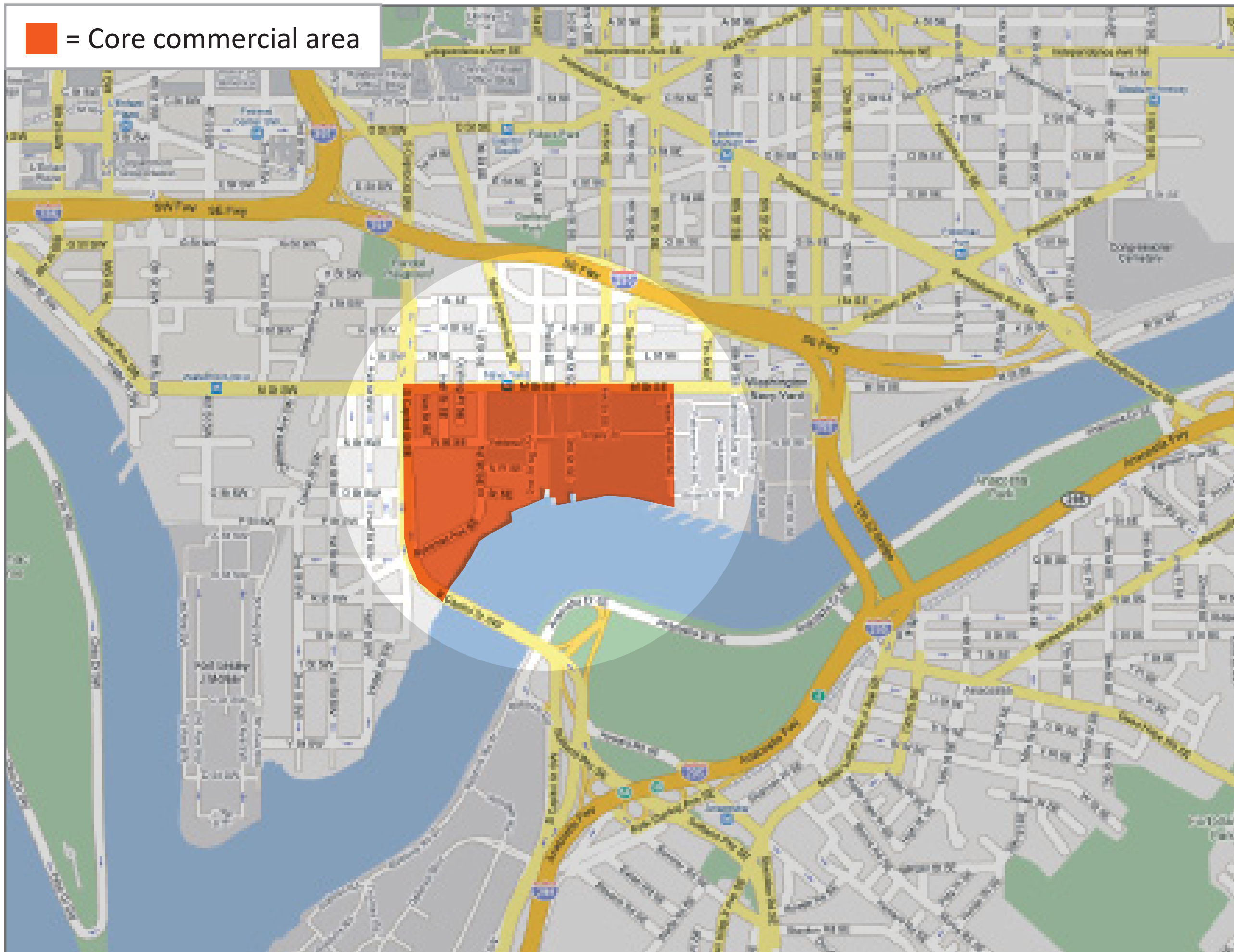
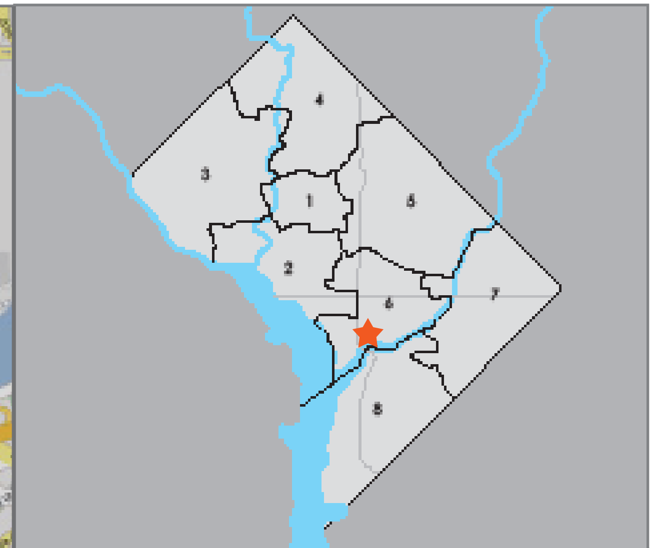
DC Retail Action Strategy

Capitol Riverfront

SWOT Analysis, Retail Demand Analysis, Strategy and Preliminary Planning Diagrams

Capitol Riverfront SWOT Analysis





Overview

This submarket is dynamically transitioning from a heavy industrial center into a major hub of mixed-use development. Renewed interest in this area, known as the Capitol Riverfront, reflects the unique opportunity for D.C. to reclaim its underutilized waterfront. Key anchors include the new Nationals Ballpark, a visitor and entertainment destination that forms a Baseball District, and the Navy Yard employment center. New office buildings, housing, retail, parks, and transit improvements are helping transform this area. The submarket has an excellent location south of Capitol Hill and the SE/SW Freeway, and has easy access to the Navy Yard Metro station.

Boundaries

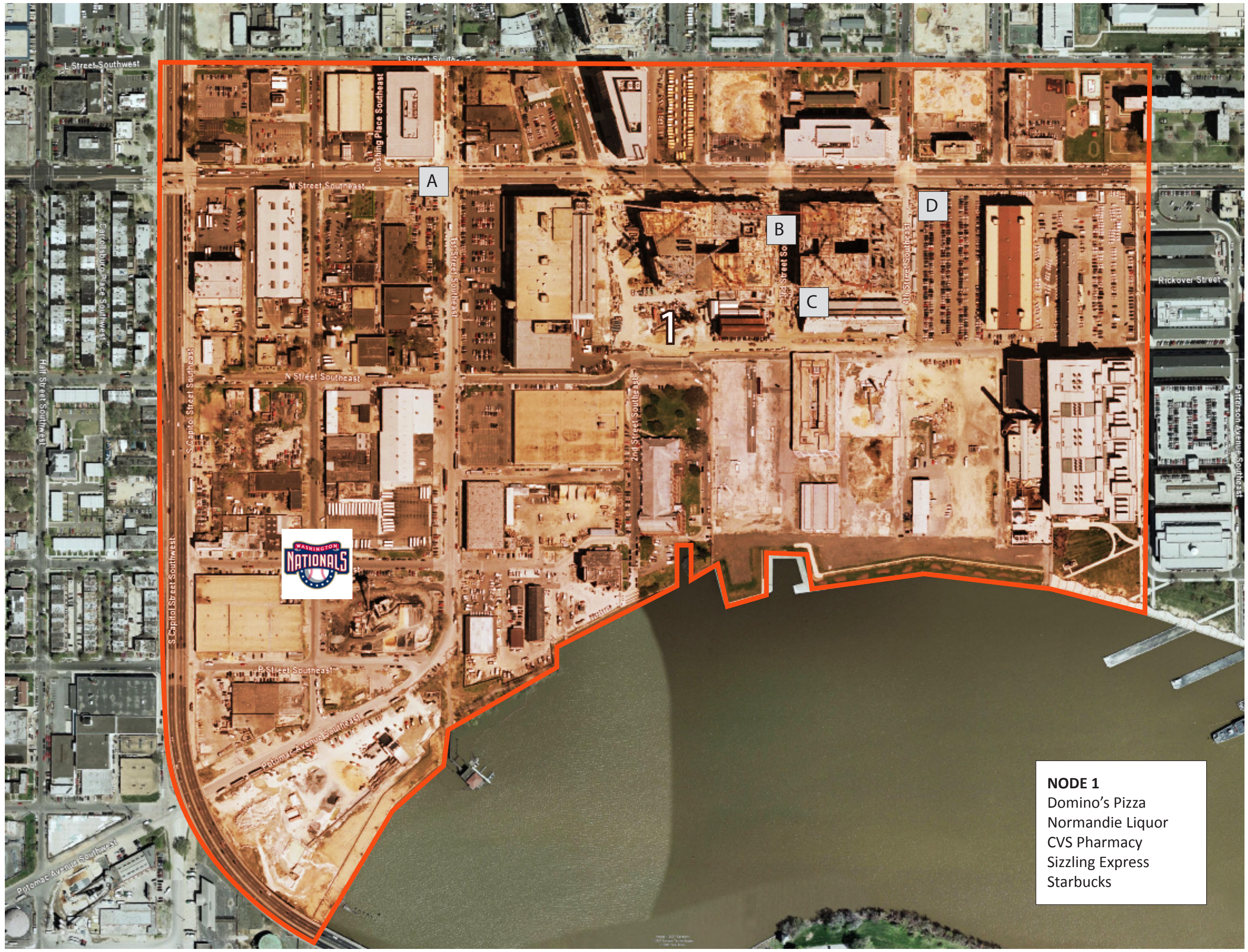
M Street SE from South Capitol Street east to Isaac Hull Avenue SE; south of M Street section to waterfront (approximately O Street SE, including baseball stadium)

Zoning

The submarket has a mix of zoning classifications. The northern side of M Street is a major employment and business center (high-bulk), while the area around the baseball stadium is mixed-use. The area occupied by the US Department of Transportation is government-owned land, as is the sprawling Navy Yard at the submarket's eastern edge. Land along the Anacostia River is zoned as a medium-density waterfront district. The large central area known as the Southeast Federal Center/The Yards has varied zoning: its outermost sections are mixed-use, its central area is medium-high and high-density residential, and it is a waterfront district by the river.

1 Capitol Riverfront

There are currently limited retail options in this area, except for some fast food/casual dining places that are targeted toward serving the daytime needs of office workers. However, unlike other submarkets that have limited options because of their existing urban fabric, Capitol Riverfront offers substantial opportunity for change. Every parcel in the submarket is either undergoing or slated to undergo major redevelopment, with more than half a million square feet of retail proposed for various projects. Development is radiating outwards from this core of momentum, especially north of M Street. Although this submarket can be described as one node, the complexity and size of this district makes it imperative that the submarket's various projects fit into a greater scheme. It will be important to establish M Street as the key multi-modal corridor, while offering diverse retail options along Half Street (as an entertainment gateway to the Ballpark) and The Yards (a 42-acre site that includes a riverfront park).



Note: Tenant list does not include all businesses located in the submarket.

Streets & Blocks

M Street is the submarket's primary road, and acts as a multi-modal corridor for cars, buses, and the Metro. Although it is auto-dominant, the streetscape is in good condition and it is not hostile to pedestrians. More ground-floor retail will help maintain a balance between cars and people. South Capitol Street is another defining road, but is not where retail efforts should be concentrated because of its overwhelming traffic and multi-grade lanes. N Street will become a major internal street; it should be redeveloped with enhancing the pedestrian experience as a priority. The river's edge will be similarly important. It should be designed with a strong pedestrian-only promenade that links the multiple waterfront properties together in order to create a more cohesive retail environment.

Intersections

Currently, the most significant intersection occurs at M Street and New Jersey Avenue, near the entrance to the Navy Yard Metro station. Like other intersections along M Street, it is marked by a change in paving material that helps define it as a pedestrian zone. On the other hand, intersections along South Capitol Street are auto-dominant and do not function well for pedestrians because they are overwhelmed by infrastructure. As construction continues, however, new major intersections will evolve. For example, M Street and Half Street will become a key intersection for stadium-goers (while South Capitol Street will remain auto-dominant). Similarly, as internal streets redevelop and the waterfront promenade forms, new pedestrian plazas will become community gathering spaces.

Buildings

The submarket is undergoing rapid transformation, with new buildings such as the 41,000-seat glass and concrete baseball stadium helping to shape its identity. Along M Street, new Class-A office highrises are continually going up in place of older buildings. The Washington Navy Yard and Southeast Federal Center area (which will become The Yards development) has 19th-century buildings that reflect the submarket's industrial past. Its historic structures will be rehabilitated to house new uses, which will add architectural uniqueness and authenticity to an otherwise new district.

Alleys & Service

Unlike other submarkets that rely on a system of narrow alleys to service neighborhood-serving shops, this submarket is defined almost entirely by new large-scale construction. These new buildings have large, well-defined spaces such as loading docks for service and loading.

Strengths

• Redevelopment is already well underway, with major investment in the area; projects in the pipeline propose: 465,000-785,000sf of retail/restaurant space, 350,000-1.6 million sf of office, 1.9-3.6 million sf of residential (1,570 to 2,980 units), and 7,000-8,000 parking spaces
• Large swaths of undeveloped waterfront land are a rarity in DC and represent prime redevelopment and revitalization opportunities
• The Nationals baseball stadium will be a super-regional draw and entertainment anchor, bringing tens of thousands of people to the area on days/nights when it is active
• Significant new office construction provides a steady daytime population and increases the demand for goods and services; the Department of Transportation headquarters anchors M Street's office population with 7,000 employees
• The submarket has an excellent location close to downtown, with easy access to the Southeast and Anacostia Freeways
• M Street is a multi-modal corridor for cars, buses, and the Metro; the submarket has easy access to the Navy Yard Metro station
• Historic Navy Yard structures are architecturally and historically interesting, and enhance the submarket's building stock
• The existing streetscape along M Street is in good condition; there has clearly been investment in brick paving, intersections, and globe lampposts

Weaknesses

• South Capitol Street is an auto-dominant corridor used to get in and out of the city; its traffic and multi-grade lanes make it unsuitable for retail and hostile to pedestrians
• There is little ground-floor retail throughout the submarket, especially along M Street, which has many large-scale offices; however, this will likely change as the area continues to develop
• There are several gaps along M Street with buildings in poor condition; however, these parcels are slated for redevelopment

Opportunities

• Create a truly dynamic waterfront offering in an area where waterfront assets have long been underutilized; designing a pedestrian-only promenade that links the various waterfront properties together will create a unique riverside retail experience
• Continue to develop M Street as the main multi-modal corridor for automobiles and public transportation
• Develop the area surrounding the baseball stadium so it can stand on its own as an authentic neighborhood outside the timeframe of ball games and other entertainment functions held there
• Transform the submarket into a retail and entertainment hub with a unique mix of retail (e.g., retail that is both national and local, specialty and convenience, and neighborhood and regional serving)
• Locate retail and other commercial uses in architecturally interesting buildings to preserve an important part of D.C.'s history; integrating new development into older structures will create a more authentic built environment

Threats

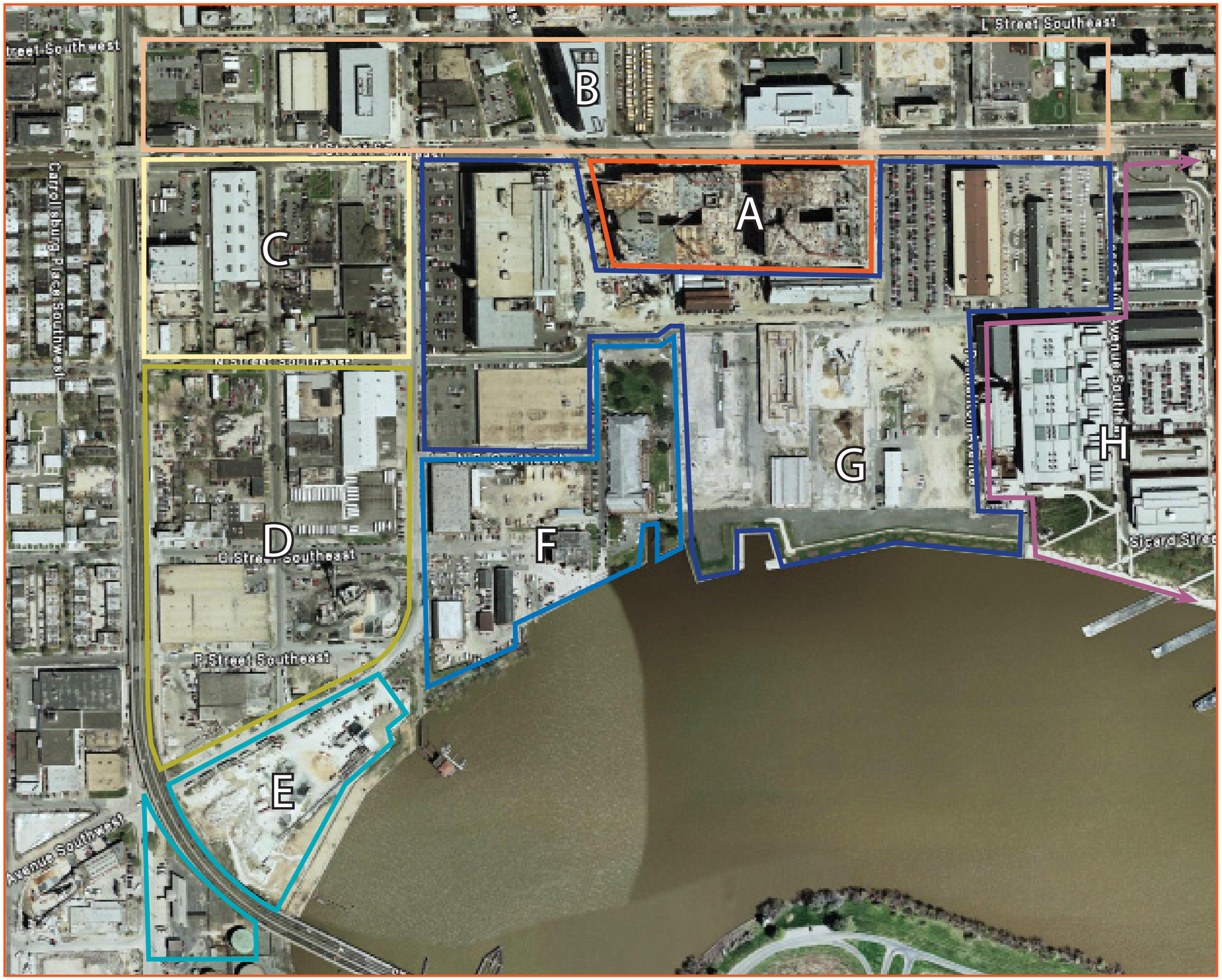
- Different developers have different visions and interests; without an overall strategy for a cohesive retail environment, building up large tracts of land risks a patchwork district (e.g., retail gaps and redundancy, no clear hierarchy of retail streets, etc)
- The creation of a new district in such a short period of time lends itself to a “cookie cutter” quality with only national tenants; a strong emphasis on including independents/local businesses could help make this development distinctly “DC”
- There is the possibility of oversaturation of certain uses, especially in terms of the amount of retail proposed; demand is not infinite and there are only a certain number of tenants with credit/concepts that fit the Baseball District vision
- Increased density may exacerbate the already-heavy traffic, particularly during baseball games

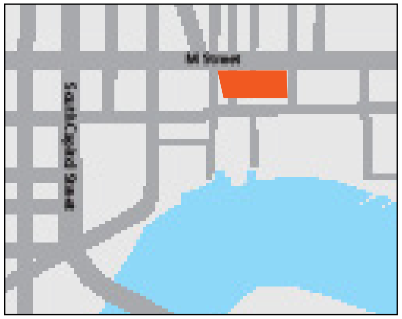
Capitol Riverfront Preliminary Planning Diagrams

Capitol Riverfront spans a very large region that can be divided into 8 distinct sub-nodes. Each of these areas is either undergoing or slated to undergo major redevelopment.

The sub-nodes are:

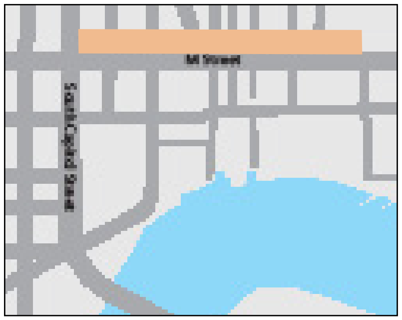
A - Dept of Transportation HQ
B - M Street Office Corridor
C - Between M St and Stadium
D - Nationals Park
E - Riverfront
F - Water and Sewer Authority (WASA)
G - The Yards/SE Federal Center
H - Washington Navy Yard





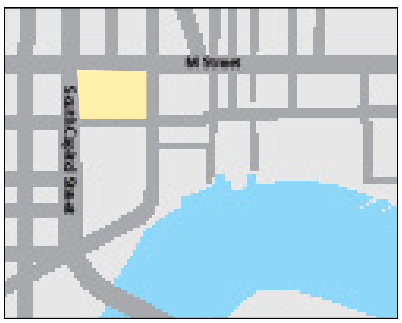
A - Dept of Transportation HQ

This recently opened headquarters for the US Department of Transportation acts as a people anchor for M Street with its 7,000 employees. The headquarters' 2 buildings are divided by 3rd Street, which acts as a major pedestrian plaza with views of the waterfront.



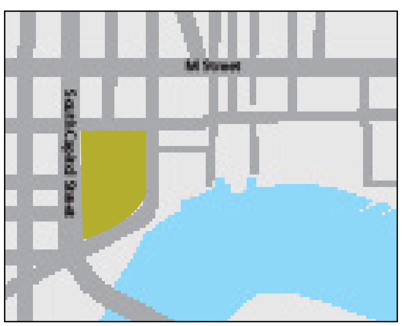
B - M Street Office Corridor

The north side of M Street is lined primarily with newly built office buildings, establishing this district's future as a major employment center. Ground-floor retail is currently not substantial, but is expected to increase as the area develops further.



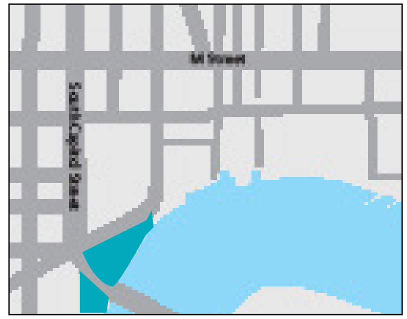
C - Between M St and Stadium

South of M Street and north of the stadium, a large parcel is prime for redevelopment. This area is vital to the success of the district. It has potential to create an authentic environment that functions as a real neighborhood outside of baseball games.



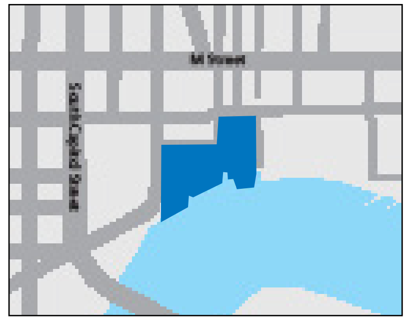
D - Nationals Park

This 41,000-seat baseball stadium is a super-regional anchor for the district. The stadium has been a major catalyst for the area's redevelopment, including the renovation of the Navy Yard Metro station to accommodate up to 15,000 passengers an hour on game days.



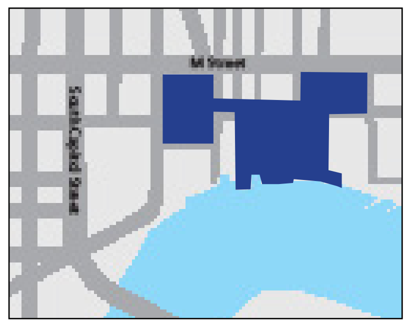
E - Riverfront

These 2 parcels at the foot of the South Capitol St bridge are critical riverfront properties that can engage the stadium with a waterfront promenade. The parcel east of the South Capitol Street bridge is slated to hold a 4-building mixed-use project.



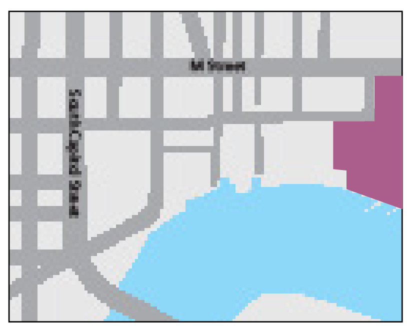
F - Water and Sewer Authority

This waterfront parcel is home to the DC Water and Sewer Authority (WASA). It is prime for redevelopment, although its historic Main Pumping Station should be preserved. Efforts here should focus on creating a memorable pedestrian experience by the river's edge.



G - The Yards/SE Federal Center

The site of "The Yards" development, this key parcel will hold 2,800 residential units, 1.8 million sf of office space, up to 400,000 sf of retail/dining space, and a waterfront promenade. This parcel is critical for both the waterfront and the neighborhood.



H - Washington Navy Yard

The Washington Navy Yard is a 19th-century establishment whose historic buildings reflect the area's industrial past. Its southern half is a key part of the potential riverfront development, and should be linked to nearby areas via a waterfront promenade.

Capitol Riverfront Retail Demand Analysis

The retail submarket is located Capitol Riverfront from South Capitol Street east to Issac Hull Ave SE; south of M Street section to waterfront

Key Elements

- Trade areas assess residents and other potential customers that could be drawn to the site
- The primary trade area encompasses the block groups within a ¼ mile of the retail submarket; the secondary trade area includes the block groups within a ½ mile of the retail submarket (reasonable walking distances for pedestrian shopping)
- Primary trade area residents are expected to be frequent customers, with a focus on those living closest to the site; secondary trade area residents are expected to be consistent, but not frequent customers
- Potential customers who are not primary or secondary trade area residents are accounted for by an "inflow" factor; this is a percentage applied to potential expenditures at the site

Population and Household Growth

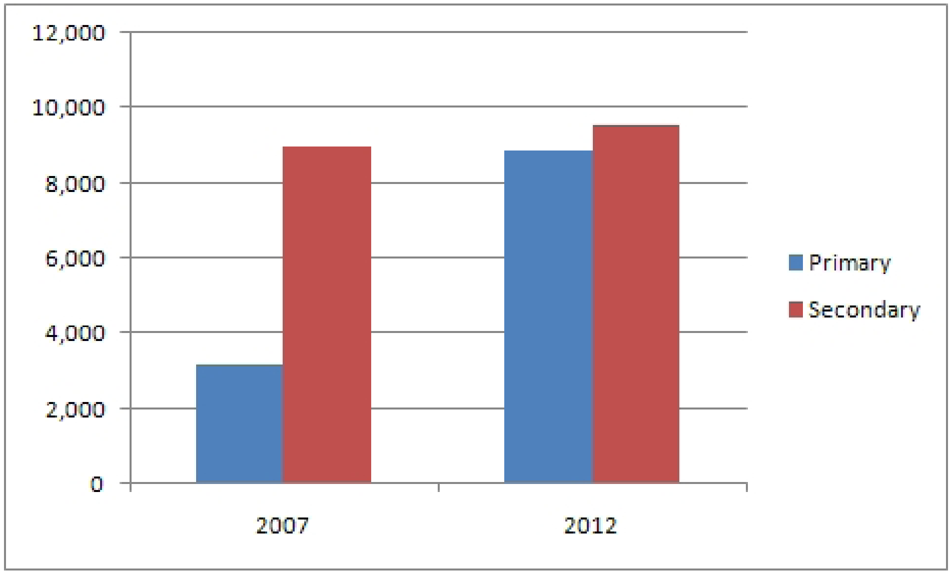
- New residential projects will add at least 2,704 new households and make a significant impact on retail demand in the Capitol Riverfront trade area

- New residential projects may add 2,835 households or approximately 6,236 new residents (based on average household size in each trade area) in addition to projections by ESRI

- ERA accounted for this addition in the 2012 figures for population and households

- Total population in the trade area is projected to increase from 12,158 in 2007 to 18,394 in 2012; an average annual growth rate of 8.6 percent

Trade Area Population Growth, 2007 and 2012



Trade Area Household Growth, 2007 and 2012

	Estimated 2007	Projected 2012
Primary	1,390	3,861
Secondary	5,111	5,475
Total	6,501	9,336

Source: ESRI Business Analyst; ERA 2007

Capitol Riverfront Key Demographics- Trade Area Profile Summary

- The Capitol Riverfront trade area is comprised of mostly lower-income households in the primary trade area and upper-middle income households in the secondary trade area

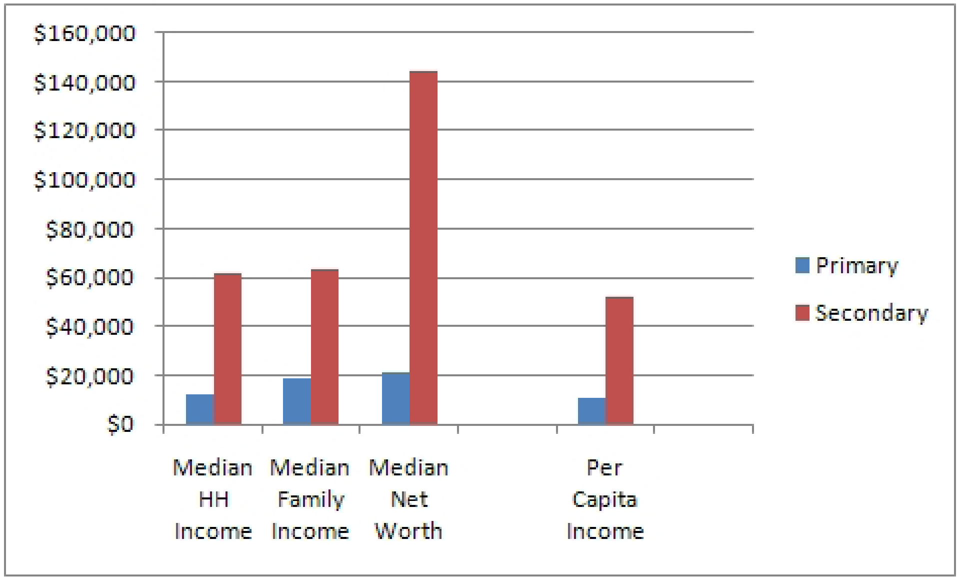
- The median household income in the primary trade area is $12,201 and is $61,934 in the secondary trade area

- Per Capita income in the primary trade area is $10,204 and is $27,916 in the secondary trade area, both well below the national average at $51,940

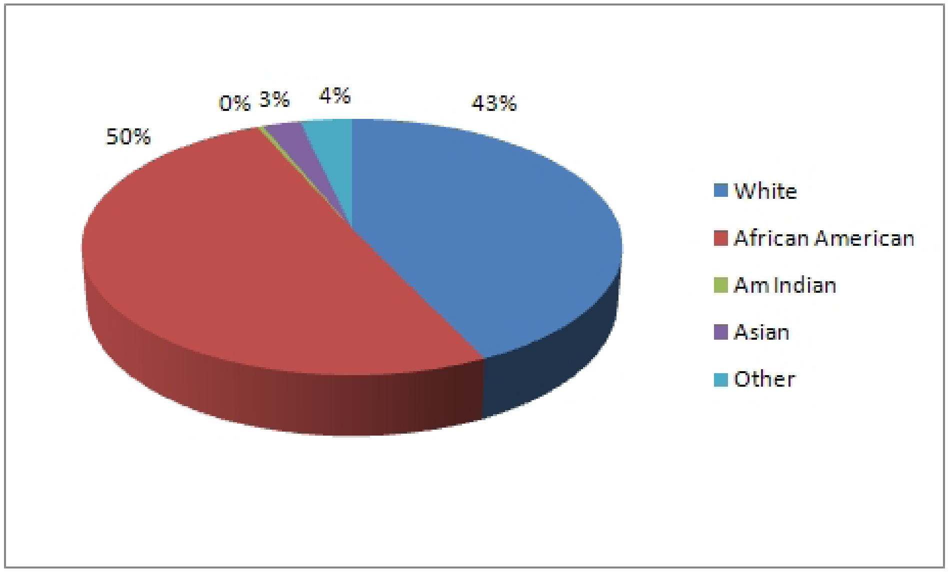
- The trade area is primarily African-American (50%) and White (43%)*

*Typically, "Other" includes mixed racial populations or self-identified as such. The group may include Latinos or Hispanics who do not identify with another race. Latino and Hispanic are ethnic groups, not racial, but may include people of several racial groups

Income Statistics, 2007



Racial and Ethnic Groups, 2007



Source: ESRI Business Analyst; ERA 2007

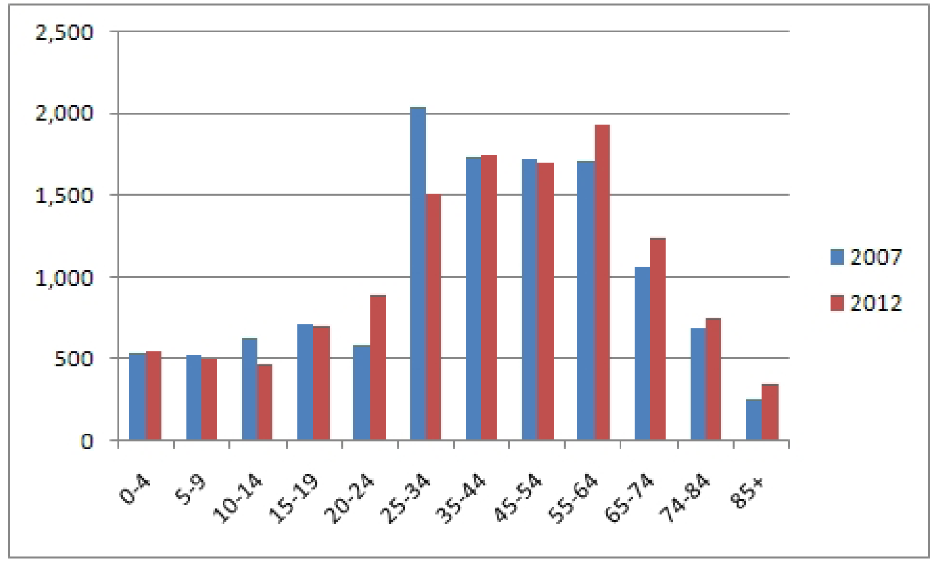
The Capitol Riverfront trade area is expected to see the greatest increase in population in those aged 20 to 24 and 55 and older over the next five years

- The 20 through 24 age cohort is expected to see the most significant increase in population over the next five years

- Age cohorts 25 to 34 will see a significant decline in population over the next five years, a negative indicator for residential demand, as these cohorts typically begin forming households

- Growth in the 55 to 64 cohort will increase demand for goods and services associated w/ "Empty Nesters", including personal care (pharmacy and foodservice, for example)

Trade Area Population by Age, 2007 and 2012



Source: ESRI Business Analyst; ERA 2007

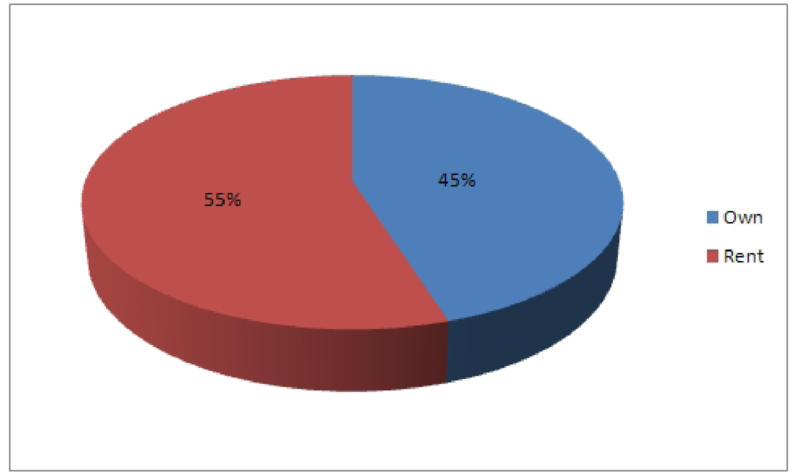
Capitol Riverfront Key Demographics- Trade Area Profile Summary

- Homeownership patterns in the trade area are about evenly split, with 55% of households renting their homes and 45% of households owning their residences. A significant number of homeowners is generally considered a positive indicator of neighborhood stability. Home ownership rates also impact the median household net worth

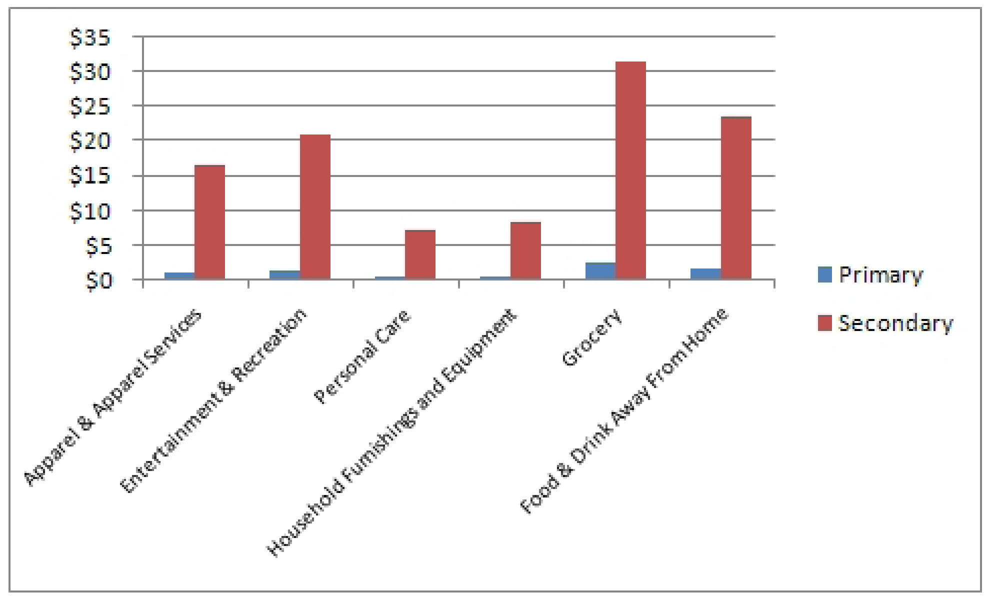
- In 2007 trade area residents spent a total of $116.7 million on products and services in the categories represented on the graph. This is total spending everywhere, not just in the trade area

- Household expenditures in the trade area show lower amounts being spent for personal care and household furnishings. The stronger performing categories are grocery, entertainment and food & drink away from home. As previously noted, projected age cohort changes will continue to support entertainment and foodservice businesses, but personal care may increase as the area includes more "empty nest" households

Home Ownership, 2007



Household Expenditures (In Millions) by Category, 2007



Source: ESRI Business Analyst; ERA 2007

Development Pipeline of Under Construction and Planned Projects

Pipeline Projects

- The high level of development activity in and around the retail submarket will create strong opportunities to capture retail expenditures from residents and visitors to the new ballpark

- There are currently 9 projects under construction in the Capitol Riverfront trade area. These projects will deliver:

    - 109,000 square feet of retail space

    - 1,737 residential units

    - 530,000 square feet of office space

- By 2012, planned projects in the Capitol Riverfront trade area may deliver:

    - 16,216 square feet of retail space

    - 967 residential units

Source: ESRI Business Analyst; ERA 2007

Overview of Market Demand Analysis

The purpose of the market analysis is to provide quantitative data that, combined with qualitative analysis in the Strengths-Weaknesses-Opportunities-Threats (SWOT) section, inform the retail development strategy for the submarket and provide a tool to DC government, private developers, retailers, and community organizations for developing retail business opportunities.

Developing Estimates of Supportable Square Footage

A key component of the quantitative analysis is the determination of the quantity of retail space supportable in each submarket. To calculate this, retail demand or spending within the trade area along with an estimate of the spending that the submarket could capture are measured. Various factors are taken into account in developing submarket capture rates, such as the quality of existing retail offerings and trade area competition. Retail spending potential for each major retail category (Convenience Retail, Specialty Retail and Food & Beverage/Restaurants other Food Service) is divided by the retail industry standard for sales-per-square foot (sometimes called retail sales productivity) to arrive at an estimate of retail square footage that the submarket can support. Submarket demand is compared to supply by subtracting the existing retail inventory to determine the net supportable square feet for retail space.

For potential future development in 2012, pipeline residential and commercial projects, and associated increases in trade area expenditures, are factored into future demand. On the supply side, the pipeline of "under construction" and "planned" retail projects is subtracted from the estimate of supportable retail space, as it is assumed that the new space will absorb an equivalent amount of space at the threshold productivity levels.

Generally speaking, retail market demand analysis should not be considered conclusive, as it combines "typical" and "industry average" performance measures with professional judgment based on local conditions and knowledge of the market and retail industry. There are several factors that will determine the success or failure of any individual retail business; that is why the industry is constantly changing. This analysis is intended to guide the Retail Action Strategy to opportunities to recruit potential successful retail categories based on estimated demand potential.

*Estimated retail spending potential is based on household spending patterns, household income and household composition as reported by the Consumer Expenditure Survey prepared by the US Census for the US Bureau of labor Statistics. For retail sales productivity rates, ERA used a range of retail industry-based sales per square foot estimates based on the company's experience in urban commercial districts similar to each individual submarket, as shopping center industry standards do not always reflect comparable performance in either market orientation or financial structure by locally-owned businesses or by smaller/older commercial buildings.

Retail Demand: Primary Trade Area Supportable Retail Space

Retailers measure business success by comparing their sales per square foot or productivity against their costs and revenue objectives as well as reported retail industry standards for comparable types of stores. The amount retailers can afford to spend for rent is also determined by annual sales (both the total amount and sales per square foot per year). Retail rents usually range between 8 percent and 12 percent of total annual sales. This industry standard is a benchmark by which retail performance can be determined.

Local retailers whose sales fall below these industry standards may be considered to be underperforming; the reasons for underperformance may be a result of the size of the market, stronger competitors with better merchandise, merchandising, and/or better pricing, or undercapitalization. Underperforming retailers may cause the analysis of supportable square footage to be underestimated. The higher performing operators can capture market share from existing retailers as well as new customers not currently patronizing a commercial district. When considering a commercial location or district such as the submarkets included in this analysis, retailers often review the levels of rent achieved by property owners as an indication of the level of sales that other retailers are generating.

Lower average rent levels also influence the amount that property owners can afford to invest in property improvements to retain existing tenants or recruit new ones. If property owners are unable to offer tenant improvements because rents are too low, the retailers are then required to increase the amount they must spend to prepare a building to become a store, café, or consumer service business. The greater the amount the retailer is required to invest in space improvements, the greater the financial risk, resulting in additional financial pressures during the early years while the retailer is becoming established and building a customer base. Districts presenting a higher risk of failure have difficulty attracting well managed, well capitalized businesses.

This relationship establishes the connection between the total sales that retailers can achieve, the amount they can afford to pay in rent, and whether the property owners will be willing (or able) to invest in major needed building upgrades (electrical systems, HVAC, or tenant improvements) to attract or retain retail tenants.

Trade Area Resident Spending

• Retail opportunities are measured using trade area retail expenditures, which describe consumer spending patterns

• Expenditures typically cover resident spending, but have been adjusted to include worker, visitor, and other spending, as appropriate

• Key categories include:

  • Apparel and Apparel Services

  • Entertainment and Recreation

  • Personal Care

  • Household Furnishing and Equipment

  • Grocery

  • Food and Drink Away from Home

• Entertainment and Recreation includes expenditures such as fees and admissions, TV/video/sound equipment, pets, toys, recreational vehicles, sports equipment, photo accessories, and reading

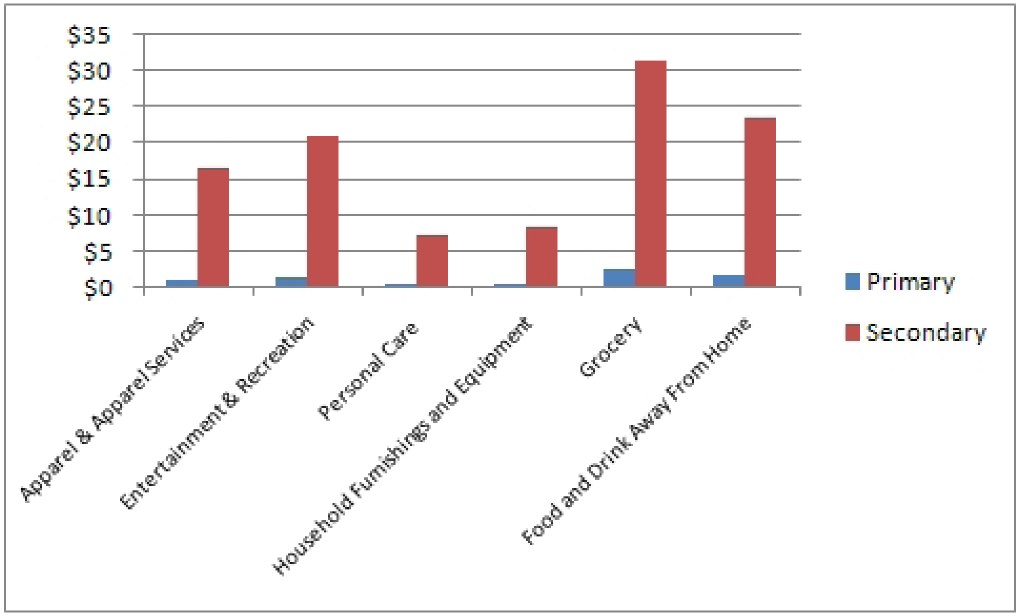
• Personal Care includes stores such as, drugstores (excluding prescription drugs) cosmetic stores, and services (nail salons, hair salons, shoe repair, etc.)

• Grocery (food and drink for consumption at home) absorbs the most expenditures for the households in the trade area

Source: ESRI Business Analyst; ERA 2007

Trade Area Expenditures By Category (In Millions), 2007

$116.7 Million Total



Capture rates are applied to total trade area expenditures in order to estimate potential expenditures within the retail submarket

A capture rate is calculated as a percentage of sales expected from households or inflow shoppers in the entire trade area.

The rate is developed by examining the trade area's existing retail offerings, quality of retailers, the potential for increased sales with improved retail operations, size of the trade area and a professional judgment considering nearby competition and other available retail purchasing opportunities for customers.

The analysis utilizes capture rates specific to the trade area to calculate likely on-site spending within the retail submarket. For example:

- A 10% capture rate = $10 of every $100 spent will occur in the retail submarket

- Note that 100% capture rate is not possible, as the rate reflects all retail purchasing opportunities available to the shoppers in the trade area

- The capture rate is generally a major determinate of a retail submarket's viability

Capitol Riverfront Submarket Capture Rates By Category

	Primary	Secondary	Inflow
Apparel & Apparel Services	20%	15%	5%
Entertainment & Recreation	35%	20%	10%
Personal Care	60%	40%	10%
Household Furnishings and Equipment	20%	15%	5%
Grocery	60%	40%	15%
Food and Drink Away From Home	50%	35%	40%

Source: ESRI Business Analyst; Economics Research Associates, 2007

Source: ESRI Business Analyst; ERA 2007

Estimated Captured Spending within the Retail Market

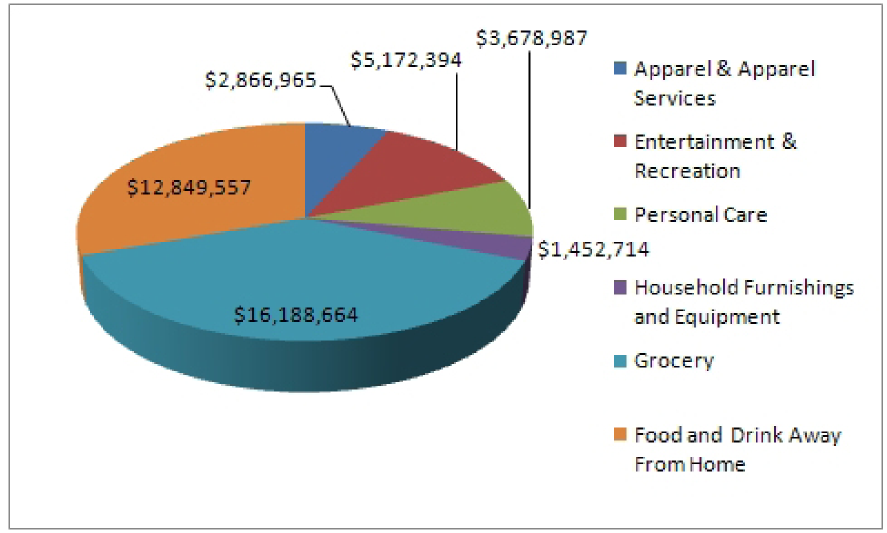
- Captured spending in the Capitol Riverfront retail trade area was estimated to be $42.2 million in 2007 compared to total trade area spending of $116.7 million in the same year

- Captured spending in the Capitol Riverfront retail trade is expected to be $53.4 million in 2012 compared to total trade area spending of $141.4 million in the same year

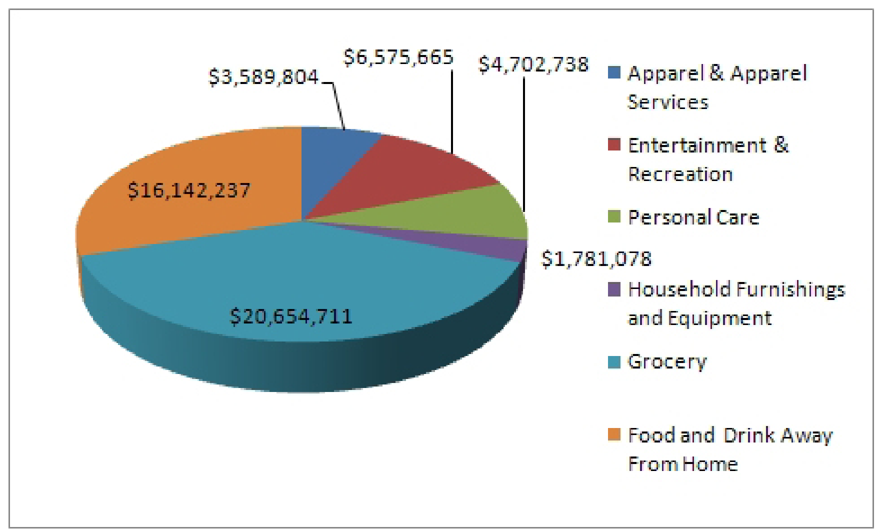
- ERA estimates by 2012 that Grocery spending will account for more than $20.6 million annually and Food and Drink (away from home) will account for more than $16.1 million annually

- Captured spending in the retail trade area is expected to increase by more than $11 million between 2007 and 2012, due mostly to significant changes in population and income levels

Estimated Captured Retail Trade Area Spending, 2007
$42.2 Million



Estimated Captured Retail Trade Area Spending, 2012
$53.4 Million



Source: ESRI Business Analyst; ERA 2007

Productivity and Typical Store Size

- A calculation of store productivity is typically based on optimal performance of quality retailers, not actual operators

- However the lower quality of the retail space available in this retail submarket requires that a lower than "optimal" productivity rate must be used to adjust the supportable square footage calculation

- The square footage of retail type does not indicate number of stores since stores sizes vary

"Typical" stores sizes might be:

  - Apparel 3,500 SF
  - Accessories 2,000 – 10,000 SF
  - Personal Care 2,000 – 10,000 SF
  - Household Furnishings 3,500 – 10,000 SF
  - Grocery Stores- 30,000 to 65,000
  - Restaurants 3,000 – 6,000+ SF
  - Quick Service food 1,200 – 3,500 SF

- The retail submarket offerings could be anchored by a supermarket, a collection of restaurants and neighborhood-focused goods and services

Source: ESRI Business Analyst; ERA 2007

Capitol Riverfront Submarket Comparable Productivity

- The best way to estimate a site's productivity is to assess annuals sales per square foot for comparable projects

- The type of retail often impacts the sales per square foot (i.e. jewelry versus furniture)

	Sales per Square Feet			
Category		**Low**		**High**
Apparel & Apparel Services	$	325	$	400
Entertainment & Recreation	$	350	$	450
Personal Care	$	350	$	500
Household Furnishings and Equipment	$	350	$	500
Grocery	$	450	$	550
Food and Drink Away From Home	$	400	$	600

1/ International Council of Shopping Centers, Dollars & Cents of Shopping Centers 2006
Source: Economics Research Associates, 2007

While the productivity rates used for this submarket were based on national averages as reported by the International Council of Shopping Centers (ICSC), ERA used the lower national rates to reflect space limitations and likely performance in the submarket. The rate still reflects the minimum productivity that would be needed for a quality retail operation return on investment.

2007 Net Supportable Square Feet

- Based on the current and projected level of households in the trade area and their spending patterns, the Capitol Riverfront submarket can support between 95,800 and 127,700 square feet of retail in 2007

- The existing retail inventory totals 39,273 square feet within the retail submarket

- The retail submarket has a net supportable square foot range between 56,527 and 88,427 in 2007

- Based on typical store size and spending patterns, the site can support a grocery store, multiple restaurants, and one or more entertainment/recreation stores such as a gym or book store

- While there is evidence suggesting support for a couple of apparel stores, such businesses perform best in a larger cluster

Estimated Net Supportable Square Feet 2007

Area	Low Range	Site Supportable	High Range
Apparel & Apparel Services	7,900	8,800	10,600
Entertainment & Recreation	13,300	14,800	17,800
Personal Care	9,500	10,500	12,600
Household Furnishings and Equipment	3,800	4,200	5,000
Grocery	32,400	36,000	43,200
Food and Drink Away From Home	28,900	32,100	38,500
Subtotal 2007 Supportable	**95,800**	**106,400**	**127,700**
Less Adjusted Existing Inventory 1/	(39,273)	(39,273)	(39,273)
Total 2007 Net Supportable	**56,527**	**67,127**	**88,427**

1/ Includes adjusted inventory
Source: ESRI Business Analyst; Economics Research Associates, 2007

Source: ESRI Business Analyst; ERA 2007

2012 Net Supportable Square Feet

- Based on estimated trade area expenditures and capture rates, the Capitol Riverfront submarket can support between 121,200 and 161,600 square feet of retail in 2012

- There is approximately 125,216 square feet of new retail planned for the trade area

- The existing retail square footage and planned new projects are subtracted from the subtotal to arrive at net supportable square footage for 2012

- Due to the amount of existing and pipeline retail square footage in the Anacostia trade area, the retail submarket has a negative supportable square foot range between (287,739) and (250,989) in 2012

Estimated Supportable Square Feet 2012

Area	Low Range	Site Supportable	High Range
Apparel & Apparel Services	9,900	11,000	13,200
Entertainment & Recreation	16,900	18,800	22,600
Personal Care	12,100	13,400	16,100
Household Furnishings and Equipment	4,600	5,100	6,100
Grocery	41,300	45,900	55,100
Food and Drink Away From Home	36,400	40,400	48,500
Subtotal 2012 Supportable	**121,200**	**134,600**	**161,600**
Less Existing Retail 1/	(39,273)	(39,273)	(39,273)
Less Planned/Under Construction 2/	(125,216)	(125,216)	(125,216)
Total 2012 Supportable	**(43,289)**	**(29,889)**	**(2,889)**

1/ Includes adjusted inventory

2/ Includes retail at Half Street, The Admiral, Federal Gateway, 100 M St., Jefferson's, Velocity and Onyx

Source: ESRI Business Analyst; Economics Research Associates, 2007

Source: ESRI Business Analyst; ERA 2007

What Does Negative Supportable Square Feet Mean?

- Negative supportable square feet indicates that, at a certain point in time, there may be more retail space than the current market expenditure potential can support

- Many existing retailers in Washington DC

  (a) operate in lower priced spaces that can be considered functionally inefficient/obsolete (too small, too shallow, in poor condition, etc.) or

  (b) are not well capitalized to compete in an improved environment. ERA has 'discounted' the square footage of these retailers in many areas to reflect the qualitative/competitive differences in operating capacity

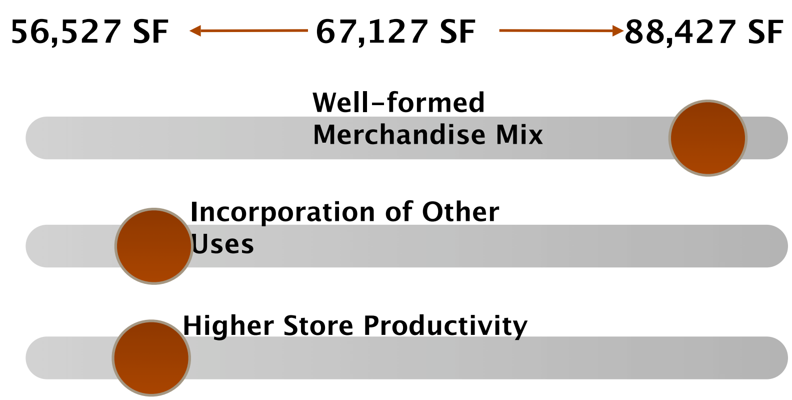
- Markets evolve and shift as the amount and type of available retail changes; what today may appear to be oversupply can attract new spenders from outside the immediate trade area and become positive over time (such as Adams-Morgan or downtown Washington near the Verizon Center). A 'negative' supportable square footage estimate in 2012 does not mean an area is permanently oversupplied

- Retail submarkets may have a retail store mix imbalance and unfulfilled retail potential. These areas may have too much of one kind of retail and not enough of other types. An improved retail mix could increase demand and reduce the perceived oversupply of retail space.

- The retail submarket strategies will include programs and incentives to assist local retailers operating in growth/expanding markets where substantial new retail is being introduced

Multiple factors will ultimately affect the supportable square feet and success of the retail sub-market's offerings over the long-term

Factors in 2007 Affecting Store Supportable Square Feet

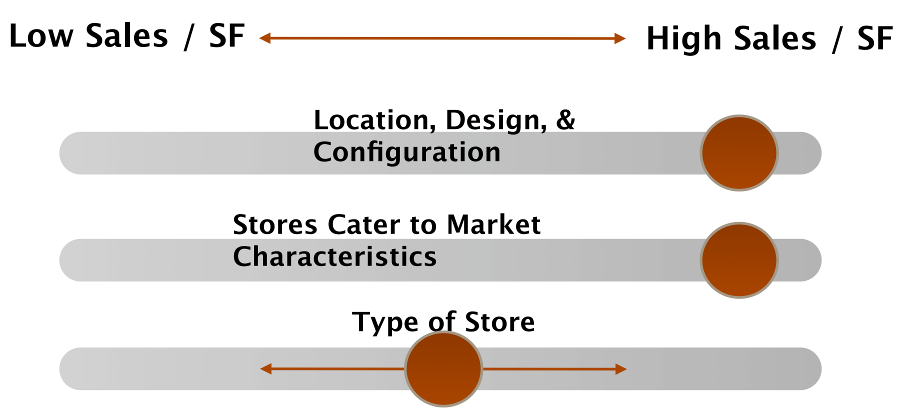


The success and appeal of a retail district is directly linked to its merchandise mix and its function as a destination

Incorporating other uses and programs may limit retail space, but complement overall project

The trade areas are capable of spending a certain amount. If more $$ are spent in one store less $$ will be spent elsewhere

Factors Affecting Store Productivity



A store's size, placement within the district, interior and storefront design are part of total appeal for customers

Price-points and merchandise should accurately reflect the demographics and lifestyle characteristics of the customers

Merchandise quality/price positioning/merchandising/mark-up relative to cost of goods, as well as store size and other operating factors, influence a retailers' profitability (Sales / SF)

Detailed captured retail spending on site by category and market

2007 Potential Captured Spending on Site

Retail Categories By Market		Potential Spending Captured On-Site	Expenditure Distribution by Category
Primary			
Apparel & Apparel Services	$	246,558	6.8%
Entertainment & Recreation	$	495,272	13.7%
Personal Care	$	366,068	10.1%
Household Furnishings and Equipment	$	108,667	3.0%
Grocery	$	1,520,824	42.0%
Food and Drink Away From Home	$	884,982	24.4%
Subtotal	**$**	**3,622,371**	**100.0%**
Secondary			
Apparel & Apparel Services	$	2,483,885	7.8%
Entertainment & Recreation	$	4,206,905	13.2%
Personal Care	$	2,978,466	9.4%
Household Furnishings and Equipment	$	1,274,870	4.0%
Grocery	$	12,556,275	39.5%
Food and Drink Away From Home	$	8,293,272	26.1%
Subtotal	**$**	**31,793,673**	**100.0%**
Inflow			
Apparel & Apparel Services	$	136,522	2.0%
Entertainment & Recreation	$	470,218	6.9%
Personal Care	$	334,453	4.9%
Household Furnishings and Equipment	$	69,177	1.0%
Grocery	$	2,111,565	31.1%
Food and Drink Away From Home	$	3,671,302	54.0%
Subtotal	**$**	**6,793,237**	**100.0%**
All Markets			
Apparel & Apparel Services	$	2,866,965	6.8%
Entertainment & Recreation	$	5,172,394	12.3%
Personal Care	$	3,678,987	8.7%
Household Furnishings and Equipment	$	1,452,714	3.4%
Grocery	$	16,188,664	38.4%
Food and Drink Away From Home	$	12,849,557	30.4%
Total	**$**	**42,209,282**	**100.0%**

2012 Potential Captured Spending on Site

Retail Categories By Market		Potential Spending Captured On-Site	Expenditure Distribution by Category
Primary			
Apparel & Apparel Services	$	703,226	7.0%
Entertainment & Recreation	$	1,378,461	13.6%
Personal Care	$	1,018,855	10.1%
Household Furnishings and Equipment	$	302,448	3.0%
Grocery	$	4,232,822	41.9%
Food and Drink Away From Home	$	2,463,121	24.4%
Subtotal	**$**	**10,098,933**	**100.0%**
Secondary			
Apparel & Apparel Services	$	2,715,635	7.8%
Entertainment & Recreation	$	4,599,416	13.2%
Personal Care	$	3,256,362	9.4%
Household Furnishings and Equipment	$	1,393,817	4.0%
Grocery	$	13,727,797	39.5%
Food and Drink Away From Home	$	9,067,048	26.1%
Subtotal	**$**	**34,760,075**	**100.0%**
Inflow			
Apparel & Apparel Services	$	170,943	2.0%
Entertainment & Recreation	$	597,788	7.0%
Personal Care	$	427,522	5.0%
Household Furnishings and Equipment	$	84,813	1.0%
Grocery	$	2,694,093	31.4%
Food and Drink Away From Home	$	4,612,068	53.7%
Subtotal	**$**	**8,587,226**	**100.0%**
All Markets			
Apparel & Apparel Services	$	3,589,804	6.7%
Entertainment & Recreation	$	6,575,665	12.3%
Personal Care	$	4,702,738	8.8%
Household Furnishings and Equipment	$	1,781,078	3.3%
Grocery	$	20,654,711	38.6%
Food and Drink Away From Home	$	16,142,237	30.2%
Total	**$**	**53,446,234**	**100.0%**

Capitol Riverfront Strategy

Capitol Riverfront District

Introduction

The Capitol Riverfront District is one of the fastest transitioning retail areas in the District of Columbia, and is bounded by South Capitol Street, M Street SE, Issac Hull Avenue SE and the Anacostia Riverfront. Washington's waterfront has traditionally been disconnected from the city, but the emergence of this area as a high-density, mixed-use redevelopment district will make the Capitol Riverfront District one of the strongest opportunities for new retail development in the region.

Population projections estimate that 2,471 households will be added in the next five years in the primary trade area and 364 additional households in the secondary trade area for a total of over 9,000 households, or 18,000 persons, The development pipeline for the primary and secondary trade areas include up to 1.6 million square feet of office and almost 3,000 residential units. The development pipeline in the primary and secondary trade areas includes nearly 5.5 million square feet of office, over 4,100 residential units and 725 hotel rooms, as well as new streets, pathways, bikeways, and 15 acres of new parks.

Major developments already completed include the U.S> Department of Transportation's (USDOT) Headquarters with 7,000 new employees, expansion of the Washington Navy Yard with over 10,000 personnel, and the Washington Nationals' new 41,000-seat stadium. Additional office, residential, hotel and park service space development that are recently completed or nearing completion around Nationals Park, on the Yards Southeast Federal Center site, and north of M Street will add thousands of additional residents, workers and visitors to the area. This growth offers tremendous opportunities for a wide variety of retail development in the Capitol Riverfront submarket.

Comprised of eight subareas (DOT HQ; the M Street office corridor; the Half Street connection to Nationals Park; the Park itself; the riverfront adjacent to the Frederick Douglass Bridge including he approved Florida Rock development; the Washington Area Sewer Authority/WASA; the Yards Southeast Federal Center; and the Washington Navy Yard redevelopment), the scale of the district suggests that smaller retail nodes along the corridor should be integrated into an overall merchandising strategy. The average resident incomes in the submarket prior to 2007 was among the lowest in the District at approximately $12,000 per year; however, more recent projections indicate that this is changing dramatically, due to new, higher income households moving into the project area's new housing developments. Lower income households have less disposable income, but still require basic retail, convenience goods and services.

As this area continues to evolve, different market segments will support retail across multiple categories: neighborhood serving for a critical mass of existing and new residents; office serving for the area's existing and expected new employees; destination entertainment retail offerings that will serve the Nationals' 81 games per year and other stadium events; and the creation of an entertainment and dining district by the waterfront. The capacity of the Navy Yard Metro station has already been expanded to accommodate all of the potential users. Retail pipeline totals varying from 465,000 up to 785,000 square feet have been proposed for the Capitol Riverfront area, with ground-floor retail distributed across major roadways such as M Street and internally focused roads such as N/Tingey Street; Half Street SE, and along the riverfront.

Merchandising Concepts

For this submarket, the entire area is a single node. Within this node eight sections have been identified which relate to particular land uses, consumer spending characteristics and development timetables for new and approved land uses. The merchandising focus addresses recently opened and under construction projects such as US DOT headquarters, The Yards SE Federal Center, a host of office, residential, and hotel projects, and National Park. Future developments will build on the momentum to infill the other sections beyond the five-year study period.

The retail theme will develop and evolve over long term as the shape of the area fully develops. Based on projected residential numbers, there is slightly too much retail space planned for the near-term. The challenge in this submarket is to coordinate the retail with employment and residential uses require it, as well as take advantage of pent-up demand for additional retail from surrounding communities such as Capitol Hill and the Southwest, from existing workers, and commuters using the heavily traveled M Street and South Capitol Street corridors. Current planning efforts focus on Half Street, N/Tingey Street, M Street, and the riverfront.

The market and the momentum for retail development in the Capitol Riverfront District are among the strongest of all the study districts due to the significant existing, under construction and planned office and residential development in the area. This district has the opportunity to draw and sustain a significant retail concentration serving in-district office workers, area residents, commuters and visitors including both business-oriented visitors and entertainment/recreation visitors to the Nationals Ballpark, the new waterfront parks and promenade and the Half Street entertainment cluster. While the development momentum will likely preclude the need for financial assistance for retailers, it is recommended that a coordinated retail strategy be supported, and an organized leasing program be established to avoid unnecessary duplication and a cohesive and successful retail mix. This should also encourage and/or incentivize the inclusion of locally owned retail businesses.

Half Street: Half Street links the Navy Yard Metro Metro station and Nationals Park. For the new development along this street, some of which is already under construction, the retail focus will be on entertainment and food. Attempts should be made to attract a blend of local and national retailers, including uniquely Washington area restaurants or pubs evoking a nostalgic theme such as a Capitol City Brewery, a revived Crisfield's, Duke's or even a Hot Shoppe (sized at approximately 1,800 to 5,000 square feet). Proximity to Nationals Park could draw a national flagship sporting goods store similar to a Nike Specialty store (approximately 4,000 to 5,000 square feet) or an Adidas Store (about 1,800 to 2,200 square feet), similar to the locations on Wisconsin Avenue in Georgetown.

M Street: The M Street Office Corridor connects South Capitol Street east to the Navy Yard. It is heavily utilized for both local and commuter traffic, and serves as the east-west spine through this district. The focus is to provide in-fill retail as predominantly office (with some residential) uses are developed, although retail opportunities are constrained by existing development. Larger format retail is not anticipated on M Street (there has been some discussion about large format retail in the South Capitol TDR Receiving Area north of M Street, but development to date has not included this form of retail). While an urban format retailer (such Target, or Wegmans, Ikea, or other large retailers not currently in the District) would service new neighborhood residents and the Southwest quadrant, the minimum floorplate is about 30,000 to 40,000 square feet, and this use would require extensive parking. The merchandising focus would be on employee-serving (and to a lesser extent, resident-serving) uses such as a convenience store like 7 Eleven (6,000 square feet), or a coffee shop such as Starbucks, Caribou Coffee, Mayorga Coffee or Java Hut (850 and 1,200 square feet). Small cafes, breakfast and lunch diners, or other casual dining facilities could also complement the predominantly office mix (approximately 1,800 to 5,000 square feet each).

N / Tingey Street: This continuous street connects South Capitol Street to the Navy Yard. Destination-focused retail on N Street north of the Nationals Park is expected, similar to retail along Half Street. However, for most of its length, through the Yards at SE Federal Center site, Tingey Street is envisioned as a neighborhood serving retail street to serve the 5,000 to 6,000 residents expected in the area, as well as drawing resident shoppers from portions of Capitol Hill and north of M Street, and employees of the Navy Yard, USDOT, and other area offices. The merchandising focus will be on resident serving retail such as drycleaners, video stores, small hardware stores, home furnishings, florists, convenience stores, and local restaurants – the kinds of retail necessary to support a successful, functional, and desirable residential neighborhood. A major grocery store (Harris Teeter) is already under construction as part of a development connecting M Street and Tingey Street along 4th Street SE. Retail will be further supported by additional retail space and the large south facing plaza on the USDOT site (currently the site of a successful farmer's market).

Riverfront: Although much of the supporting development in the area will not be completed until after the 5 year timeframe of this study, the Anacostia Riverfront is envisioned as a new destination entertainment / retail area. This will include development along Potomac Avenue SE and a new Water Street SE, and encompasses the Nationals Park, Florida Rock, WASA, and The Yards at SE Federal Centersites. In addition to the significant new developments constructed, planned, and projected for the area, the riverfront is envisioned as a new destination for visitors to Washington, and for other residents of the District. New development will include office, residential, hotel, and retail. New waterfront parks, possible marinas, and a pedestrian / bicyclist pathway system are also planned – Diamond Teague Park, south of the Nationals Park is already constructed, and the exciting plans for a five acre waterfront park on the The Yards at SE Federal Center site have been approved. Although the Nationals Park is an important contributor to the riverfront vitality, the area is intended to be a 365 day destination. The merchandising focus will be on waterfront related retailers, possibly including retailers to support marinas and transient boaters, as well as local and national restaurant and entertainment venues such as Lauriol Plaza or Nathan's to provide a fun, active, and dynamic experience.

Urban Design

A contiguous riverfront promenade, as planned with the Anacostia Riverwalk, is being implemented to make it possible to walk the entire length of the area's waterfront. Already, the walk exists in front of the Navy Yard, and plans have been approved for extensions through the Yards SE Federal Centersite, and south of Nationals Park, through the Florida Rock site and the new Diamond Teague Park. Continuation of the walkway through the WASA lands, at the center of this district, is critical to the success of the riverwalk, and critical to the success of an overall retail marketing strategy for the area. Although unlikely, if the historic WASA pumping station ever becomes available, it could be transformed into public use (such as a public market) on the river.

Consistent streetscape enhancements should be extended throughout the street grid over time and as financially possible. Maintaining and reinforcing the street grid to provide multiple options for convenient and enjoyable access through the submarket will be important to establish a walkable neighborhood, and to the success of the overall retail strategy. Further attempts to close streets, to limit vehicular or pedestrian access, or to not open ones that are currently closed should not be supported. DDOT has developed specific streetscape requirements for some streets in the area, including South Capitol Street, and has implemented some of these improvements around the Nationals Park. The design and location of streets through the Yards SE Federal Center site is also being finalized. The streetscape improvement standards should be maintained throughout the area, and should include appropriately designed and sited directional signage, streetscape furnishings, and tree boxes.

Particularly along the waterfront, new buildings should take advantage of the riverfront setting by maximizing the sweeping views. Retail along the water should be encouraged to open up with outdoor patio space, however views to the water from street level should be carefully preserved, so that the positive visual impacts can extend further into the market area and allow all retail to "brand" itself as riverfront.

Transportation Improvements

Because of the new mix of higher density uses attracting people at all times of day, the Navy Yard Metro station will become a heavily used transit point day and night, on both weekdays and weekends, and has already been expanded to increase its capacity. The length of the M Street spine would benefit from a transportation linkage that would better connect the Navy Yard Metro Station to the Navy Yard – this link could continue along M Street to also provide a convenient connection with the Southwest Waterfront / Waterside Mall developments to the west, and to the Maritime Plaza / Boathouse Row developments to the east. A new Circulator bus route is planned for 2009, to better connect the metro station, Nationals Park, and the downtown.

While there is a larger street grid within this submarket, the primary activity streets for commuter transportation will remain M Street SE and South Capitol Street, with Half Street SE, First Street SE, N / Tingey Street SE, and Potomac / Water Street SE as important local and retail streets.

The riverfront itself will also create new opportunities for transportation. DDOT is currently implementing a water taxi service, with at least two stops (The Yards SE Federal Center and Diamond Teague Park) linking the district to points up and down the Anacostia river. Additional opportunities for boat transportation – mainly for recreation – will also exist with new marinas and non-power boat (canoe, kayak, etc) rentals. Along the riverfront, a new pedestrian and bicycle pathway system is being developed, creating new recreation and commuter opportunities for residents and visitors.

Retail Support

The total amount of retail proposed for the Capitol Riverfront District suggests that developers will seek national chain-affiliated retailers to ease financing, particularly in near term projects. Retail should be phased in as warranted by the market and when development comes on line, with the initial retail program directed toward existing and early-phasing office workers (particularly the 7,000 workers at the Department of Transportation and the 10,000 Navy Yard personnel) and establishment of the Half Street retail district. As more residences are constructed, more resident-based retail offerings (such as a specialty grocery) will be introduced, focused on N/Tingey Street. As the riverfront walkway and projects along the water's edge are completed, destination retail and entertainment businesses will be developed. The Capitol Riverfront BID is the logical organization to centralize cooperative efforts for retail recruitment and retention over time. Other stakeholders and groups interested in retail development should work cooperatively with the BID to ensure consistent strategic approach.

As might be expected with new commercial development projects, initial retail efforts have focused on national or regional tenants. In order to reinforce opportunities for locally-owned businesses and support the District's "Shop Local" campaign, future leasing strategies and incentives should also address small and locally-owned businesses, particularly in more affordable retail locations.

Supportable Square Footage and Evolving Markets

As described in the market analysis, the Capitol Riverfront study area is a rapidly evolving market that has both particular advantages (Metro access, high density mixed use zoning, significant office, residential, and hotel development, the riverfront park and path system, and Nationals Park) as well as some challenges (the amount of retail space potentially included in the new growth). When pipeline projects are taken into account, the Capitol Riverfront will have slightly more retail space than is supportable (about 30,000 square feet) under existing and near-term market conditions. This total, however, does not fully take into consideration the extent of development underway and anticipated between M Street and the freeway to the north (the high density mixed use TDR receiving area and the mixed use Arthur Capper / Carrollsburg project), or the extensive commuter traffic through the area1. As such, the total is relatively modest in comparison; to other study areas in the DC Retail Action Strategy and the full development potential of the broader area. Commuters and regional visitors to the Nationals Park and the waterfront represent an additional major potential inflow market.

In part, this supply estimate is also a function of time, as additional future housing, hotel, and office development will add new customers to the existing base. The total is also a function of approved development plans and programming that encourage retail on the ground floor of many planned structures (such as retail requirements in the Capitol Gateway and The Yards SE Federal CenterOverlays, and in approved Planned Unit Developments such as the Florida Rock site). Any excess of retail space, therefore, should not be viewed as a permanent condition, and will be affected by both near-term improvements as well as longer-term (beyond the five-year study period) growth through nearby development projects representing millions of square feet of new residential and office space. Available expenditures and the rate at which Capitol Riverfront can capture a share of those expenditures will be based on improvements in the residential base's median household income levels as well as the quality and quantity of new retail uses that are developed.

It is critical to put into perspective the incremental resident demand needed to balance the planned retail space. Using a disposable income estimate based on present and projected median household income levels for the primary and secondary trade areas and reasonable capture rates, expenditures from approximately 7,350 additional households would be required to place retail supply and demand in balance. Some of these expenditures are already occurring as game-day inflow from beyond the primary and secondary trade areas. Half Street's emergence as a sports related entertainment and dining district with regional appeal will be strengthened by further office and residential growth and development of riverfront entertainment and recreation opportunities. Longer term, significant additional office development will add employee-based spending as well, providing another share of market support.

Based on reasonable percentages of household income spent on retail/dining/consumer services and an assumed rate of capture reflecting a good, typical mix of available offerings, each new resident can be expected to support between four and seven square feet of retail space in its associated commercial area. Each new employee will support between two and five square feet. The tourist/visitor market will most likely influence the Capitol Waterfront area through the Washington Nationals in the near term; each visitor supports between one-half and one and one-half square feet of retail, but absent another visitor destination, will occur mostly on game and special event days. Over the remaining days, visitor volume will depend upon whether other events are programmed into the Nationals Park as well as development of critical mass of restaurants, bars, and other entertainment venues in the Half Street area and along the riverfront. In all cases, the range of supportable square footage is based on available retail offerings, the quality of the public spaces and continuity of retail within the corridor, and relative proximity to where people live, work, or want to visit an attraction.

The relative differences in spending support indicate the importance of the resident and (beyond the five year study period) additional employee and visitor markets to provide sales for the additional retail space; in any event, the supply of space beyond the resident/worker market is relatively modest, and will benefit from the planned and anticipated clustering and merchandising of retail at appropriate and most advantageous locations throughout the district. The amount of retail space in the Capitol Riverfront District is likely to exceed what the market can otherwise normally support, even at full build-out.

Key Recommendations

1. Work with area developers and property owners on retail tenant strategies to balance the needs of daytime workers, residents, and visitors - shifting the focus from the current employee based retail offerings over time to better address resident and visitor retail needs. As residential units come online, introduce neighborhood-serving and convenience uses, particularly along N / Tingey Street SE. Plan destination retail that appeals beyond the baseball season, particularly along the riverfront and along Half Street SE. These goals will best be achieved by implementing a retail mix which incorporates both locally-owned small businesses and selected national and regional tenants[2].

2. Maintain the high quality of streetscape design established on M Street at the USDOT site with comparable and compatible design on the other commercial streets to reinforce the linkages, without necessarily maintaining the very wide setbacks of the street from the curb. As the streetscape matures, look for opportunities to soften the hardscape through plantings.

3. Centralize efforts among large and small developers and other retail stakeholders to encourage interesting contemporary design, with a riverfront theme where appropriate, to avoid a suburban "cookie cutter" approach.

4. Implement planned commercial development patterns and locations, mainly as outlined in the Capitol Gateway (CG) and SEFC Overlays, to establish a hierarchy of neighborhood (N / Tingey Street), employee-serving (M Street), and regional entertainment-focused (Half Street and along the riverfront) retail.
