates within the primary trade area particularly on the western side including two giant stores and a Safeway.

The secondary trade area has been drawn to reflect significant competition to the northeast, east and south of the site in the form of competing centers in the District and within Maryland in the Hyattsville area. The only competitive center within the secondary trade area is the Brentwood Village Center and associated Metro Market supermarket and Rite Aid drug store approximately 1.25 miles east of the site. As with the primary trade area, overlapping trade areas from competing centers will limit the capture rates of stores on the McMillan Reservoir site, particularly in the eastern and northeastern part of this trade area.

It should further be noted that residents in the southeastern part of the secondary trade area will likely travel via Rhode Island Avenue which would take them past the Safeway within the primary trade area. This will further limit the trade capture from residents in this area.

Trade Area Sales Potential

Table 7 below presents the sales potential for a proposed retail development on the subject property. Appendix Table A provides a more detailed breakdown by convenience sub-category. Trade capture rates reflect the above analysis of the competitive framework and assume no additional stores will be developed within and adjacent to the trade areas.

TABLE 7. TRADE AREA SALES POTENTIAL, 1999 & 2004

Trade Area/Sales Category	1999 Capture Rate	Inflow Rate	Total Sales Potential (000's)	2004 Capture Rate	Inflow Rate	Total Sales Potential (000's)
Primary:						
Convenience	34%	20%	$21,310	34%	20%	$21,305
Personal Services	15%	5%	$574	15%	5%	$573
Secondary:						
Convenience	26%	20%	$14,071	26%	20%	$13,881
Personal Services	5%	5%	$219	5%	5%	$257
TOTAL	-	-	**$36,174**	-	-	**$36,017**

Note: In thousands of constant 1999 Dollars

Sources: Bureau of the Census, Department of Commerce, Claritas and Hammer, Siler, George Associates

Resident Sales Capture

Trade area capture rates shown in the primary trade area for convenience goods reflects existing nearby competition both within and adjacent to the trade area as described above. The lower capture rates in the secondary trade area for all categories analyzed reflects the distance from the subject site and nearby established competition both in the District to the north and south and in Maryland in the northeast and east.

Inflow. The prominent location of the site on a major transportation route and proximity to the major employment concentrations associated with the nearby major health and education institutional uses results in good inflow rates from

persons who reside beyond the trade area, particularly for convenience goods. We anticipate inflow rates of 20 percent for convenience goods and 5 percent for personal services.

Total Retail Sales Potential

The 1999 total sales potential for the trade area of the subject development was estimated to be $36.2 million. This figure is expected to fall slightly by the year 2004 to approximately $36.0 million. This decrease is due to a projected drop in the number and size of households by 2004.

Supportable Center Size and Composition

Supportable center size is a function of total sales potential divided by average sales per square foot for each sales category. Appendix Table C provides a more detailed breakdowns of our analysis. Table 8 provides a breakdown of the supportable size of both retail categories and a total figure for retail.

TABLE 9. WARRANTED GROSS LEASABLE AREA, 1999 & 2004

Sales Category	Sales Potential ($1,000's)	1999 Sales Per Square Foot	Warranted GLA	Sales Potential ($1,000's)	2004 Sales Per Square Foot	Warranted GLA
Convenience Retail	$35,381	$276	121,020	$35,186	$276	120,369
Personal Services	$793	$80	9,913	$831	$80	9,874
Total	**$36,174**	**-**	**130,933**	**$36,017**	**-**	**130,243**

Note: In constant 1999 Dollars
GLA – gross Leasable area

Sources: Hammer, Siler, George Associates

This table reveals that the subject site is capable of supporting a total of approximately 131,000 square feet of gross leasable convenience and personal service retail floor space. This is comprised of approximately 121,000 devoted to convenience goods (including approximately 10,000 square feet for drug store goods) and approximately 9,900 square feet of personal service floor space.

The supportable GLA is projected to decline slightly to approximately 130,200 square feet by the year 2004.

Conclusions – Convenience Store and Personal Service Market Potential

Based on the findings of our supportable GLA analysis as set out in Appendix tables C and D, the site is capable of supporting a substantial supermarket 50,000 square feet plus in size, a 10 - 12,000 square feet plus drug store and, 8 - 10,000 square feet of service retail uses.

MARKET POTENTIAL FOR SHOPPERS GOODS

In addition to the above identified potential for a convenience store and personal service establishments on the McMillan Site, the development program could also incorporate shoppers goods stores. While we understand resident group concerns regarding potential problems associated with over development of the site for retail uses such as traffic congestion, it is important to develop estimates of how much total retail development the market is capable of supporting including shoppers goods. The primary and secondary trade areas we have used are the same as those for the convenience and personal services market analysis.

As previously noted, shoppers goods establishments include department stores, general merchandise goods (variety, dry goods, etc.), apparel and accessory stores, furniture and home furnishing stores and miscellaneous stores including jewelry, gift, book, music record, toy, sporting goods/hobby and similar type stores that could be included in a development program for the site.

Resident Expenditure

Appendix Table A reveals that the 1999 resident expenditure potential for shoppers goods is $39.4 million in both the primary and secondary trade areas for a total expenditure potential of approximately $$79.9 million. We project the total expenditure potential to decline marginally to $79.3 million 2004. This expenditure potential is based on shoppers goods expenditures at 7.6 percent of total household income.

Competitive Framework

Any shoppers goods stores on the subject site will have to compete for customers with nearby competition. People are more inclined to travel longer distances for shoppers goods, often in excess of 30 minutes. The McMillan site will compete with Downtown Washington, DC particularly the Union Station Mall, and suburban Maryland including Prince George's Plaza in Hyattsville, Beltway Plaza in Greenbelt and Wheaton Plaza Regional Center in Montgomery County. These established shoppers goods centers represent substantial competition for the subject site.

Sales Potential

Appendix Table A also presents the derivation of shoppers goods sales potential for the McMillan site. The table shows that, based on the substantial shoppers goods competition, we estimate that the store will be capable of capturing 10 percent of the resident shoppers goods expenditure potential in both the primary and secondary trade areas. This will result in a resident sales potential of $7.9 million in 2004.

Supportable Center Size and Composition

Appendix Table C presents the derivation of warranted gross leasable floor space for shoppers goods on the McMillan site. Based on the excellent accessibility of the site, we believe that the approximately 10 percent of the sites sales potential will be generated from customers resident outside the primary and secondary trade areas (inflow).

This will result in total supportable shoppers goods center size of approximately 50,000 square feet on the McMillan property.