District of Columbia Office of Planning

ERA

JAIR LYNCH
DEVELOPMENT PARTNERS

streetsense

Washington, DC Economic Partnership
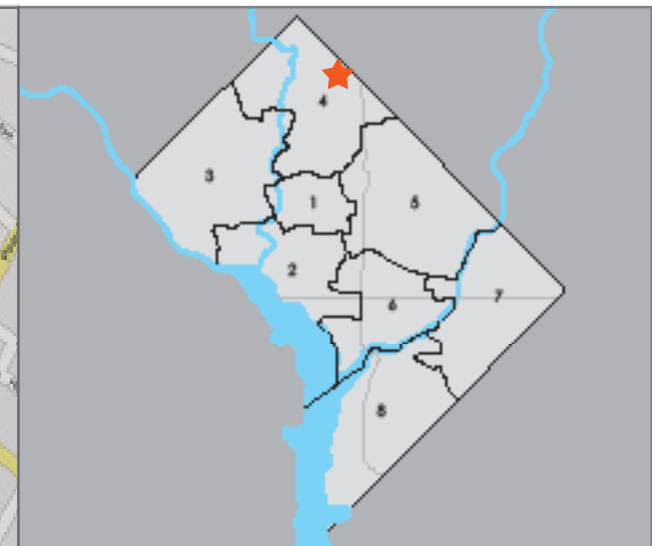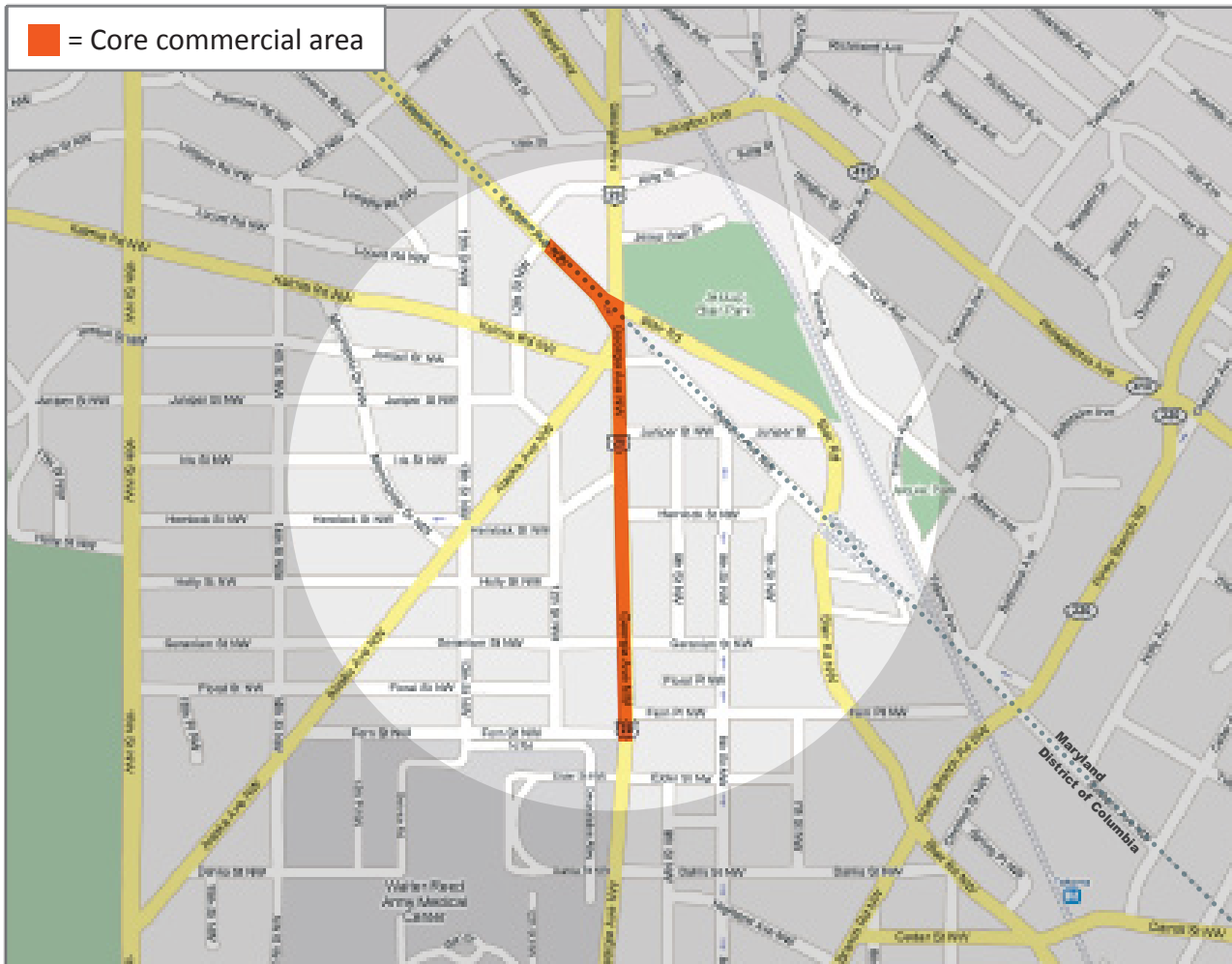
DC Retail Action Strategy

Georgia Avenue Gateway

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

December, 2009

Georgia Avenue Gateway SWOT Analysis

= Core commercial area

Boundaries

Georgia Avenue NW from DC-Maryland border (north of Eastern Avenue intersection) south to Fern Street NW; Eastern Avenue from Georgia Avenue NW west to 12th Street NW

Zoning

The Georgia Avenue Gateway is zoned as commercial along Georgia Avenue, and residential in the outlying neighborhoods. The district is located next to a large region of government-owned land, including Walter Reed Army Medical Center and Rock Creek Park. A cluster of commercial activity is located nearby around the Takoma Metro stop. Note: Zoning info is not included for Maryland, which is just north of Eastern Avenue.

Overview

Located on the border of Northwest Washington and Silver Spring, this submarket occupies a unique position as the Gateway into D.C. from Maryland and vice versa. This bustling district features a mix of small-scale retail, offices, and apartments that cater to the surrounding middle-income communities. Although the nearest Metro stations (Silver Spring and Takoma) are 1 mile from the submarket's northern and southern tips, Georgia Avenue itself is a major commuter route. Walter Reed Army Medical Center anchors the area's southern end, although it is scheduled to close; redevelopment of this lot could dramatically affect this submarket.

1 Eastern Avenue Intersection

Currently, this prominent intersection (which marks the Maryland-District border) is vastly underutilized, with 1-story buildings lining the streets. It has the potential to be redeveloped into a more significant retail offering that suits its high-profile gateway location–existing lots are big enough to be consolidated into denser, larger-scale commercial and residential buildings with ground-floor retail space.

2 Georgia Avenue Corridor

This long corridor is suited to its residences and local-serving shops. Even as the submarket develops, this area is unlikely to change radically; it has less room for expansion because nearby housing limits the depth of lots. There is leeway for slightly wider buildings because some existing lots accommodate mid-rise apartments. Buildings on the east side of Georgia Avenue also have bigger footprints, including retail pads for national tenants like McDonald's. If the Walter Reed Army Medical complex to the south is redeveloped as a mixed-use center, this node will act as a break between two bigger destinations.

NODE 1

D.C. Line Auto Service	Freddie's Super Agent
Nile Market & Kitchen	Vivanti Hair Studio
State Farm Insurance	K+B News
KFC Taco Bell	Andrea's Hats and Caps
Tropicana	Pizza Boli's
Morris Miller Liquor	Aday Abeba
Grainger Industrial Supply	Los Arrieros
Medicine Shoppe	The Washington Humane
Gest Family Catering	Society
Service	Postal Connections
Social Security Adminis-	Focal Point Optical
tration	Wireless Toyz
Beauty Center	Check n Go

NODE 2

Park Laundromat	Sheperd Park Branch
Metapan Grocery Store	Library
Dollars & Gifts	Termite & Pest Control
Golden China	McGuire Funeral Home
Nails Lux	Community Market
Money Today	Liquors
Margot Beauty Salon	Exxon
Rainbow Seafood	Tamarindo
D&T Alteration	Cork n' Bottle
Anne's Collection	McDonald's
Moods Unlimited	Royce's Video
McCain's Coiffures	PNC Bank
Payday Loans	BP Gas

Note: Tenant lists do not include all businesses located in the submarket.

This "Eastern Avenue Intersection" node can be divided into 3 sub-nodes: Inline Retail, Corner Lots, and Strip Mall.

A - Inline Retail and a mid-rise office building with ground-floor retail lines the large corner lot on the west side of Eastern Avenue (Eastern Avenue West). These newer, one-story shops are not the highest and best use of this prime real estate; this large parcel has enough critical mass to become a major retail offering for the submarket, with denser development above.

B - Corner Lots near the major intersections are underutilized. Aside from the inline retail/mid-rise office described above, the lot between Blair Road and the east side of Eastern Avenue (Eastern Avenue East) is the first D.C. property coming from Maryland; however, it currently holds only a fenced-off auto shop and small restaurant. Similarly, the lot between Georgia and Alaska Avenues is not used to its full potential.

C - A Strip Mall with marginal tenants occupies the block between Eastern Avenue and Juniper Street, a key location that could be redeveloped into a more substantial offering.

Legend:
- = Major Intersection
- = Minor Intersection
- = Sub-node A
- = Sub-node B
- = Sub-node C

This lower node contains 3 sub-nodes: Low-Density Retail, Mid-Rise Apartments, and Spacious Retail Pads.


A - <u>Low-Density Retail</u> characterizes most of the area along Georgia Avenue. Shops tend to be neighborhood goods and services that occupy the ground-floor of older 2-story buildings. While there is currently adequate room for rear service and loading, there is limited potential for expansion because of residences directly behind these shops.

B - <u>Mid-Rise Apartments</u> offer denser housing options in this submarket that is otherwise dominated by single-family homes. Apartments range from 3- to 6-stories tall and are in decent condition.

C - <u>Spacious Retail Pads</u> with a mix of local and national tenants run along the east side of Georgia Avenue from Hemlock to Geranium Streets. In addition to plenty of parking, there is a wide back alley that functions like a street, providing enough separation between back-door functions (like service and loading) and neighboring homes.

Legend:
- = Minor Intersection
- = Neighborhood Intersection
- = Sub-node A
- = Sub-node B
- = Sub-node C
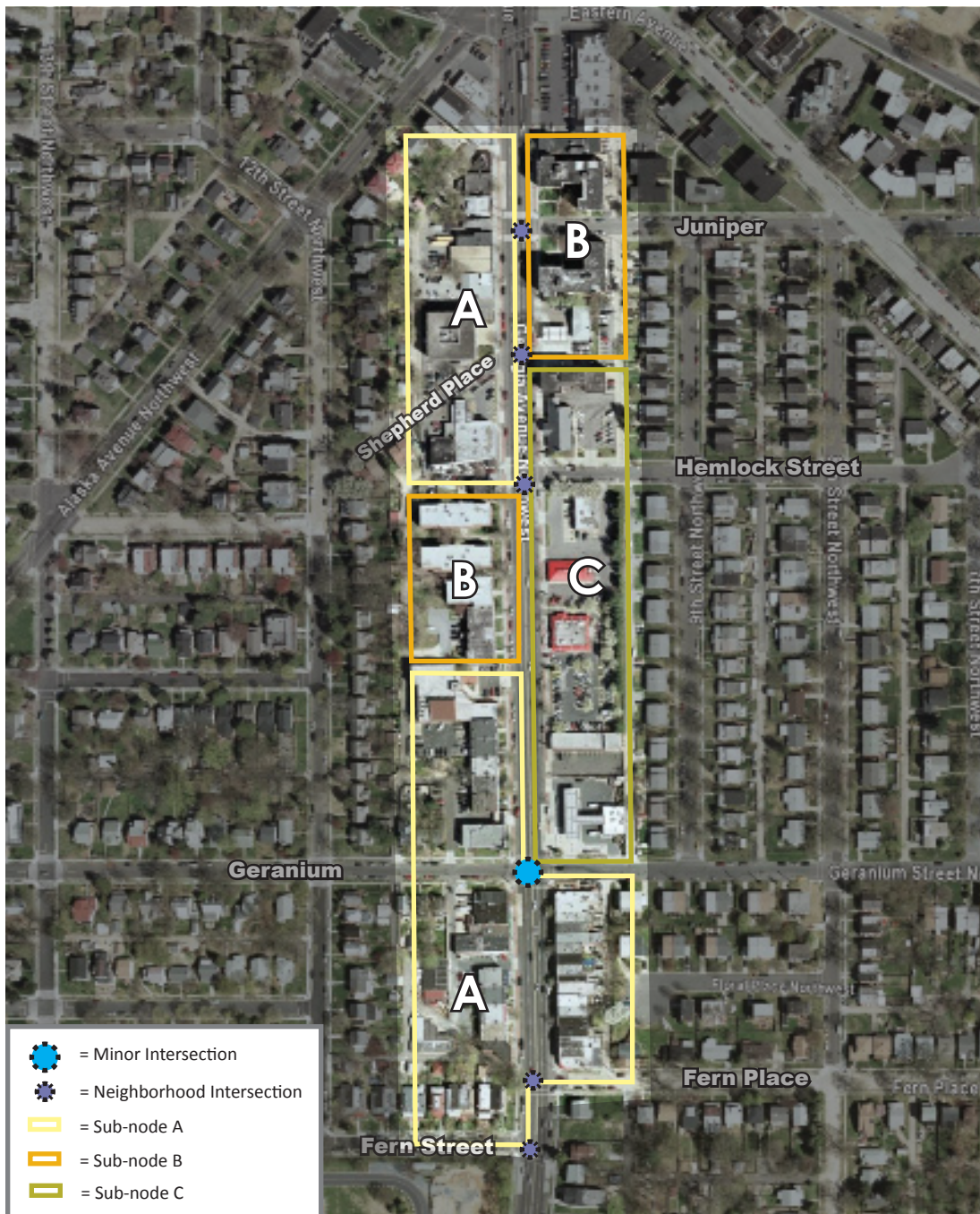
Streets & Blocks

Georgia Avenue is the submarket's defining arterial corridor. There are 3 lanes of traffic in each direction, although the outermost lanes are used for parking south of the intersection with Alaska Avenue. The streetscape along Georgia Avenue is in good condition south of this same intersection; partial brick paving, regular plantings, and banners help brand the district. The other major street in the submarket is Eastern Avenue, a much smaller road with 1-2 lanes in each direction. The streetscape here is less inviting; for example, instead of brick paving, there are concrete pavers. There are also few plantings until the residential neighborhood outside of the submarket. The rest of the streets are residential, with suburban-scale sidewalks; of these side streets, Alaska Avenue is the largest.

Intersections

The largest intersection occurs at the starburst intersection of Georgia Avenue, Blair Road, and Eastern Avenue West, which is right on the border of D.C. and Maryland. This intersection is overwhelmed by infrastructure; another starburst intersection directly south is more promising as a pedestrian-scaled crossing (where Georgia Avenue hits Alaska Avenue, Kalmia Road, and Eastern Avenue East). Currently, these intersections seem disproportionately large in the context of their surrounding 1-story retail. Denser, larger redevelopment would make the existing infrastructure more scale-appropriate. Besides these two intersections, no other side streets actually cross Georgia Avenue to create a 4-cornered intersection. The one exception to this rule is Geranium Street.

Buildings

This submarket has a mix of small-scale, utilitarian buildings. The area directly fronting Georgia Avenue is a retail corridor with ground-floor shops in 2-story buildings. While there is not much room for expansion here, buildings can be renovated to improve their appearance. There is also newer 1-story retail, including inline shops and retail pads. Compared to denser developments directly north in Silver Spring, this low-rise retail seems out-of-scale. The submarket also has several mid-rise apartments, as well as office buildings on Eastern Avenue. Nice single-family homes surround the submarket and reflect the area's strong demographics. Another reflection of this well-to-do community is the well-maintained Shepherd Branch Public Library north of Geranium Street.

Alleys & Service

Although single-family homes surround this submarket, there is enough separation between them and existing retail for rear service/loading to function properly. However, expanding retail in the denser areas along Georgia Avenue would upset this delicate balance in the submarket's southern node. The large lots in the northern part of the submarket have the most room for expansion, as they can absorb the necessary infrastructure for service/loading and customer parking. Similarly, the retail pads east of Georgia Avenue (which have a much looser urban fabric than the rest of the corridor) have more than enough parking and rear service space; if consolidation was a feasible option, this land would be ideal for the construction of a larger parking structure to help alleviate the submarket's parking deficiencies.

Strengths

- The submarket's key location at the DC-Maryland border gives it added significance and momentum for redevelopment
- Georgia Avenue is a major commuter route, which enhances the visibility of the submarket's retail
- This submarket can play off the success of nearby Silver Spring's retail by filling in gaps in the marketplace
- Large lots near the northern node's two starburst intersections provide enough critical mass for large-scale redevelopment
- The area draws from a strong demographic pool, with stable single-family communities like Shepherd Park, Colonial Village, and Takoma Park
- The existing streetscape is mostly in good condition, with brick paving, landscaping, globe lampposts, and banners that brand the district
- This submarket has the proven ability to attract national tenants (McDonald's, Pizza Hut, PNC Bank, etc.), although most are price-point sensitive

Weaknesses

- Major corner lots near the northern node's starburst intersections, as well as the nearby strip mall, are underutilized for their prime location
- Consolidating properties is difficult, but necessary to create opportunities
- Properties along Georgia Avenue have limited depth and several are slightly rundown
- The streetscape is stark along Eastern Avenue West, as well as at the 2 major starburst intersections nearby
- The scale of the 2 starburst intersections seems too large for the current context of 1-story retail, making them seem hostile to pedestrians
- Lack of a nearby Metro station makes the submarket heavily auto-dependent; moreover, parking is inadequate for much of the corridor

Opportunities

- This submarket represents a unique chance to create a significant mixed-use development (ground-floor retail with residential or office above) as a prominent gateway
- Consolidate properties near the northern node's starburst intersections and redevelop them into greater offerings that suit their prime location
- Establish the second starburst intersection (at Georgia Ave-Alaska Ave-Kalmia Rd-Eastern Ave East) as the submarket's main intersection and pedestrian gathering spot; larger buildings that anchor this intersection will make it seem more scale-appropriate
- Provide a shuttle from the Metro station to the gateway retail; in addition to encouraging public transportation, supply additional parking (as outlined in DDOT's Upper Georgia Avenue Parking Study)
- Continue to improve the streetscape, especially by the northern starburst intersections as well as Eastern Avenue West
- Preserve the low-density, eclectic feel of Georgia Avenue's retail while making cosmetic improvements to its buildings
- The imminent closing of Walter Reed Army Medical Center may provide a unique opportunity to redevelop a parcel of well-positioned land
- Leverage Great Streets Initiative, including public realm investments and economic development assistance

Threats

- As an established and transitional shopping district, Silver Spring will be strong competition for potential retail development in this submarket
- The future of Walter Reed Army Medical Center (a key anchor for this submarket) is uncertain and will impact this submarket's future profoundly
- Fast, large-scale redevelopment under the direction of only a few developers may take the submarket in an overly generic direction
- Inter-jurisdictional cooperation is difficult but may be necessary considering this submarket's location

Georgia Avenue Gateway Preliminary Planning Diagrams

Eastern Avenue (West)

29

Jessup Blair Park

Blair Road

Kalmia Road

Georgia Aven

Eastern Avenue

Alaska Avenue

12th Street Northwest

Juniper Street

Georgia Avenue Northwest

8th Street No

● = Major Intersection

● = Minor Intersection

● = Neighborhood Intersection

▭ = Node 1

General Observations about Existing Area:

1) This planning node focuses on the five blocks closest to the main intersection of Kalmia Road and Eastern, Alaska, and Georgia Avenues. Currently, low-scale development in these blocks contradicts the notion that this portion of the upper Georgia Avenue corridor is a major gateway into and out of the District.

2) The existing infrastructure and ample leasing depths make way for an efficient parking and service strategy demanded of dense, mixed-use design. .

Retail Planning Principles:

1) Achieve an authentic gateway environment with higher-density, mixed-use buildings.

2) Through the development of higher density, implement a branding strategy for Georgia Gateway as one of DC's premiere nodes of opportunity.

3) Program retail to distinguish the Georgia Gateway destination from the nearby downtown Silver Spring, Maryland.

Legend

- = Prime Corner
- = Mixed-Use Opportunity
- = Sensitive Low-Scale Residential Adjacencies
- = Major Intersection
- = Minor Intersection
- = Neighborhood Intersection

The following concept diagram is intended to be used as a general guide for retail improvement opportunities. Actual building configurations and mix of uses should be reviewed on a case-by-case basis.
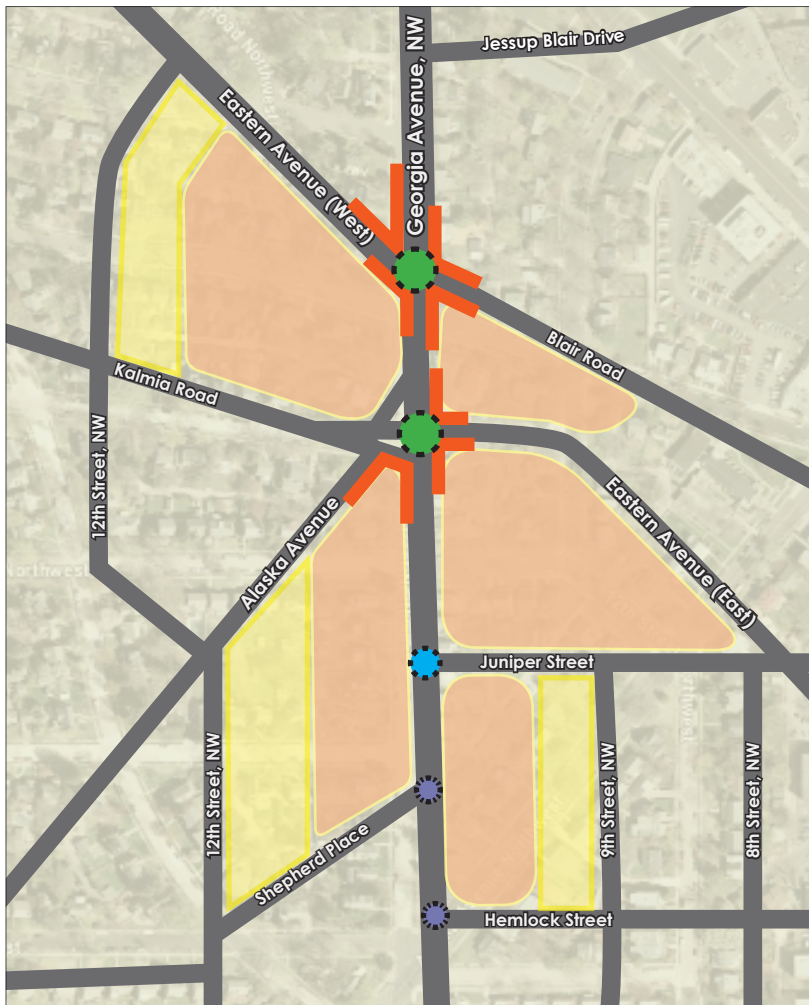
Redevelopment Option 1

HIGH-DENSITY, MIXED-USE DEVELOPMENT OPPORTUNITIES

Favorable site dimensions and strong visibility along Georgia Avenue make a dense, mixed-use product appropriate for all of these blocks. Consolidating some residential properties that abut existing retail and office uses can create more flexible block dimensions, which can vastly improve the success of a mixed-use project.

Retail programming should focus on attracting large-format tenants that can fill gaps in the market left by competing offerings in downtown Silver Spring, Maryland.

Special attention should be paid to adjacent low-scale residential homes that border proposed high-density mixed-use development. Where the existing backdoors and proposed uses meet, a thoughtful planning strategy that buffers the low-scale uses from higher-density uses is imperative.
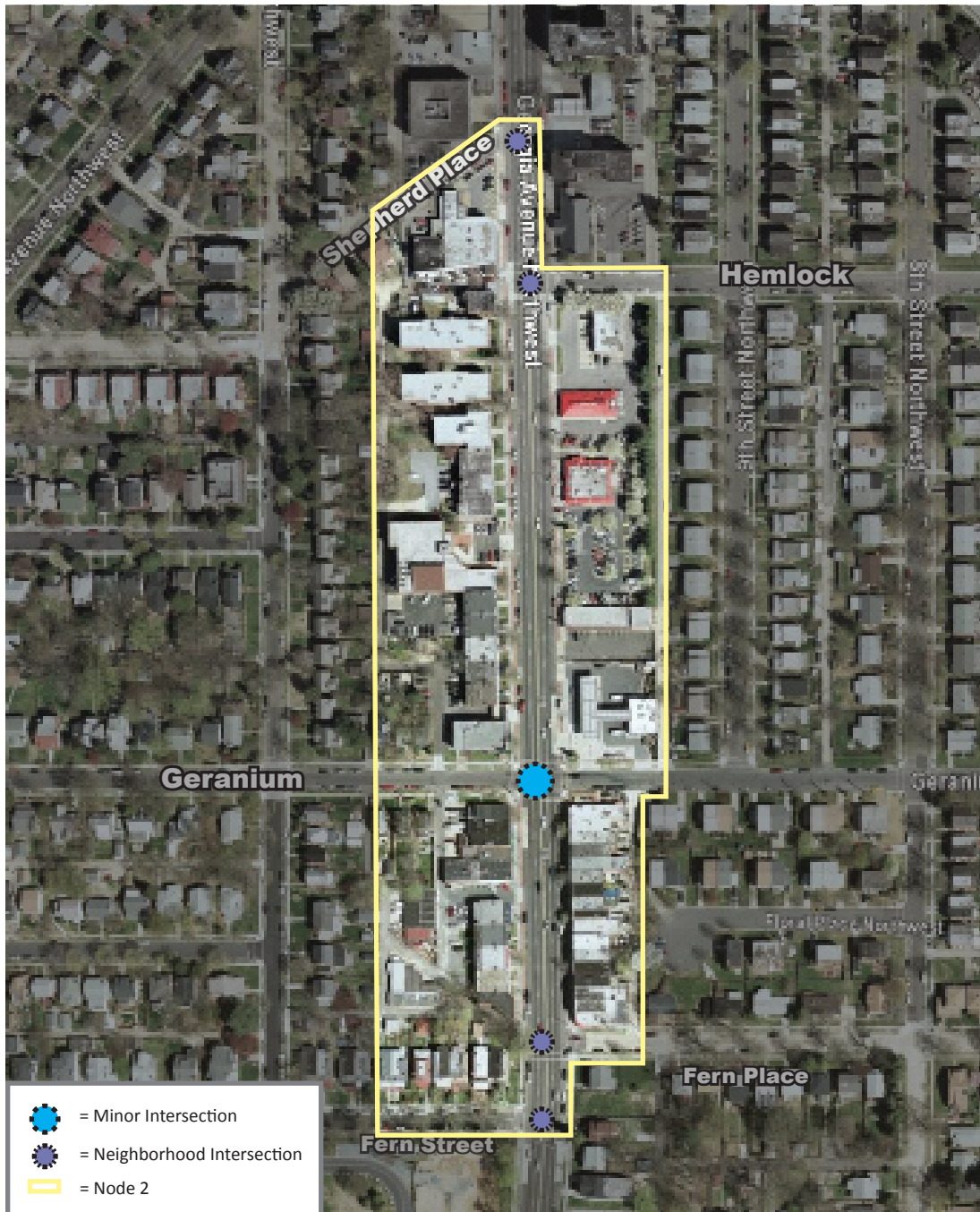
General Observations about Existing Area:

1) Surface-parked, low-density retail and mid-rise housing in Node 2 has sufficient proportions/depths to support higher-density mixed-use buildings; however, neighboring low-scale residential homes restrict efforts to develop larger blocks.

Retail Planning Principles:

1) Consolidation of the residential parcels is not advised, as they are key to the composition of parallel residential streets. With more opportunities for a critical mass of retail in Node 1, improvement efforts in this node should be focused upon enhancing existing retail and repositioning underserving shops to better meet the needs of the surrounding community.

2) Should this portion of Georgia Avenue have the capacity to support more growth in the future, development should be consistent with that of Node 1 and focus on mixed-use buildings with continuous street frontage and retail uses at the ground level.

Legend:
- = Prime Corner
- = Mixed-Use Opportunity
- = Reinvestment Opportunity
- = Sensitive Low-Scale Residential Adjacencies
- = Minor Intersection
- = Neighborhood Intersection

The following concept diagrams are intended to be used as a general guide for retail improvement opportunities. Actual building configurations and mix of uses should be reviewed on a case-by-case basis.

Two redevelopment options explore a varying degree of programming.

Redevelopment Option 1
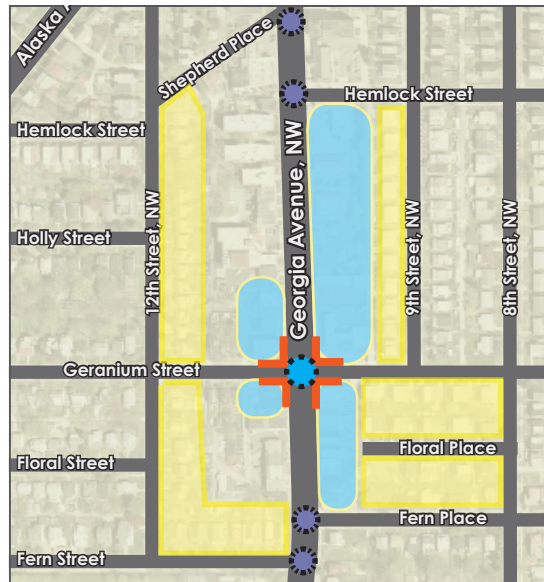
REINVESTMENT/REPOSITIONING OPPORTUNITIES

Drive-thru pad restaurants along Georgia Avenue create a hostile pedestrian experience. Encouraging retailers to orient their entrances to face the street and maintaining higher quality sidewalks will enhance the walkability of this node. Where a clustering of inline retail exists, storefront improvements and streetscape guidelines can dramatically improve the quality of the retail experience.

Redevelopment Option 2
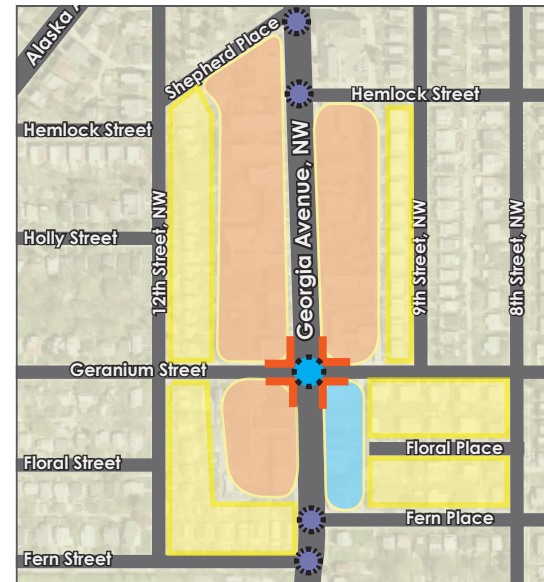
HIGH-DENSITY, MIXED-USE DEVELOPMENT OPPORTUNITIES

If higher-density redevelopment in Node 1 is successfully implemented, adding scale-appropriate mixed-use buildings to Node 2 will reinforce Georgia Avenue's position as one of the region's most important retail corridors. Consolidating properties for denser development should only be considered should the market support this additional growth.

Georgia Avenue Gateway Retail Demand Analysis

The retail submarket is located along Georgia Ave NW from Eastern Ave. south to Fern St. and Eastern Ave. from Georgia Ave. west to 12th St. NW. Silver Spring is located immediately to the north and is a significant

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

• Trade area includes existing retail in Silver Spring, MD

Georgia Avenue Gateway
Trade Areas
■ Retail Submarket
■ Primary Trade Area
■ Secondary Trade Area

ERA
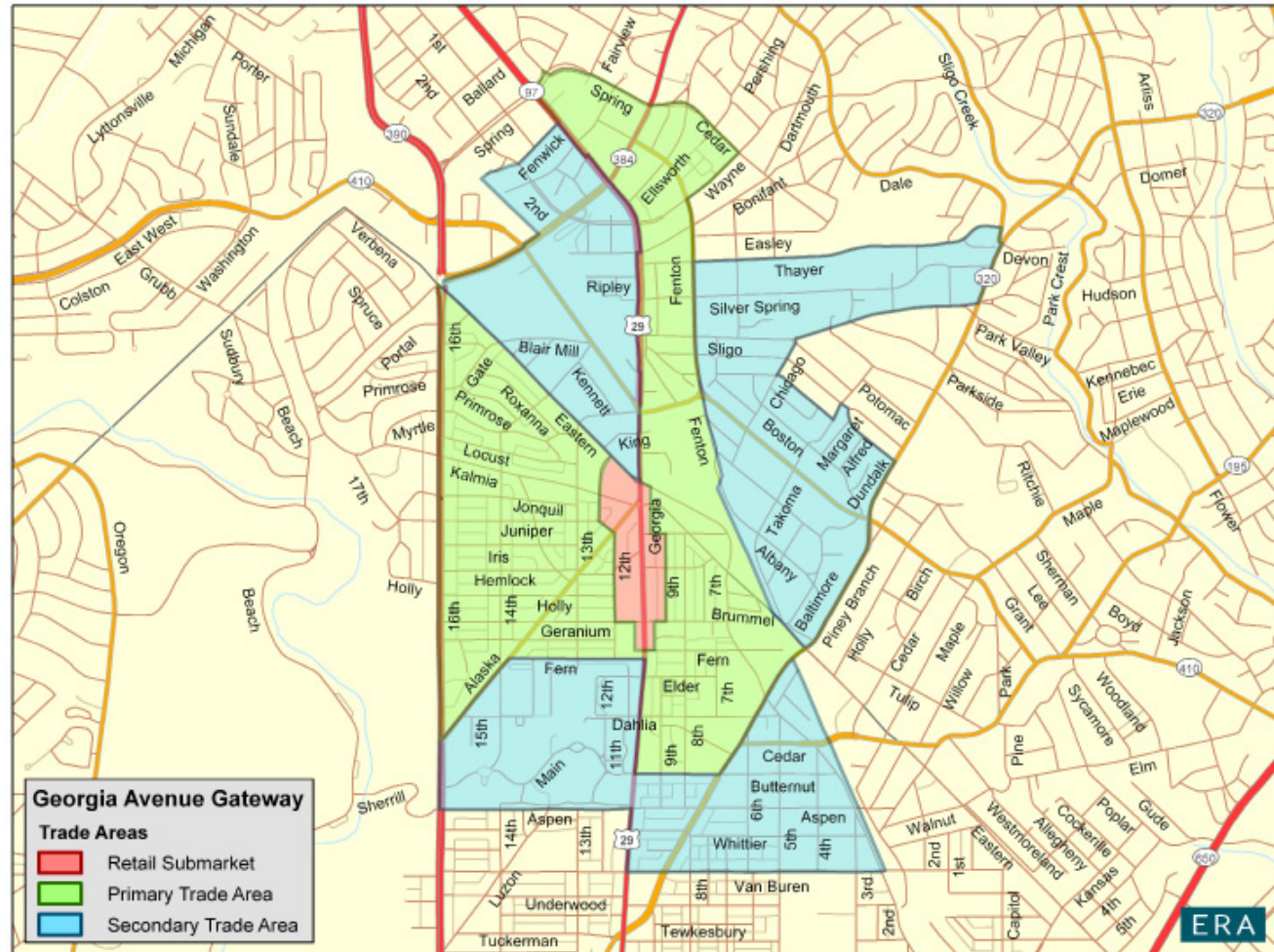
The Georgia Avenue Gateway Trade Area Population

• The population in the primary Georgia Avenue Gateway trade area is projected to increase by 60 people over the next five years – from 7,018 in 2007 to 7,078 by 2012

• Population in the secondary trade area is projected to increase by 1,023 residents over the next five years – from 18,826 to 19,849

• The total trade area is expected to add 617 households over the next five years- a significant increase that will effect demand for retail in the submarket and the adjacent competitive area of Silver Spring, Maryland

Trade Area Population Growth, 2007 and 2012
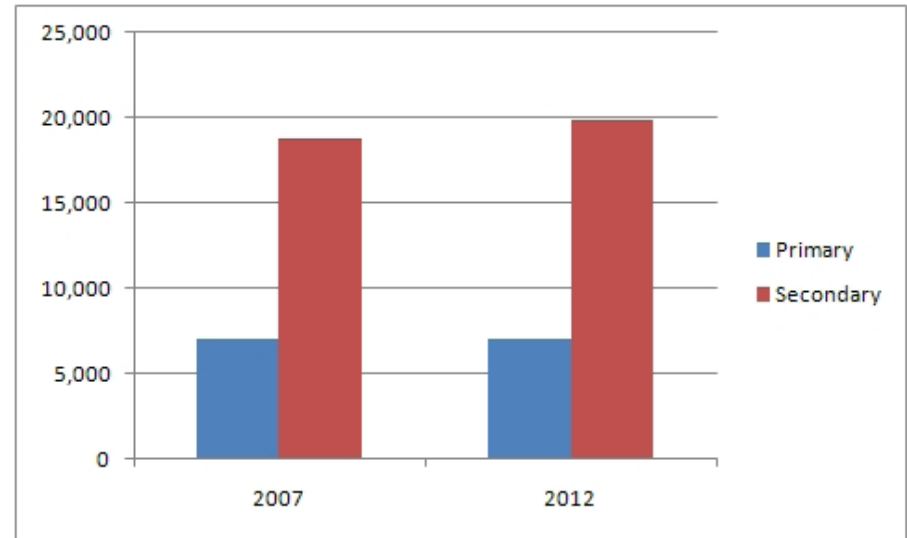
Trade Area Household Growth, 2007 and 2012

	Estimated 2007	Projected 2012
Primary	2,911	2,952
Secondary	9,020	9,596
Total	11,931	12,548

Georgia Avenue Gateway Key Demographics: Trade Area Household Profile

• The Georgia Avenue Gateway trade area has a mix of upper and upper-middle income households

• The median household income in the primary trade are is $93,814 and $54,323 in the secondary trade area

• The median net worth of the households reflect some greater home values for owners and additional assets, again a result of the mix of upper, upper-middle, and middle income households

• Racially and ethnically, African-Americans make up 52% of households, followed by White at 31% and Other at 12%*

*"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
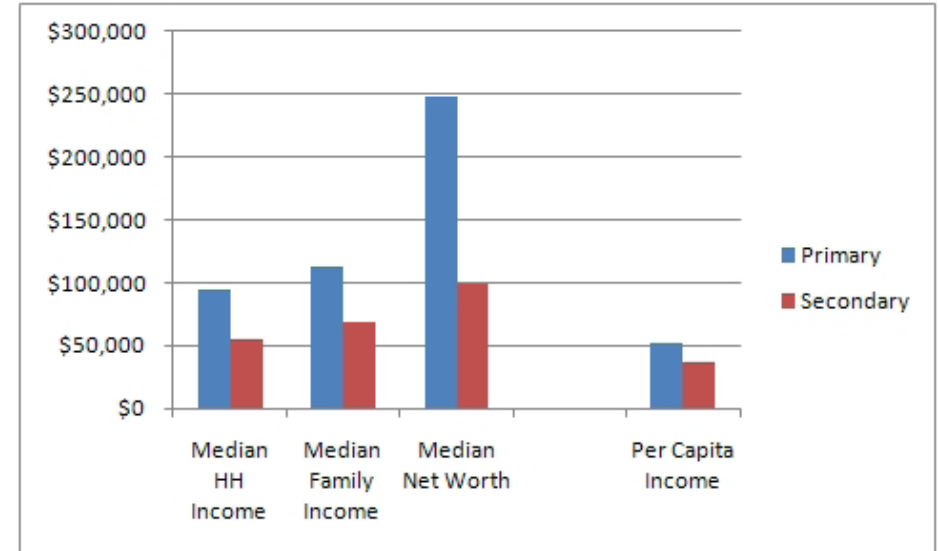
Racial and Ethnic Groups, 2007

Source: ESRI Business Analyst; ERA 2007
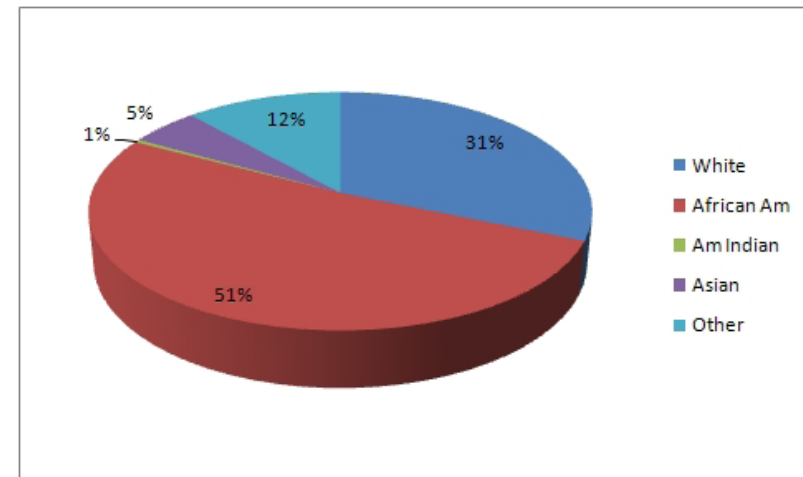
The Georgia Avenue Gateway trade area has a high percentage of young and middle-aged adults with the greatest projected increase in those aged 20 to 24

•   The 20 through 24 age cohort is expected to see a significant increase in population over the next five years, a positive indicator for residential and retail demand. Young adults tend to be in household-forming purchase patterns with interest in fashionable, but inexpensive furniture and accessories

•   Slight declines in population are projected in the 25 to 54 age cohort by 2012, representing a loss of "traditional" family households, typically with children

•   Pre-retiree and retiree cohorts are expected to have moderate increases in population

•   Population changes in young adults and pre-retirees/retirees present unique challenges to retailers. Both groups patronize restaurants and personal services. But the positioning of businesses to attract each group is different

Trade Area Population by Age, 2007 and 2012
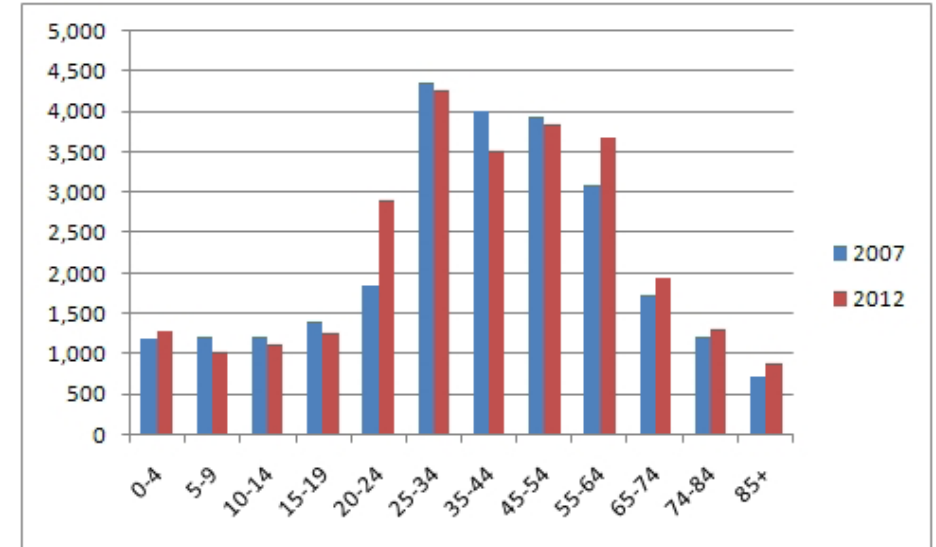
Georgia Avenue Gateway Key Demographics: Trade Area Household Profile

• A higher percentage of households in the Georgia Avenue Gateway submarket rent their homes, versus own (62% v. 38%)

• Reviewing the trade area's household expenditures provides a "snapshot" of how households spend their disposable dollars. In order to increase opportunities for retail sales in the community, the submarket needs to be able to capture more of the total expenditures available

• In 2007 trade area residents spent a total of $241 million on products and services in the categories represented on the graph. This is total spending everywhere, not just in the trade area

• Trade area residents spend the most money on groceries

• Food and drink away from home, especially in the secondary trade area, represents the second highest expenditures category for trade area residents

Home Ownership, 2007
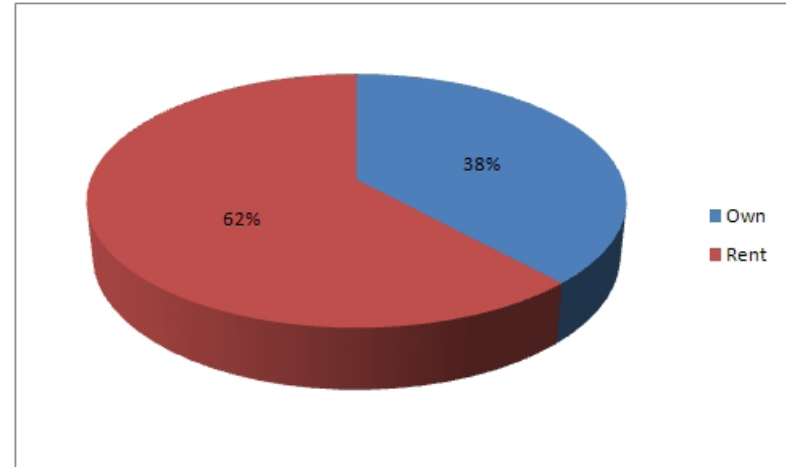
Household Expenditures (In Millions) by Category, 2007
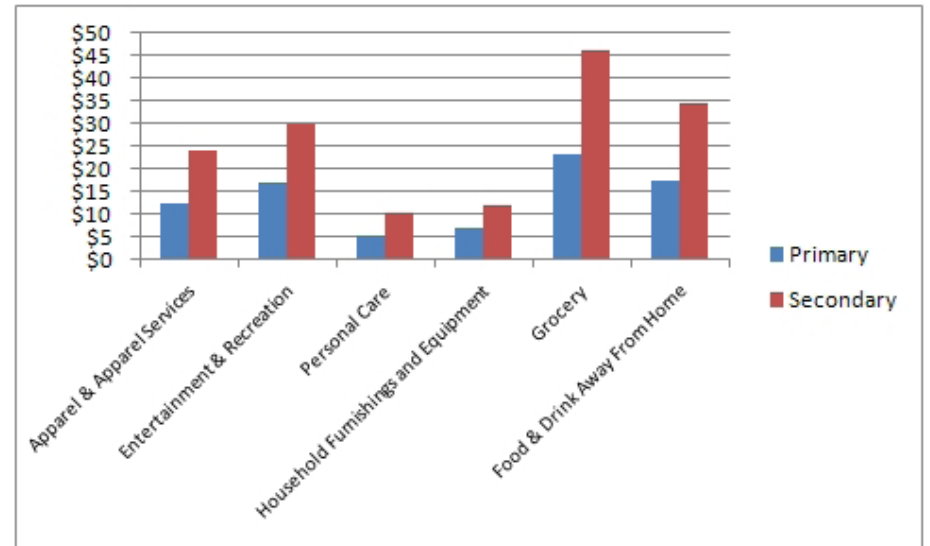
Development Pipeline

Pipeline Projects

• Several retail and mixed-use projects are under construction or planned in the Georgia Avenue Gateway neighborhood, including projects to the north in Silver Spring that will continue to draw resident spending outside the District

• There are two residential projects in the secondary trade area:

    • Planned: 144 units called the Pavilions at Takoma Park

    • Proposed: EYA's Takoma Park Metro Station development is a residential project that totals 86 units

• CoStar reports that four new office/retail buildings are either under construction or planned in downtown Silver Spring:

    • 8651 Georgia Ave. is currently leasing 170,000 SF office and 4,100 SF retail

    • 8711 Georgia Ave. is a proposed project with 124,000 SF of office space

    • City Place on Colesville Road totals 300,000 SF of mixed use space

    • Silver Spring Gateway at Blair Mill Road and East-West Highway will deliver 15,900 SF of retail space in early 2008

Georgia Avenue Gateway

New Developments
- ● Completed
- ▲ Under Construction
- ■ Planned

Trade Areas
- Retail Submarket
- Primary Trade Area
- Secondary Trade Area

Source: HUD, CoStar, ERA 2007
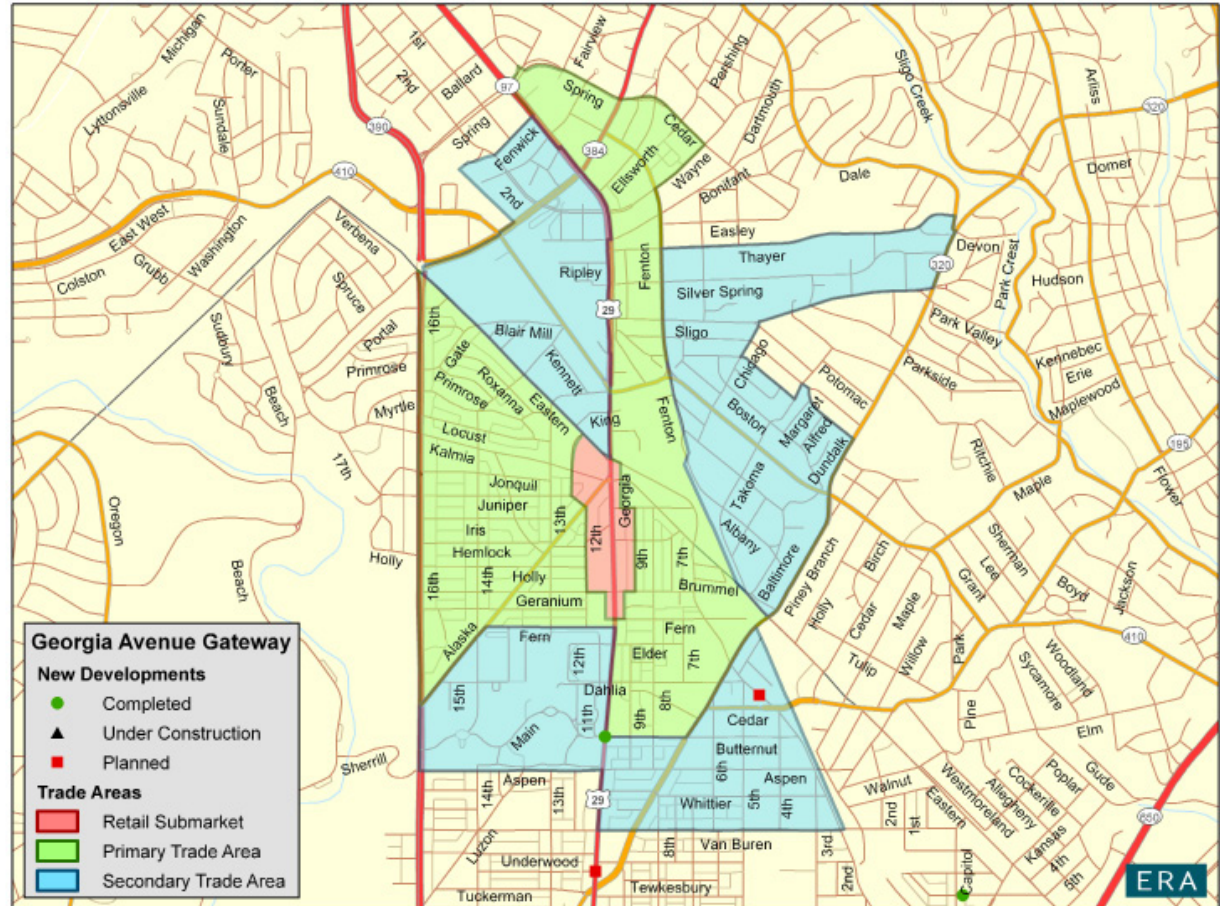
Overview of Market Demand Analysis

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 and 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

Trade Area Expenditures By Category (In Millions), 2007

$241 Million Total
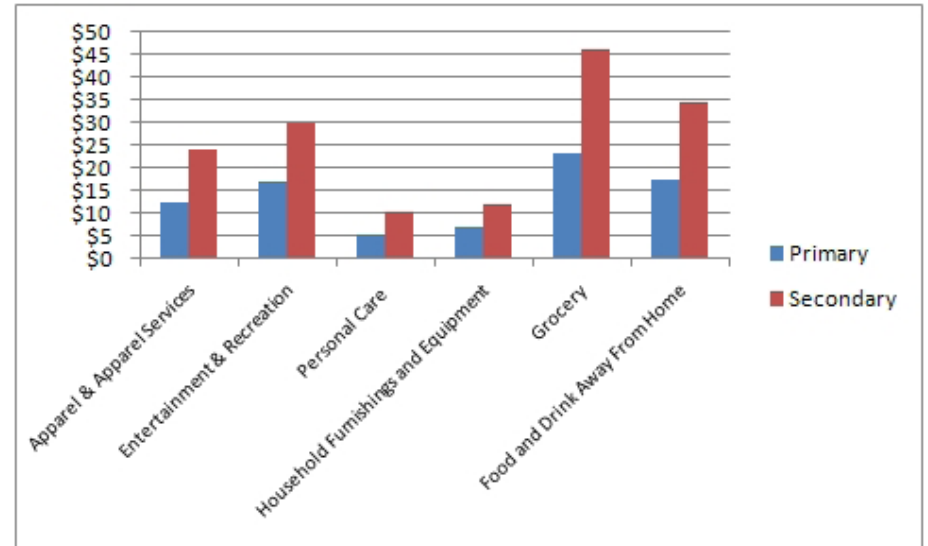
Capture rates are applied to total trade area expenditures in order to estimate potential expenditures within the retail submarket

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

Georgia Avenue Gateway Submarket Capture Rates By Category

	Primary	Secondary	Inflow
Apparel & Apparel Services	15%	10%	5%
Entertainment & Recreation	25%	15%	5%
Personal Care	45%	25%	10%
Household Furnishings and Equipment	10%	8%	3%
Grocery	60%	40%	15%
Food and Drink Away From Home	45%	30%	15%

Source: ESRI Business Analyst; Economics Research Associates, 2007

Estimated Captured Spending within the Retail Market

- Captured spending the trade area was estimated to be $79.3 million in 2007 compared to total trade area spending of $241 million in the same year

- Captured spending the trade area is expected to be $83.5 million in 2012 compared to total trade area spending of $255 million in the same year

- ERA estimates by 2012 that Grocery spending will account for more than $39 million annually and Food and Drink (away from home) will account for more than $20 million annually

- Captured spending in the retail trade area is expected to increase by $4.2 million between 2007 and 2012, due mostly to changes in population and income levels

Estimated Captured Retail Trade Area Spending, 2007
$79.3 Million

Legend:
- Apparel & Apparel Services
- Entertainment & Recreation
- Personal Care
- Household Furnishings and Equipment
- Grocery
- Food and Drink Away From Home

Values: $9,232,256; $5,620,025; $4,491,109; $20,925,266; $1,730,851; $37,339,002
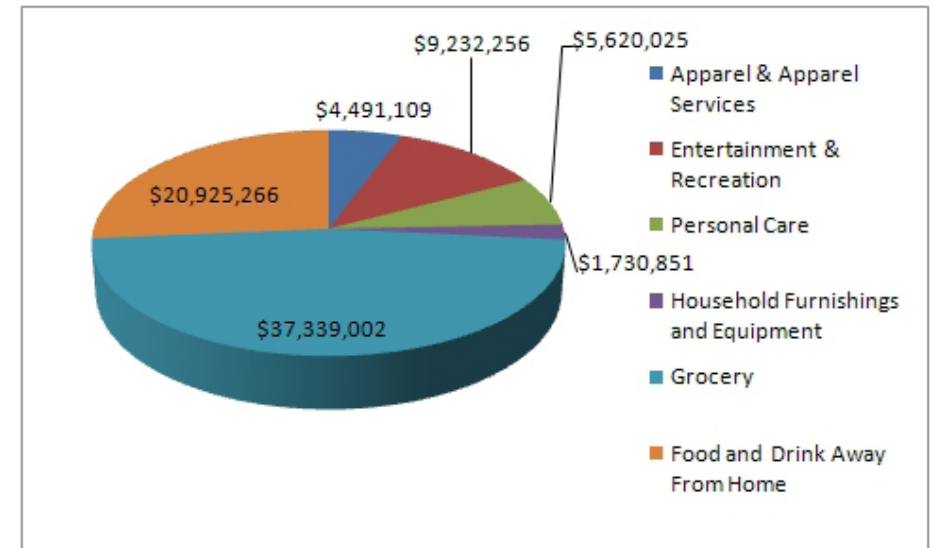
Estimated Captured Retail Trade Area Spending, 2012
$83.6 Million

Legend:
- Apparel & Apparel Services
- Entertainment & Recreation
- Personal Care
- Household Furnishings and Equipment
- Grocery
- Food and Drink Away From Home

Values: $9,697,326; $5,900,400; $4,778,172; $22,040,605; $1,823,632; $39,326,074

Source: ESRI Business Analyst; ERA 2007
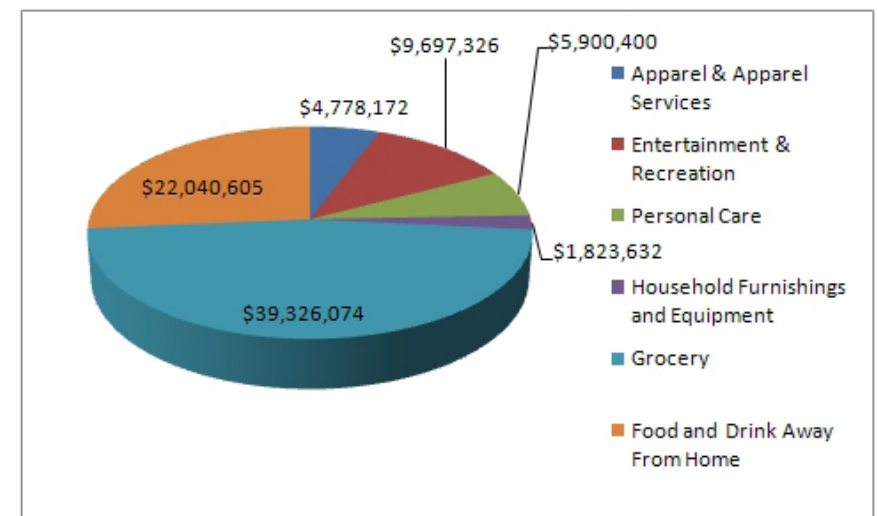
Productivity and Typical Store Size

• 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

Georgia Avenue Gateway 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)

Category	Sales per Square Foot Low	High
Apparel & Apparel Services	$ 300	$ 400
Entertainment & Recreation	$ 300	$ 350
Personal Care	$ 350	$ 500
Household Furnishings and Equipment	$ 350	$ 500
Grocery	$ 450	$ 700
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 Georgia Avenue Gateway submarket can support between 181,900 and 242,600 square feet of retail in 2007

- The existing retail inventory totals 89,921 square feet within the retail submarket. In order to take into account the lower quality space it was discounted to 58,449 square feet

- The retail submarket has a net supportable square foot range between 123,451 and 184,151 in 2007

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

Estimated Net Supportable Square Feet 2007

Area	Low Range	Site Supportable	High Range
Apparel & Apparel Services	13,500	15,000	18,000
Entertainment & Recreation	27,700	30,800	37,000
Personal Care	14,500	16,100	19,300
Household Furnishings and Equipment	4,400	4,900	5,900
Grocery	74,700	83,000	99,600
Food and Drink Away From Home	47,100	52,300	62,800
Subtotal 2007 Supportable	**181,900**	**202,100**	**242,600**
Less Adjusted Existing Inventory 1/	(58,449)	(58,449)	(58,449)
Total 2007 Net Supportable	**123,451**	**143,651**	**184,151**

1/ Inventory adjusted for condition
Source: ESRI Business Analyst; Economics Research Associates, 2007

2012 Net Supportable Square Feet

- Based on estimated trade area expenditures and capture rates, the Georgia Avenue Gateway submarket can support between 191,600 and 255,400 square feet of retail in 2012

- There are approximately 83,600 square feet of new retail planned in the trade area, including projects along Georgia Avenue and Blair Road as well as at City Place

- 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 retail in the pipeline, the retail submarket can support between 49,551 and 113,351 square feet of retail in 2012

Estimated Supportable Square Feet 2012

Area	Low Range	Site Supportable	High Range
Apparel & Apparel Services	14,300	15,900	19,100
Entertainment & Recreation	29,100	32,300	38,800
Personal Care	15,200	16,900	20,300
Household Furnishings and Equipment	4,700	5,200	6,200
Grocery	78,700	87,400	104,900
Food and Drink Away From Home	49,600	55,100	66,100
Subtotal 2012 Supportable	**191,600**	**212,800**	**255,400**
Less Existing Retail 1/	(58,449)	(58,449)	(58,449)
Less Planned/Under Construction 2/	(83,600)	(83,600)	(83,600)
Total 2012 Incremental Supportable	**49,551**	**70,751**	**113,351**

1/ Includes adjusted inventory
2/ Includes retail at City Place and Silver Spring Gateway
Source: ESRI Business Analyst; Economics Research Associates, 2007

Commentary on the Current Retail Inventory

According to CoStar Group Real Estate Information Services, there is 89,921 square feet of retail space in the Georgia Avenue Gateway retail submarket. To determine net supportable square feet, the existing retail space is subtracted from the gross supportable square feet. One major determinant of opportunity relies on the quality of the existing space – how competitive is the space relative to the rest of the trade area and other competitive districts?

A recent study of Great Streets neighborhood retail for the Office of the Deputy Mayor for Planning & Economic Development studied the quality of the existing retail space in several commercial districts to determine the feasibility of a tax increment finance (TIF) district, including Georgia Avenue – Petworth. While the study area did not coincide directly with the trade area, the assessment of the relative quality of the existing building stock suggests the general condition of the property inventory in the area.

ERA analyzed the existing retail along the Georgia Avenue Gateway retail submarket and concluded that 35% of the retail inventory in the trade area was Grade "C", or inadequate, for contemporary retailing needs. In order to calculate supportable square footage, the existing space was discounted by removing the Grade "C" inventory from the equation.

Inventory Adjustment

Existing Retail Inventory in Submarket	89,921
Less Discounted Space ("C" Grade)	31,472
Adjusted Existing Inventory	58,449

Source: CoStar; Economics Research Associates, 2008.

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

Factors Affecting Store Supportable Square Feet, 2007

123,451 SF ← 143,651 SF → 184,151 SF

Well-formed Merchandise Mix
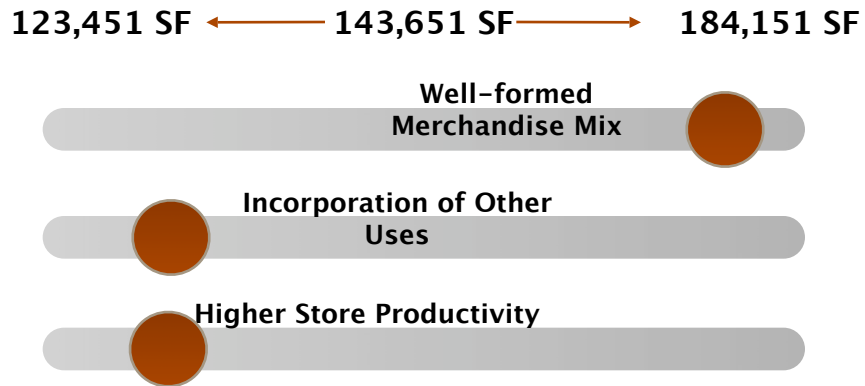
The success and appeal of a retail district is directly linked to its merchandise mix and its function as a destination

Incorporation of Other Uses

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

Higher Store Productivity

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

Low Sales / SF ←→ High Sales / SF
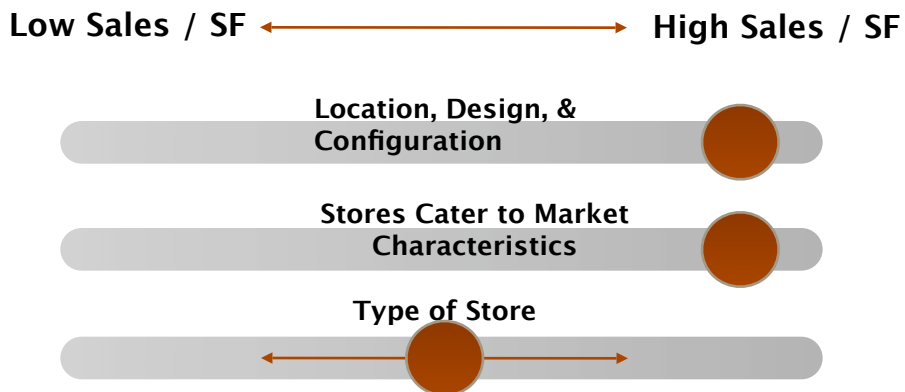
A store's size, placement within the district, interior and storefront design are part of total appeal for customers

Location, Design, & Configuration

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

Stores Cater to Market Characteristics

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)

Type of Store

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	$	1,854,889	6.0%
Entertainment & Recreation	$	4,256,923	13.7%
Personal Care	$	2,521,208	8.1%
Household Furnishings and Equipment	$	709,417	2.3%
Grocery	$	13,948,400	44.9%
Food and Drink Away From Home	$	7,787,552	25.1%
Subtotal	$	31,078,389	100.0%
Secondary			
Apparel & Apparel Services	$	2,422,357	6.1%
Entertainment & Recreation	$	4,535,702	11.5%
Personal Care	$	2,587,906	6.6%
Household Furnishings and Equipment	$	971,021	2.5%
Grocery	$	18,520,297	47.0%
Food and Drink Away From Home	$	10,408,332	26.4%
Subtotal	$	39,445,615	100.0%
Inflow			
Apparel & Apparel Services	$	213,862	2.4%
Entertainment & Recreation	$	439,631	5.0%
Personal Care	$	510,911	5.8%
Household Furnishings and Equipment	$	50,413	0.6%
Grocery	$	4,870,305	55.3%
Food and Drink Away From Home	$	2,729,383	31.0%
Subtotal	$	8,814,505	100.0%
All Markets			
Apparel & Apparel Services	$	4,491,109	5.7%
Entertainment & Recreation	$	9,232,256	11.6%
Personal Care	$	5,620,025	7.1%
Household Furnishings and Equipment	$	1,730,851	2.2%
Grocery	$	37,339,002	47.1%
Food and Drink Away From Home	$	20,925,266	26.4%
Total	$	79,338,509	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	$	1,945,144	6.1%
Entertainment & Recreation	$	4,356,931	13.7%
Personal Care	$	2,580,440	8.1%
Household Furnishings and Equipment	$	726,083	2.3%
Grocery	$	14,276,093	44.8%
Food and Drink Away From Home	$	7,970,506	25.0%
Subtotal	$	31,855,197	100.0%
Secondary			
Apparel & Apparel Services	$	2,605,495	6.1%
Entertainment & Recreation	$	4,878,617	11.5%
Personal Care	$	2,783,560	6.6%
Household Furnishings and Equipment	$	1,044,433	2.5%
Grocery	$	19,920,494	47.0%
Food and Drink Away From Home	$	11,195,237	26.4%
Subtotal	$	42,427,836	100.0%
Inflow			
Apparel & Apparel Services	$	227,532	2.5%
Entertainment & Recreation	$	461,777	5.0%
Personal Care	$	536,400	5.8%
Household Furnishings and Equipment	$	53,115	0.6%
Grocery	$	5,129,488	55.3%
Food and Drink Away From Home	$	2,874,861	31.0%
Subtotal	$	9,283,174	100.0%
All Markets			
Apparel & Apparel Services	$	4,778,172	5.7%
Entertainment & Recreation	$	9,697,326	11.6%
Personal Care	$	5,900,400	7.1%
Household Furnishings and Equipment	$	1,823,632	2.2%
Grocery	$	39,326,074	47.1%
Food and Drink Away From Home	$	22,040,605	26.4%
Total	$	83,566,208	100.0%

Georgia Avenue Gateway Strategy

Georgia Avenue Gateway

Introduction

The Georgia Avenue Gateway is an affluent, but underserved retail submarket, just south of a revitalized downtown Silver Spring, Maryland. The submarket begins on Georgia Avenue at Eastern Avenue (the border with Montgomery County, Maryland) and extands to Fern Street NW. It includes a short segment of Eastern Avenue to the intersection with 12th Street NW, and is comprised of two nodes that together have the potential to become a regional draw. The first node includes the three gateway blocks just inside the District line and the second continues two additional blocks south along the Georgia Avenue Corridor. Neither area has been designed or built out to its potential. The northern node is characterized by large lots capable of supporting both a major entrance to the District and high-density mixed-use development that could support large format retail bound the major intersections. Low-density, eclectic retail in the southern node can be maintained for neighborhood-serving, locally-owned independent retailers.

The Market Demand Analysis estimated that there were about 11,931 households in the primary and secondary trade areas in 2007, and that the number of households will grow to 12,548 by 2012. With annual household incomes in the primary market area estimated at $93,814 and $54,323 in the secondary market area, the submarket is well positioned to expand its position as a retail center. There are also several office and residential projects in the development pipeline that will offer increased retail demand and bode well for this submarket. Even after the 83,600 square feet of planned retail square feet are added to the inventory, retail demand in the submarket is estimated to support as much as an additional 113,351 square fett of retail in 2012, illustrating Georgia Avenue Gateway's potential to be a regional retail shopping center.

Based on the SWOT Analysis, Retail Demand Analysis and Preliminary Planning Diagrams completed as part of this submarket analysis, the most efficient approach to maximizing the value, mix and appropriateness of retail in this submarket requires acknowledging the following basic assessments of the area and then taking the specific actions listed below.

Merchandising Concepts

Node 1- Eastern Avenue Intersection: The merchandising strategy for the Gateway's northern node should focus on filling gaps in the market with large-format tenants, supplemented by selected smaller service retailers that would round out an emerging tenant mix. Within the gaps, the mix should reflect buying preferences of both the high median income of the area and the prevalence of renter households. One desirable use would be a grocery store that could compete with the Whole Foods, Safeway and Giant located in downtown Silver Spring (examples include other brands that might wish to compete such as Harris Teeter or Trader Joe's, sized at about 35,000 and 18,000 to 20,000 square feet, respectively). If larger parcels in the northern node can be assembled, a cluster of four to six apparel stores should be encouraged with street visibility. Examples of the product and pricing levels include South Moon Rising, Chico's and Up Against the Wall (typical sizes for these types of apparel stores range from 1,800 square feet up to 3,000 square feet). Along with a selected number of apparel stores, these uses can be intermixed with food service/coffee shops such as Mayorga Coffee or Caribou Coffee (requiring about 850 to 1,200 square feet each) and carry-out cafés such as Potbelly Deli (sized at about approximately 1,200 to 1,800 square feet). Other potential uses include neighborhood-oriented family and casual dining restaurants such as Ben's Chili Bowl or Guapo's (each at about 1,000 to 1,800 square feet each) and recreation uses like a yoga studio or gym. Although Gold's Gym and Washington Sports Club are located in Silver Spring, the relocation/enlargement of Curves or attracting a Results gym would direct specific markets to the Georgia Avenue Gateway corridor. These alternative uses would depend in large part on the level of residential and office development. For example, If a yoga studio is recruited, the proximity to the Silver Spring resident and office populations also suggest the opportunity to recruit a specialty athletic apparel business such as Lululemon Athletica (about 1,500 to 2,000 square feet).

Node 2- Georgia Avenue Corridor: In the southern node, the existing mix of unique retailers should remain, with an effort to fill in any gaps to create a continuous street front-age with retail uses at ground level. The challenge will be to assemble parcels at these key intersections (Georgia Avenue at Fern Street, Geranium Street, Hemlock Street, and Shepard Street) and to coordinate their re-development in a manner that creates critical mass of development at all four corners of each intersection. This assemblage would likely require consolidation of some residential properties. Public commitments to stimulate development for large-scale projects in the submarket would help to offset the costs of assemblage.

Urban Design Improvements

Although the existing streetscaping in the submarket is generally in good condition, under the auspices of the Upper Georgia Avenue Great Streets Plan, the District should improve the appearance of Eastern Avenue West and the two major starburst intersections in the northern node. The first intersection, with Eastern Avenue West and Blair Road at the boundary line with Maryland, should be enhanced to create a clear gateway to the submarket, where streetscaping features complement higher density buildings at the in-tersection. The second intersection (at Georgia Avenue, Alaska Avenue, Kalmia Road and Eastern Avenue East) should be established as the submarket's main intersection and pedestrian gathering spot. Should the future opportunity for a streetcar corridor emerge, a linear identity signage system would add another image-forming element to Georgia Avenue, potentially strengthening the image of the northern portal as the Gateway to DC. The Washington DC Office of Planning (DCOP) should investigate the potential for zon-ing changes that will allow for higher density, mixed-use development at the northern node's intersections.

In the submarket's southern node the emphasis should be on preserving the low-density feel of the existing retail while improving the appearance of the buildings through an intensive façade improvement program that builds on earlier efforts. Retailers should be encouraged to orient their entrances to face Georgia Avenue. In the long-term, if the higher-density development in the northern node is successful, redevelopment in the southern node could focus on mixed-use buildings at a lower scale more appropriate to this stretch of the corridor with its adjacent residential uses to the rear of the blocks.

Transportation Improvements

Georgia Avenue is a major commuter route, but the lack of a Metro station within walking distance means that the submarket is heavily auto-dependent. To address this chal-lenge, the District should consider operating a shuttle from the Silver Spring Metro Station on the model of the downtown Circulator bus until the streetcar is implemented. With build-out of additional office and residential as part of high-density mixed-use development in the northern node, this shuttle could potentially be funded by both public and private sources. Longer term value added if a future streetcar line is ever completed.

The auto-dependent nature of the submarket and the relative abundance of parking in downtown Silver Spring dictate that retail development in the submarket must be accom-panied by additional parking to be competitive with Silver Spring. The parking deficit and approaches to providing new parking options are highlighted in the DC Department of Transportation's (DDOT) 2005 Upper Georgia Avenue Parking Study.

Site & Market Capacity

The Gateway location, along a major commuter route and adjacent to a booming edge city retail district, is ideal for providing large-format retail that fills the gaps in the marketplace while sharing in the regional draw of consumers to the area. Large lots around the initial Georgia Avenue intersections in the District provide sufficient capacity for large-scale redevelopment with several high-density buildings. Lot depths in this northern node allow for efficient structured parking and service access. There is a need to blur the perceived boundary between the District and Silver Spring, while providing a strong connection along the corridor that will ease movement between the residential neighborhoods, and better connect employment/future redevelopment centers such as Walter Reed Army Hospital with increased retail density along Georgia Avenue. The market opportunity by 2012 will be significant, as the area is underserved, and until the District side offered enhanced and convenient retail options, resident expenditures are likely to increasingly transfer Silver Spring.

Retail Support

The adjacencies of existing and proposed retail sites and residential homes requires that a plan be in place for managing the operation of the commercial district, particularly with regard to buffering low-scale residential in the existing neighborhood from proposed higher-density uses. To improve the feel and viability of the submarket, existing retail shops in the southern node should receive technical assistance to reposition their businesses to capitalize on market changes and to better serve the existing market. The Gateway area will need to program events that activate the sidewalks and draw commuters and others to the northern area. Linking business and property owners to capital improvement financing programs. Long-term, a local merchants association or community group could consider pursuing joint financing for the corridor via such techniques as new market tax credits or federal historic preservation tax credits.

Key Recommendations

1. Treat the Gateway Georgia Avenue submarket as two distinct retail nodes, with intensive, higher-density development of large format retail in the northern node to build the submarket as a regional draw and support for a continued small-scale, unique mix of retail in the southern node to serve local needs.

2. In the northern node, urban design and development efforts should link up the retail nodes and infill appropriately along the corridor to reinforce pedestrian activity between future streetcar stops.   Currently, parking options for shoppers specifically visiting the southern node are limited. Given the future investment in public transportation and potential planned municipal parking facility, there may not be significant need to include additional parking on larger development sites.   Depending on the eventual size, capacity and need for assembled lots to accommodate additional parking, investigate whether zoning changes are needed to allow additional height.

3. In the southern node, capitalize on the authentic scale and appearance of the retail buildings by improving the quality of the existing commercial buildings. The Gateway CDC is a primary partner to accomplish these goals.

     a. Implementing a façade improvement program that upgrades existing storefronts and re-orients retail properties to face Georgia Avenue rather than side streets.
     b. Linking business and property owners to capital improvement financing programs. (Long-term, a local merchants association or community group could consider pursuing joint financing for the corridor via such techniques as new market tax credits or historic preservation tax credits.)

4. Implement signage and streetscaping program that:

     a. Highlights the gateway to the District and the retail submarket at the first intersection in the northern node (at Eastern Avenue West and Blair Road).

     b. Establishes the second intersection (at Alaska Avenue, Kalmia Road and Eastern Avenue East) as the submarket's main intersection and pedestrian gathering spot.

5. Transportation improvements should include operating a shuttle from the Silver Spring Metro Station, and implementing streetcar plans.

6. Support existing retailers by providing technical assistance related to adapting to their evolving market and the areas changing demographics, including:

     a. Revising and strengthening their merchandise mix.

     b. Engaging in joint-advertising with other retailers in the corridor.

     c. Programming their outdoor space.

7. Support programming of outdoor space to encourage shopping in the corridor. Community groups and the Gateway CDC are important partners.

8. Investigate interest among the community to support a responsible hospitality district association to help balance the concerns of commercial and residential stakeholders.