

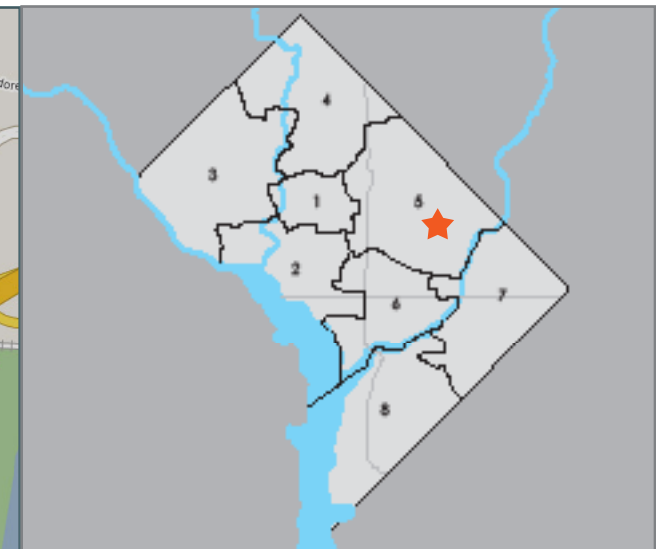
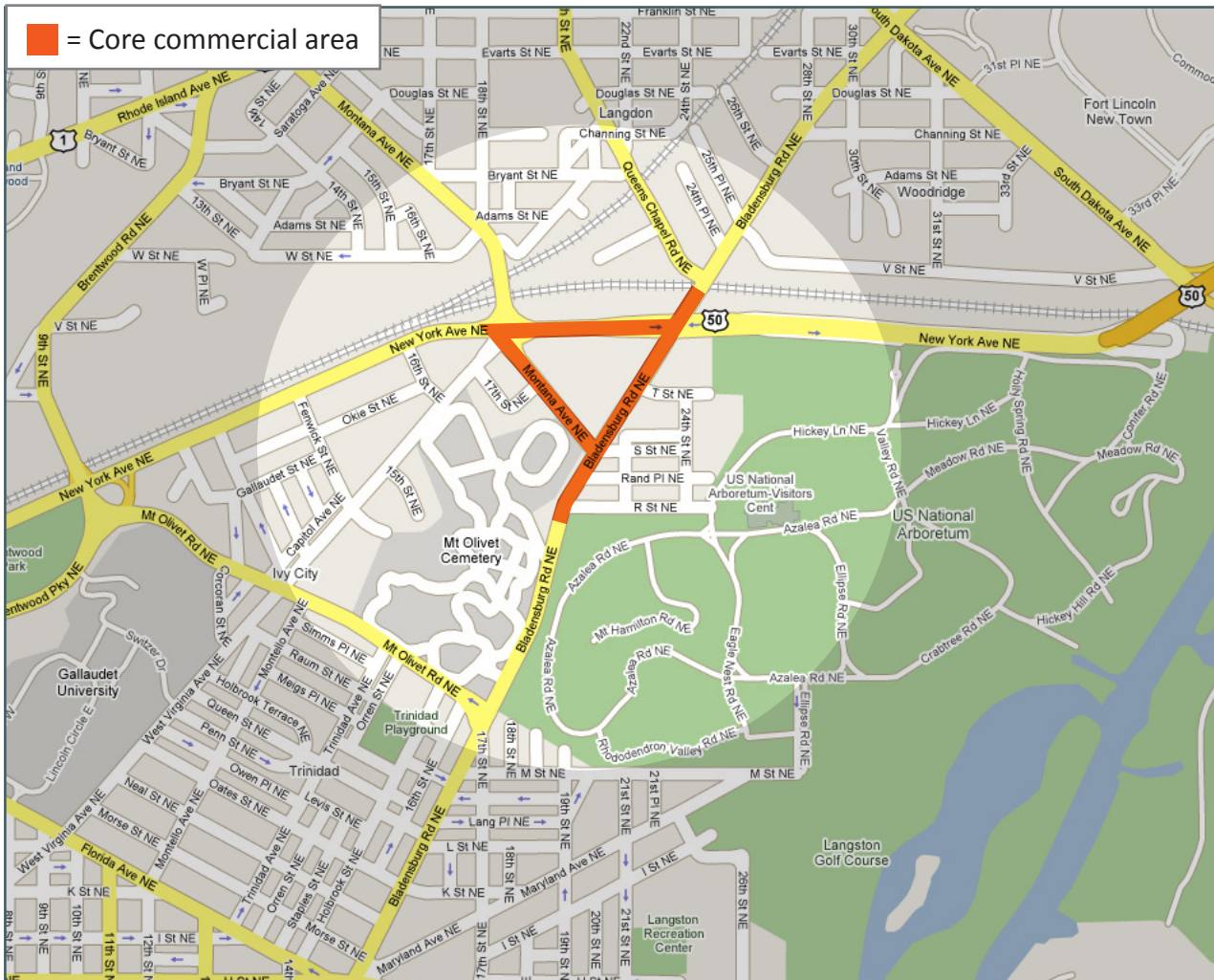
New York Avenue - Bladensburg Road

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



New York Avenue - Bladensburg Road SWOT Analysis





Boundaries

Bladensburg Road from Queens Chapel Road south to the entrance of Mount Olivet Cemetery; the 4-corner intersection of Bladensburg Road and New York Avenue; west on New York Avenue to Montana Avenue; and Montana Avenue south to Bladensburg Road

Zoning

The entire Bladensburg district is zoned as commercial-light manufacturing. The area is part of a much larger commercial-light manufacturing zone that runs east-west along New York Avenue. Further north and south, Bladensburg Road is zoned as commercial, except where it is next to the massive government-owned National Arboretum. The surrounding area is otherwise residential.

Overview

This highly visible submarket is located along New York Avenue, which has an average daily traffic rate of 80,000 cars, and Bladensburg Road. However, it is currently uninviting, with an expanse of highway-like roads, auto shops, and junkyards. The proposed Arbor Place project may transform these industrial areas into a mixed-use development, with residences overlooking Mount Olivet Cemetery and the National Arboretum, as well as substantial ground-floor retail. This submarket is heavily auto-dependent and has no easily accessible Metro stations.

1 Inside the Triangle

The 16-acre area inside the triangle formed by New York Avenue, Bladensburg Road, and Montana Avenue is taken up by redundant junkyards and auto shops. This large, rundown area has no secondary streets or organized space for service and loading; its triangular shape creates awkward geometries behind buildings that are filled with old cars. However, most of this area is slated to be redeveloped as Arbor Place, a significant mixed-use project that will add up to 3,700 residential units and 130,000sf of grocery-anchored ground-floor retail.

2 Outside the Triangle

A range of building types surround the triangle of infrastructure. New York Avenue in this area is home to 2 office buildings and capped at both major intersections with highway-like retail. Continued office redevelopment is appropriate here to take advantage of New York Avenue's position as a major thoroughfare. Police department buildings occupy key lots on both Montana Avenue and Bladensburg Road. Two hotels are currently under construction near the intersection of Bladensburg Road and New York Avenue.



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



Retail Node 1: Inside the Triangle

The area inside the triangle formed by New York Avenue, Bladensburg Road, and Montana Avenue can be divided into 2 sub-nodes: Auto Shops and Other Retail and Services.



A - Auto Shops almost exclusively dominate this inner area, and also have a strong presence along Bladensburg Road until the National Arboretum. While they provide an important service for the city, there is an over-supply of auto-related uses; they also give this highly visible area an industrial appearance. The Arbor Place development, which is slated to cover the entirety of the inner triangle (except for its northeast corner; see below), will dramatically affect this area. The project's 11-story residential buildings will turn the inner triangle into a housing complex ground-floor retail fronting New York Avenue.



B - Other Retail and Services occupy the 2 corners along New York Avenue of the triangle of infrastructure. Although these non-auto-shop buildings are mostly highway-like retail, they do not have a major presence. Similar shops along New York Avenue make these buildings run-of-the-mill despite their corner location; ground-floor retail, as proposed for Arbor Place, will better serve office employees across the street (see Node 2). The most prominent non-auto-shop building in this section is the public charter high school along Bladensburg Road, a civic building which will help anchor the community-oriented Arbor Place development.



Retail Node 2: Outside the Triangle



The area outside the triangle formed by New York Avenue, Bladensburg Road, and Montana Avenue can be divided into 2 sub-nodes: Office Uses and Other Retail and Services.



A - Office Uses predominate along the north side of busy New York Avenue. Because lots here are bounded only by rail tracks, issues associated with residences fronting commercial back doors are mitigated. Continued office development, especially vertical expansion, is appropriate along this major thoroughfare, which will be directly across from Arbor Place’s proposed 11-story residences. Similarly, goods and services should be provided in the form of ground-floor retail to meet the increased demand from the daytime population of office workers. This retail will also serve the increased residential population at Arbor Place.



B - Other Retail and Services line the outer node along Montana Avenue and Bladensburg Road, and represent key opportunities for redevelopment. The 2 hotels under construction just south of the intersection of Bladensburg Road and New York Avenues exemplify this submarket’s rapid transition. As the area continues to develop, other key parcels that are well-positioned for development include the Progressive Life Center and several retail pads along New York Avenue.

Streets & Blocks

This submarket is comprised of 3 major roads that create a distinct triangle of heavy infrastructure: New York Avenue, Bladensburg Road, and Montana Avenue. New York Avenue, which is one of the District's busiest commuter routes, is the primary corridor. It is a completely non-pedestrian highway with little streetscaping. There are 3 lanes of traffic in each direction, and sometimes up to 5 with turning lanes. Similarly, Bladensburg Road is a major thoroughfare into and out of the city that is hostile to pedestrians; Montana Avenue is slightly smaller with 2 lanes of traffic in each direction. These major roads make this submarket undeniably auto-centered. Efforts should be made to slow traffic and make intersections safer (e.g., streetscaping, grade-separated traffic circles, etc.).



Intersections

The large-scale infrastructure in this submarket creates massive intersections that are hazardous to both pedestrians and drivers. The largest intersection, which occurs at New York Avenue and Bladensburg Road, is the most accident-prone intersection in the District; the nearby intersection of New York Avenue and Montana Avenue also ranks among the city's top 10 hazardous spots. While traffic patterns in and out of the city necessitate the large scale of the submarket's roads, these intersections can be designed with improved safety in mind. For example, New York Avenue can pass under Bladensburg Road in the tradition of many urban traffic circles. Similarly, the existing traffic circle at New York and Montana Avenues needs improved signage and streetscaping to slow drivers.



Buildings

While the submarket has a mix of building types, junkyards and small auto shops in poor condition predominate. However, this may radically change with the proposed Arbor Place development, which would shift the dominant building type with eight 11-story residential towers. Arbor Place will also help to re-orient retail from focusing on commuter traffic/passersby to serving local residents and office workers, as it is slated to include a grocery store and health club. Offices are another building type that have a significant presence in the submarket—2 large buildings of this type are located on the north side of New York Avenue. These structures could be redeveloped to increase vertical density, taking advantage of their prime location. This is especially true as New York Avenue continues to become more business-oriented.



Alleys & Service

Within the triangle of infrastructure, which houses most of the submarket's existing auto-related retail, there are no clearly established alleys for service and loading. However, outside this triangle, fast food shops and gas stations occupy their own large retail pads with adequate surface parking, as well as space for service and loading. Newer offices along New York Avenue have a similar setup that makes expansion along this corridor possible.



Strengths

- The submarket's location along New York Avenue, an important route into D.C. from Maryland, gives it added momentum for redevelopment because of the high visibility provided to businesses and retail; from a retail perspective, it is an especially important corridor going out of the city
- Large lots with adequate depths and few adjacent residences have excellent potential for commercial and mixed-use redevelopment
- Offices and hotels along New York Avenue increase the demand for goods and services retail tenants in the submarket
- Nearby redevelopment along New York Avenue and points south (i.e., the Old Hecht's Warehouse, Fort Lincoln, North Capitol Street, and H Street) is putting pressure on this neighborhood to change
- Mount Olivet Cemetery and the National Arboretum are publicly accessible parkland that beautify the surrounding area with expanses of woodland and mature trees

Weaknesses

- The existing infrastructure is overwhelming and expansive intersections have high accident rates
- The lack of a nearby Metro station reinforces the auto-dependence of this submarket
- Auto shops in poor condition cover the 16-acre area inside the submarket's triangle of infrastructure, giving it a blighted appearance
- There is very little diversity in the existing retail, which consists only of auto shops, fast food, and gas stations
- The lack of nearby residences puts pressure on building types that lack a stable population, such as offices and hotels, to support retail
- Efforts to diversify retail offerings may clash with the pricepoint sensitive needs of the existing population base

Opportunities

- Improve the submarket's access to public transportation to make it less auto-dependent; future proposed densities warrant an additional Metro station
- Future proposed densities, as well as the submarket's location near the DC border, make a major parking structure viable; similar to those located at the Shady Grove and Vienna Metro stations, this structure would keep many commuters from driving into the city and help reduce traffic
- Study the 2 major intersections along New York Avenue (with Bladensburg Road and Montana Avenue) to improve their safety
- Changing perceptions and demographics (spurred by Arbor Place) will increase the need for more diverse retail offerings; as other development projects piggyback off Arbor Place, implement standards to ensure the creation of a vibrant and cohesive new neighborhood that interfaces with the existing population and infrastructure
- Expand the range of food offerings with quick-bite shops and sit-down restaurants

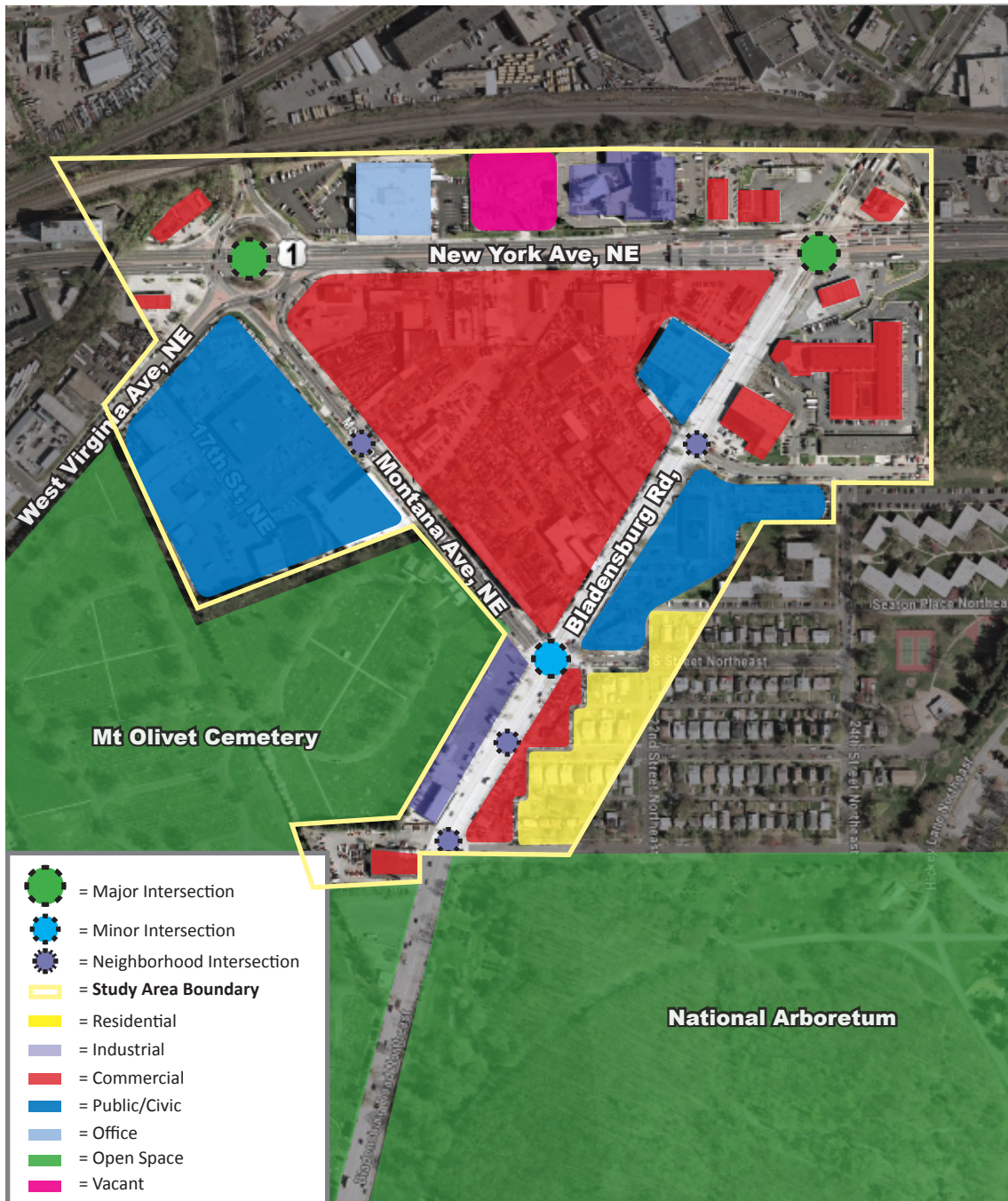
Threats

- Because the Arbor Place development is so expansive, the submarket's future will be heavily influenced by a single project; it is important to develop additional strategies in case the development program substantially changes
- More density from high-rise residences and offices will bring more traffic due to the lack of the Metro
- Improving infrastructure will be very costly and difficult to coordinate, but existing conditions are inconsistent with Main Street retail development

New York Avenue - Bladensburg Road Preliminary Planning Diagrams



Planning Analysis Nodes 1 & 2: Inside and Outside the Triangle



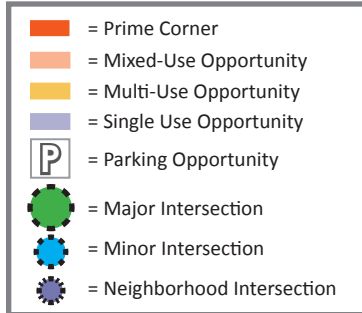
General Observations about Existing Area:

- 1) New York Avenue is an existing thoroughfare for large volumes of vehicular traffic; although this provides convenient access and very high visibility for retail development, this street is currently hostile to pedestrians. Also, frequent traffic congestion adversely affects the quality of the street environment.
- 2) Existing retail offerings lack a diversity of tenants and price points; therefore, this area is not currently attracting a large and varied customer base.
- 3) Existing development at each intersection does not engage the corners of the block, nor does it help define a pedestrian-friendly streetscape.
- 4) Greater development density will likely require, and benefit from, a new Metro station stop in this area. The provision of a large parking structure may also be required in order to serve transit users.
- 5) Existing auto body shops are important to the community and the district; however, these businesses currently occupy prime land for redevelopment.

Retail Planning Principles:

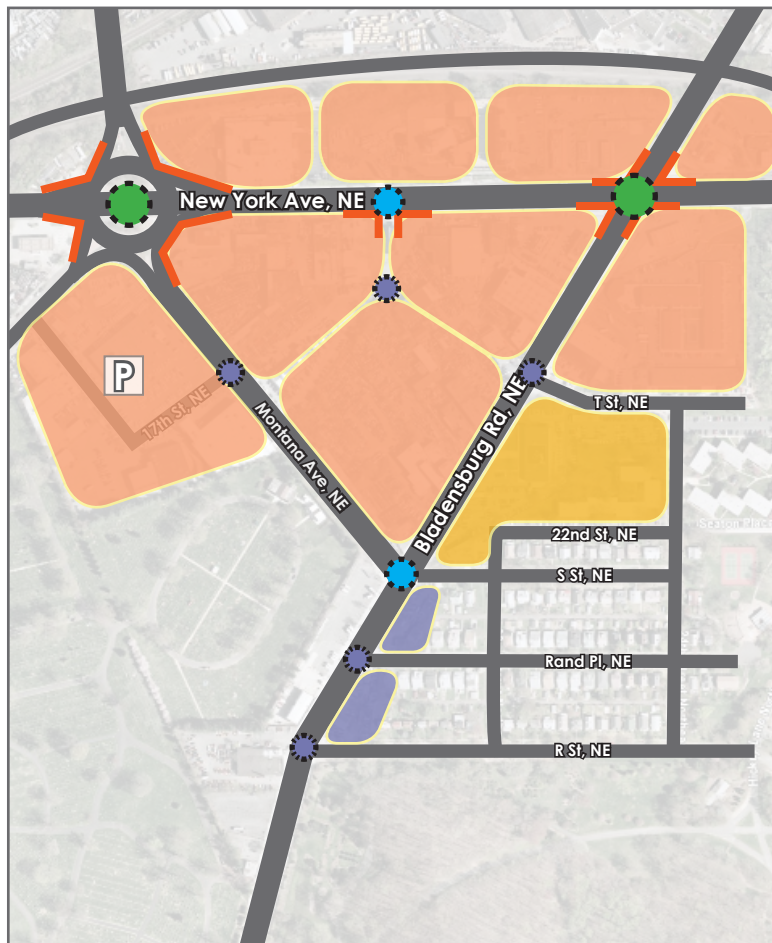
- 1) Serve commuters' needs with new retail offerings. This study area provides excellent opportunities to do this.
- 2) Provide a wide variety of price points with new retail offerings, keeping in mind the following two objectives: a) Attracting a new customer base, and b) Continuing to serve the adjacent residential neighborhoods.
- 3) Include potential locations for a new Metro station and parking structure when planning for retail development because these elements will provide significant support for new retail.

Planning Concepts Nodes 1 & 2: Inside and Outside the Triangle



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, AND MULTI-USE DEVELOPMENT OPPORTUNITIES

Given deep site depths throughout the trade area, there are many opportunities for large-scale mixed-use development.

The substantial scale of the triangular parcel (bounded by New York Ave/Bladensburg Rd/Montana Ave) would support multi-building new development that could be built out in phases. The street and block layout within this triangular parcel can be sustained by access to parking, loading, and other “back of house” services that are integral to the success of any redevelopment in this location.

There is also an opportunity to create a interior network of streets that can become a unique retail offering that is more pedestrian-friendly with Main Street qualities. A new intersection off New York Avenue can become a front door to the new development.

New development at the intersection of Bladensburg Road and New York Avenue could be planned to create a dynamic gateway to this area. Activating the corners of the intersection with architecturally interesting buildings will create a focal point as visitors cross into the District.

Existing auto body shops and industrial uses are important to the community and to the District as a whole since there is a notable lack of supply in these categories elsewhere; however, in this submarket, they currently occupy prime land for redevelopment. Relocating these uses to outlying parcels with more shallow depths would drastically reduce limitations upon higher-density development in the Bladensburg Road-New York Avenue study area.

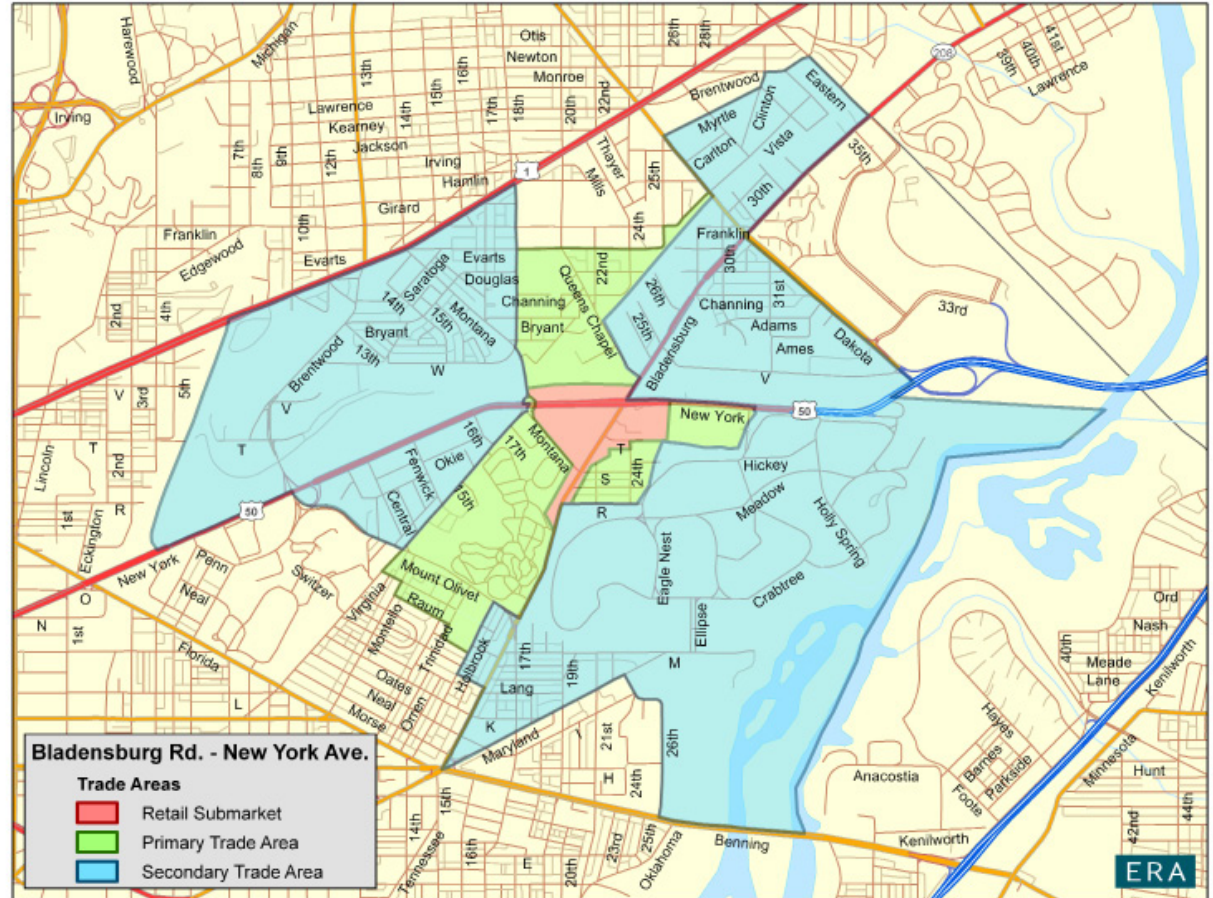
New York Avenue - Bladensburg Retail Demand Analysis



The retail submarket is located along Bladensburg Road from Queens Chapel south to the entrance of Mt Oliver Cemetery, west on Montana Avenue to New York Avenue, then east to Bladensburg

Key Elements

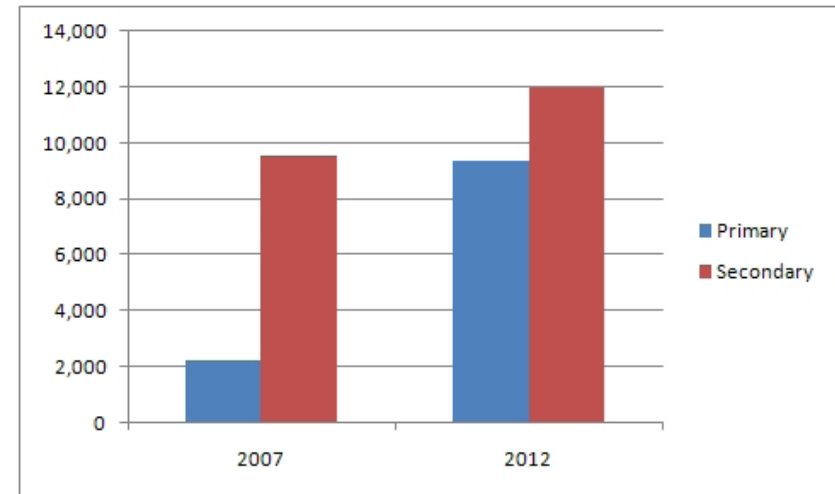
- Trade areas assess residents and other potential customers that could be drawn to the site
- The primary trade area encompasses the block groups within a ¼ mile of the retail submarket; the secondary trade area includes the block groups within a ½ mile of the retail submarket (reasonable walking distances 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



The New York Avenue - Bladensburg Road trade area is expected to have significant increases in population and housing units in the over the next five years

- New residential projects may add 4,395 households or approximately 9,528 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 11,825 in 2007 to 21,391 in 2012; an average annual growth rate of 12.6 percent
- Major new projects include Arbor Place, Rhode Island Station and Arboretum Place

Trade Area Population Growth, 2007 and 2012



Trade Area Household Growth, 2007 and 2012

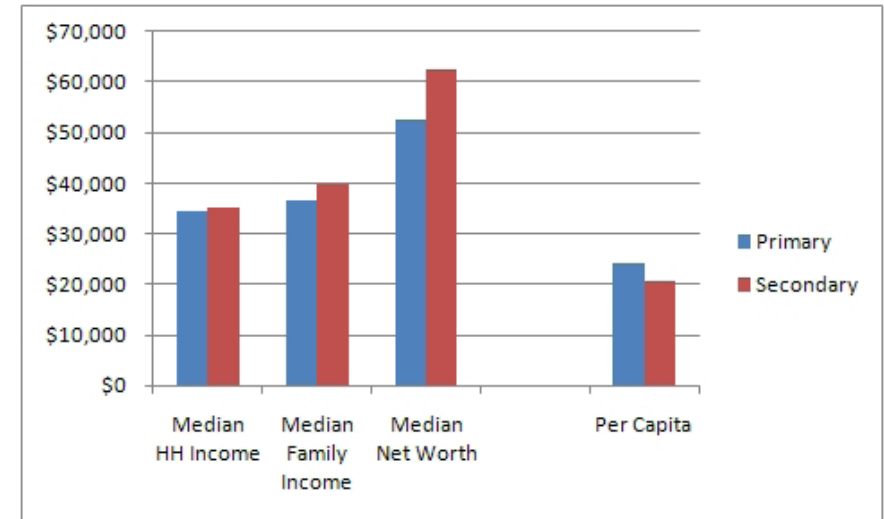
| | Estimated 2007 | Projected 2012 |
|-----------|-------------------|-------------------|
| Primary | 893 | 4,287 |
| Secondary | 3,770 | 4,813 |
| Total | 4,663 | 9,100 |

New York Avenue - Bladensburg Road Key Demographics: Trade Area Household Profile

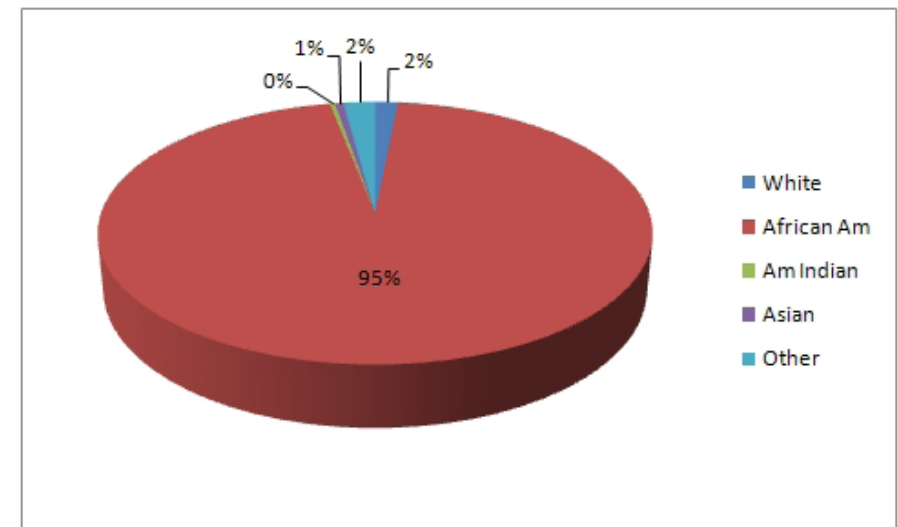
- The Bladensburg Rd.-New York Ave. trade area is comprised of mostly lower-income households
- The median household income in the primary trade area is \$34,47 and is \$35,285 in the secondary trade area
- Per Capita income in both the primary and secondary trade areas are below the national average- \$24,139 and \$20,529 vs. \$27,916
- The population in the Bladensburg Road-New York Avenue trade area is primarily African-American – at 95%. Latino and Hispanic households may identify as black, white, or other in census data*

*"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



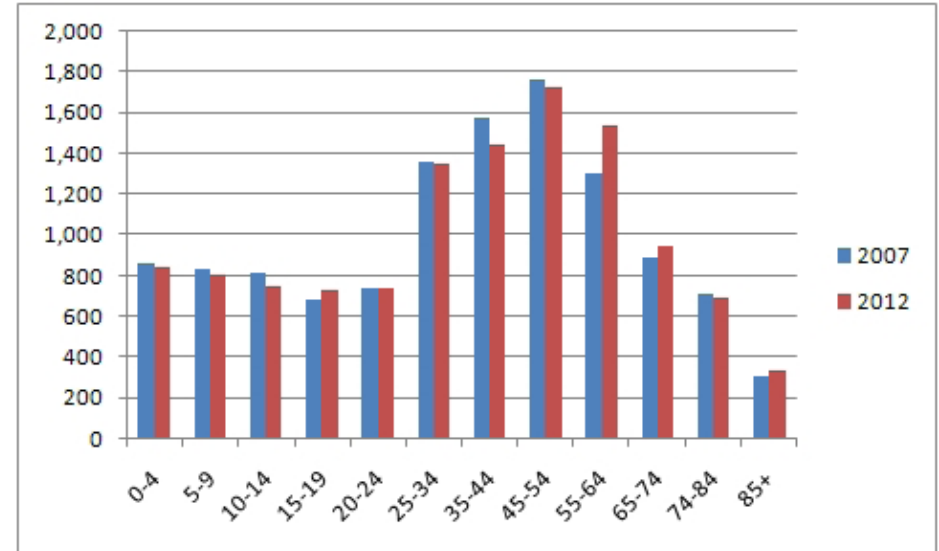
Racial and Ethnic Groups, 2007



The New York Avenue - Bladensburg Road trade area is expected to see the greatest increase in population within the 55 to 64 age cohort over the next five years

- The 35 through 44 age cohort is expected to see a significant decrease in population over the next five years, a negative indicator for residential and retail demand
- Growth in the 55 to 64 age cohort will increase demand for goods and services associated w/ "Empty Nesters" and those heading towards retirement
- However, no change or slight increases in those aged 15 to 24 are positive indicators for retail demand
- Households with young children suggest potential for retail goods and services relating to families
- Pre-retiree and retiree cohorts are expected to have moderate increases

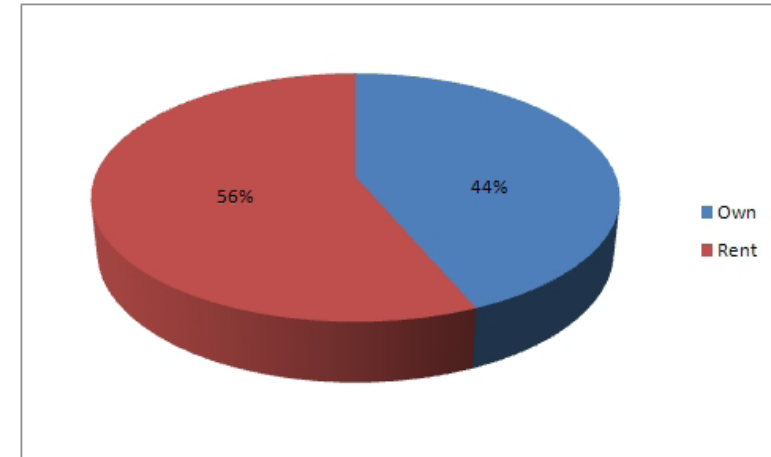
Trade Area Population by Age, 2007 and 2012



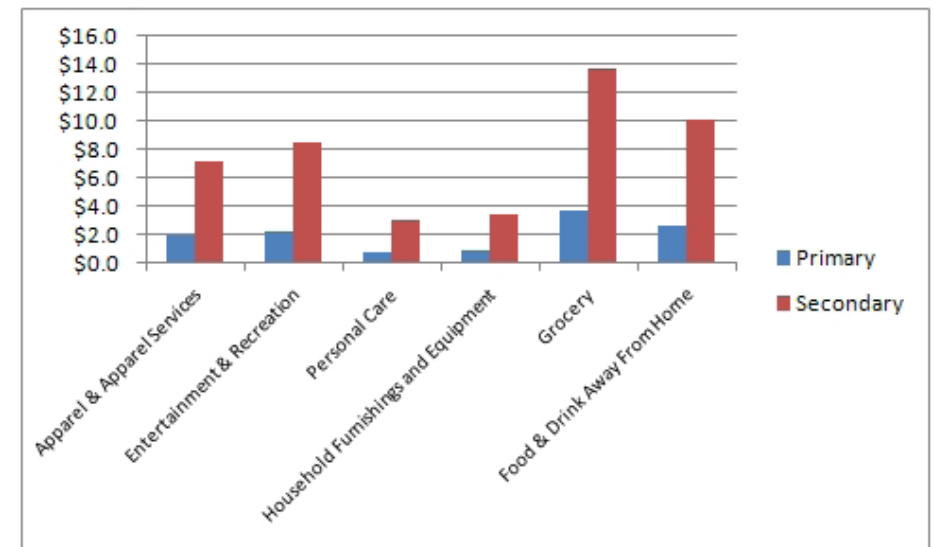
New York Avenue - Bladensburg Road Key Demographics: Trade Area Household Profile

- A slightly higher percentage of households in the Bladensburg Rd.-New York Ave. trade area rent their homes, versus own (56% v. 44%)
- 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 retail submarket needs to be able to capture more of the total expenditures available
- In 2007 trade area residents spent a total of \$58.5 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



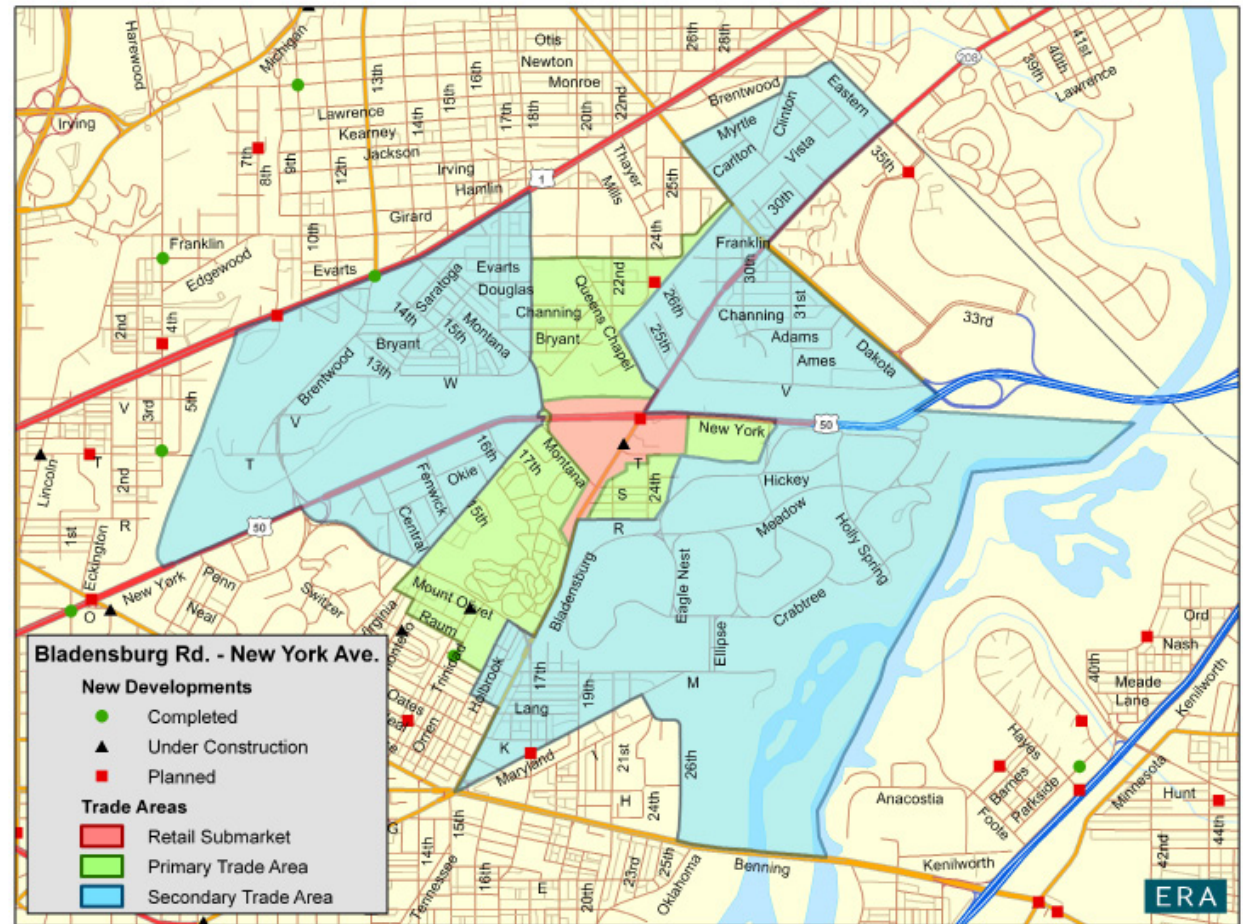
Household Expenditures (In Millions) by Category, 2007



Development Pipeline

Pipeline Projects

- Three large projects, Arbor Place, Rhode Island Station and Arboretum Place are planned in the trade area
- Arbor Place is expected to have up to 130,000 square feet of new retail space to support the 3,400 residential units planned for the project; Rhode Island Station will add 274 units and 70,000 square feet of retail
- Other projects, including Arboretum Place, have planned mixed-use space
- The developer of the old Hecht's Warehouse site is looking to draw large format retail to the area as well as retail and other uses for the historical art-deco building. No specific development program is proposed at this time



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.

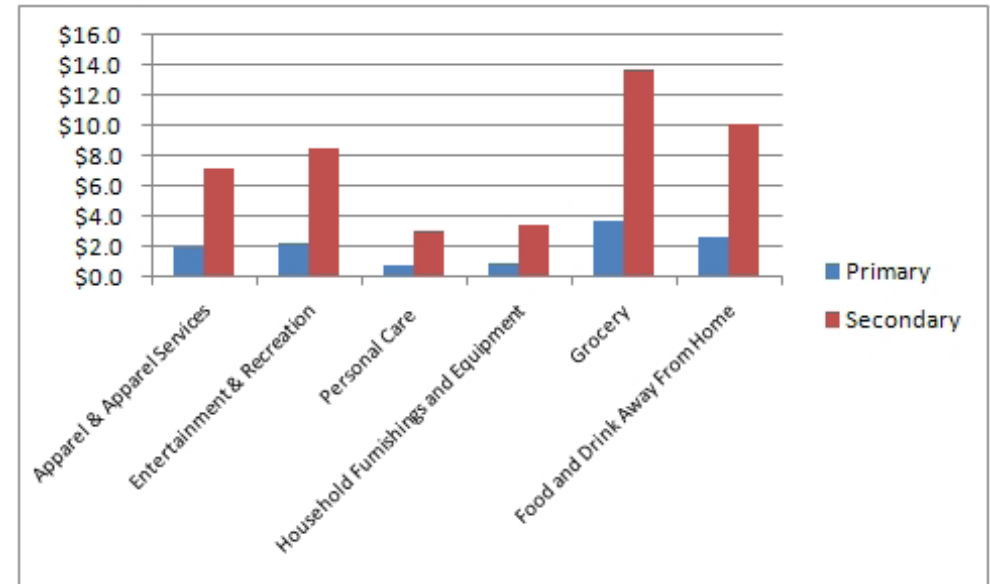
This relationship establishes the connection between the total sales that retailers can achieve, the amount they can afford to pay in rent, and whether the property owners will be willing (or able) to invest in major needed building upgrades (electrical systems, HVAC, or tenant improvements) to attract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

Trade Area Expenditures By Category (In Millions), 2007

\$58.5 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

Bladensburg Rd.-New York Ave. Submarket Capture Rates By Category

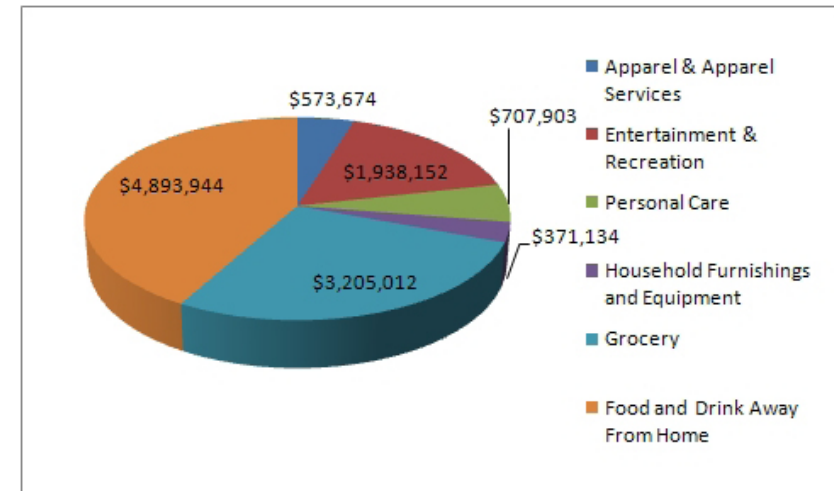
| | Primary | Secondary | Inflow |
|-------------------------------------|---------|-----------|--------|
| Apparel & Apparel Services | 10% | 5% | 3% |
| Entertainment & Recreation | 25% | 15% | 5% |
| Personal Care | 25% | 15% | 7% |
| Household Furnishings and Equipment | 10% | 8% | 3% |
| Grocery | 25% | 15% | 7% |
| Food and Drink Away From Home | 45% | 30% | 15% |

Source: ESRI Business Analyst; Economics Research Associates, 2007

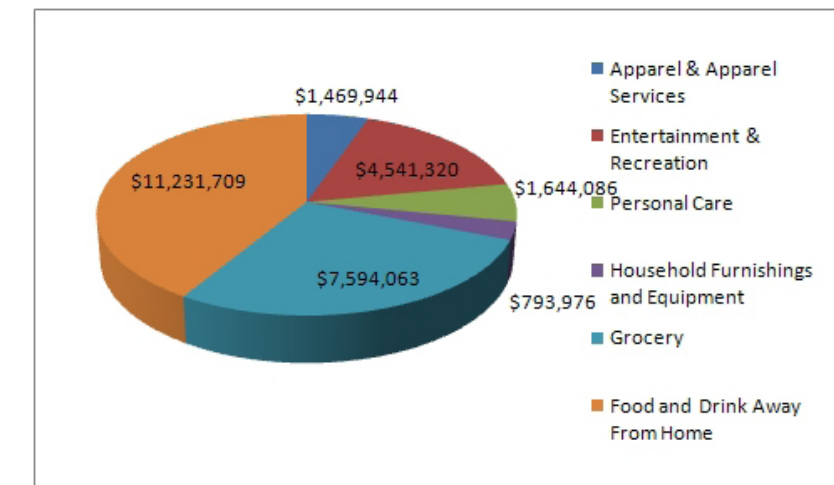
Estimated Captured Spending within the Retail Market

- Captured spending in the retail trade area was estimated to be \$11.7 million in 2007 compared to total trade area spending of \$58.5 million in the same year
- Captured spending in the retail trade area is expected to be \$27.3 million in 2012 compared to total trade area spending of \$118.5 million in the same year
- ERA estimates by 2012 that Grocery spending will account for more than \$7.5 million annually and Food and Drink (away from home) will account for a little more than \$11.2 million annually
- Captured spending in the retail trade area is expected to increase by \$15.5 million between 2007 and 2012, due mostly to changes in population and income levels

Estimated Captured Retail Trade Area Spending, 2007
\$11.7 Million



Estimated Captured Retail Trade Area Spending, 2012
\$27.3 Million



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

Bladensburg Rd.-New York Ave. Submarket Comparable Productivity

- The best way to estimate a site’s productivity is to assess annual 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 | \$ 250 | \$ 350 |
| Entertainment & Recreation | \$ 250 | \$ 350 |
| Personal Care | \$ 250 | \$ 450 |
| Household Furnishings and Equipment | \$ 300 | \$ 450 |
| Grocery | \$ 450 | \$ 550 |
| Food and Drink Away From Home | \$ 350 | \$ 500 |

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 spending in the market area, the Bladensburg Road-New York Avenue trade area can support between 31,700 and 42,300 square feet of retail in 2007

- The existing retail inventory totals 105,507 square feet within the retail submarket. In order to take into account the lower quality space it was discounted to 31,652 square feet

- Due to the existing amount of retail in the Bladensburg Road-New York Avenue, the retail submarket has a net supportable square foot range between 48 and 10,648 in 2007

Estimated Net Supportable Square Feet 2007

| Area | Low Range | Site Supportable | High Range |
|-------------------------------------|---------------|------------------|---------------|
| Apparel & Apparel Services | 2,100 | 2,300 | 2,800 |
| Entertainment & Recreation | 7,000 | 7,800 | 9,400 |
| Personal Care | 2,500 | 2,800 | 3,400 |
| Household Furnishings and Equipment | 1,100 | 1,200 | 1,400 |
| Grocery | 6,400 | 7,100 | 8,500 |
| Food and Drink Away From Home | 12,600 | 14,000 | 16,800 |
| Subtotal 2007 Supportable | 31,700 | 35,200 | 42,300 |
| Less Adjusted Existing Inventory 1/ | (31,652) | (31,652) | (31,652) |
| Total 2007 Net Supportable | 48 | 3,548 | 10,648 |

1/ Includes adjusted inventory

Source: ESRI Business Analyst; Economics Research Associates, 2007

2012 Net Supportable Square Feet

- Based on estimated trade area expenditures and capture rates, the Bladensburg Road-New York Avenue submarket is estimated to support between 74,000 and 98,700 square feet of retail in 2012
- There is approximately 204,728 square feet of new retail planned in 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 in the Bladensburg Road-New York Avenue, the retail submarket is projected to have a negative supportable square foot range between (162,380) and (137,680) in 2012
- Significantly more households will be needed in the trade area to support the planned retail projects. In order to increase inflow spending, destination retail may be necessary

Estimated Supportable Square Feet 2012

| Area | Low Range | Site Supportable | High Range |
|---|------------------|------------------|------------------|
| Apparel & Apparel Services | 5,300 | 5,900 | 7,100 |
| Entertainment & Recreation | 16,400 | 18,200 | 21,800 |
| Personal Care | 5,900 | 6,600 | 7,900 |
| Household Furnishings and Equipment | 2,300 | 2,600 | 3,100 |
| Grocery | 15,200 | 16,900 | 20,300 |
| Food and Drink Away From Home | 28,900 | 32,100 | 38,500 |
| Subtotal 2012 Supportable | 74,000 | 82,300 | 98,700 |
| Less Existing Retail 1/ | (31,652) | (31,652) | (31,652) |
| Less Planned/Under Construction 2/ | (204,728) | (204,728) | (204,728) |
| Total 2012 Incremental Supportable | (162,380) | (154,080) | (137,680) |

1/ Includes adjusted inventory

2/ Includes retail at Arbor Place, Rhode Island Station and Aboretum Place

Source: ESRI Business Analyst; Economics Research Associates, 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 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 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

Commentary on the Current Retail Inventory

According to CoStar Group Real Estate Information Services, there is 105,507 square feet of retail space in the Bladensburg Road-New York Avenue 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?

ERA analyzed the existing retail along the Bladensburg Road-New York Avenue retail submarket and concluded that 70% 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.

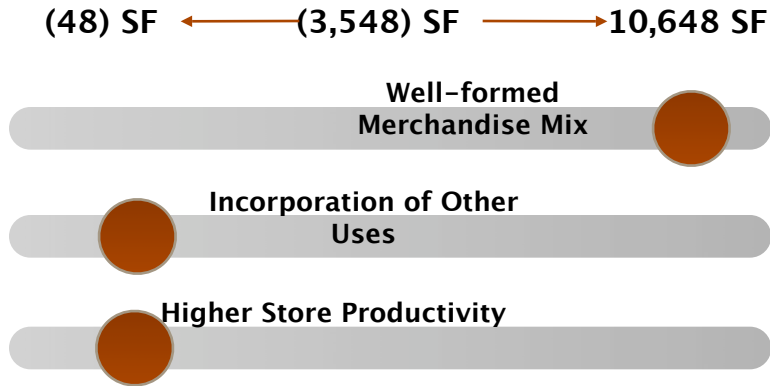
Inventory Adjustment

| | |
|--|---------|
| Existing Retail Inventory in Submarket | 105,507 |
| Less Discounted Space ("C" Grade) | 73,855 |
| Adjusted Existing Inventory | 31,652 |

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

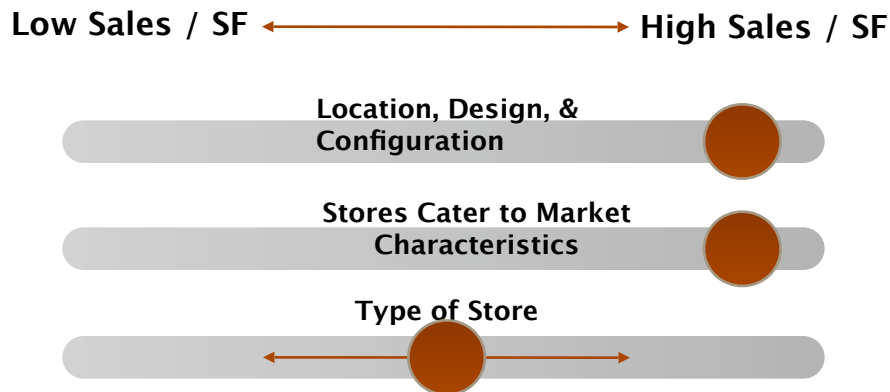


The success and appeal of a retail district is directly linked to its merchandise mix and its function as a destination

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 | \$ 195,859 | 6.2% |
| Entertainment & Recreation | \$ 555,908 | 17.5% |
| Personal Care | \$ 195,359 | 6.1% |
| Household Furnishings and Equipment | \$ 87,609 | 2.8% |
| Grocery | \$ 924,534 | 29.0% |
| Food and Drink Away From Home | \$ 1,223,360 | 38.4% |
| Subtotal | \$ 3,182,629 | 100.0% |
| Secondary | | |
| Apparel & Apparel Services | \$ 361,106 | 4.8% |
| Entertainment & Recreation | \$ 1,289,951 | 17.2% |
| Personal Care | \$ 466,232 | 6.2% |
| Household Furnishings and Equipment | \$ 272,716 | 3.6% |
| Grocery | \$ 2,070,804 | 27.6% |
| Food and Drink Away From Home | \$ 3,032,244 | 40.5% |
| Subtotal | \$ 7,493,053 | 100.0% |
| Inflow | | |
| Apparel & Apparel Services | \$ 16,709 | 1.6% |
| Entertainment & Recreation | \$ 92,293 | 9.1% |
| Personal Care | \$ 46,311 | 4.6% |
| Household Furnishings and Equipment | \$ 10,810 | 1.1% |
| Grocery | \$ 209,674 | 20.7% |
| Food and Drink Away From Home | \$ 638,341 | 62.9% |
| Subtotal | \$ 1,014,137 | 100.0% |
| All Markets | | |
| Apparel & Apparel Services | \$ 573,674 | 4.9% |
| Entertainment & Recreation | \$ 1,938,152 | 16.6% |
| Personal Care | \$ 707,903 | 6.1% |
| Household Furnishings and Equipment | \$ 371,134 | 3.2% |
| Grocery | \$ 3,205,012 | 27.4% |
| Food and Drink Away From Home | \$ 4,893,944 | 41.9% |
| Total | \$ 11,689,819 | 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 | \$ 962,966 | 6.3% |
| Entertainment & Recreation | \$ 2,666,969 | 17.4% |
| Personal Care | \$ 937,237 | 6.1% |
| Household Furnishings and Equipment | \$ 420,303 | 2.7% |
| Grocery | \$ 4,435,452 | 29.0% |
| Food and Drink Away From Home | \$ 5,869,070 | 38.4% |
| Subtotal | \$ 15,291,997 | 100.0% |
| Secondary | | |
| Apparel & Apparel Services | \$ 464,164 | 4.8% |
| Entertainment & Recreation | \$ 1,658,097 | 17.2% |
| Personal Care | \$ 599,293 | 6.2% |
| Household Furnishings and Equipment | \$ 350,548 | 3.6% |
| Grocery | \$ 2,661,803 | 27.6% |
| Food and Drink Away From Home | \$ 3,897,633 | 40.5% |
| Subtotal | \$ 9,631,538 | 100.0% |
| Inflow | | |
| Apparel & Apparel Services | \$ 42,814 | 1.8% |
| Entertainment & Recreation | \$ 216,253 | 9.2% |
| Personal Care | \$ 107,557 | 4.6% |
| Household Furnishings and Equipment | \$ 23,126 | 1.0% |
| Grocery | \$ 496,808 | 21.1% |
| Food and Drink Away From Home | \$ 1,465,005 | 62.3% |
| Subtotal | \$ 2,351,563 | 100.0% |
| All Markets | | |
| Apparel & Apparel Services | \$ 1,469,944 | 5.4% |
| Entertainment & Recreation | \$ 4,541,320 | 16.7% |
| Personal Care | \$ 1,644,086 | 6.0% |
| Household Furnishings and Equipment | \$ 793,976 | 2.9% |
| Grocery | \$ 7,594,063 | 27.8% |
| Food and Drink Away From Home | \$ 11,231,709 | 41.2% |
| Total | \$ 27,275,098 | 100.0% |

New York Avenue - Bladensburg Road Strategy



New York Avenue - Bladensburg Road

Introduction

This submarket is currently comprised of three major roadways with high-volume traffic and substantial transportation infrastructure surrounding a 16-acre light industrial area with limited access to its interior. Though the available land and concentration of commuter traffic offer significant impetus for redevelopment in the long-term – centered on the large triangle at the core of the area – the existing customer base does not support major retail investment in the short-term. Retail strategies for this submarket, therefore, should focus on improving the infrastructure along the main corridors to both address current challenges and to facilitate connections with any new development that occurs within the triangle.

Total population in the Avenue-Bladensburg Road trade area is projected to almost double from 11,825 in 2007 to 21,391 in 2012. The median household income in the primary trade area is \$34,47 and \$35,285 in the secondary trade area. Overtime, new residential projects, including Arbor Place, may add 4,395 households or approximately 9,528 new residents in the trade area, although the timing is not certain. When implemented, these projects will significantly change the existing demographics as well as the spending potential for more retail offerings and opportunities.

Merchandising Concepts

The market positioning strategy for New York Avenue-Bladensburg Road represents a major shift from low-density, auto oriented cluster of uses to a more pedestrian-oriented area. This will be shaped through redevelopment of the large parcels in the triangle framed by Montana Avenue NE, Bladensburg Road NE, and New York Avenue. The change in the market will be almost completely dependent upon implementation of the Arbor Place and Arboretum projects over the near and longer term. The high visibility of the New York Avenue site, including exposure to 80,000 cars per day, also suggests significant opportunity for commuter and drive-by inflow sales (assuming that the retail mix and proximity are appropriate for a major auto commuting path). As some large industrial structures have transitioned to clubs and music venues, the nighttime character of the area has shifted from industrial to entertainment, but retained the industrial character of the old uses. These buildings may have future retail potential such as plans for the Hecht Company warehouse. In particular, the auto repair shops and gas stations along Bladensburg Road are both a cluster of uses that are not found in other parts of the District but they also represent a lower density land use that is ready for redevelopment.

The positioning strategy for the near term, while the development pace of large-scale projects such as Arbor Place are determined, should focus on introduction of transitional uses that will attract sales from the drive-by market, including quick-stop food or coffee shop/bakery (sized at about 1,200 to 4,000 square feet each). The major new developments will introduce pedestrian-scaled street grids, safe and walkable environments, and a planned concentration of 130,000 square feet of grocery-anchored convenience retail. Until a concentration of new residents is in place (and the mixed-use environment they will support), Bladensburg Road will best be served by selective addition of a modest amount of new, auto-oriented retail. After Arbor Place and the Arboretum Project are implemented, this will become a very different type of retail environment.

This submarket as a retail location is dependant upon the timing of the Arboretum development. Conditional interim strategies should focus on cleaning up existing conditions in the area. Due to high traffic volume, auto-oriented pad site development has the best opportunity of success in

the near term. The immediate tenant mix should include quick-service restaurants Ben's Chili Bowl or perhaps a chain (sized around 3,000 square feet each); a Dunkin' Donuts location with sit-down/carry out space (approximately 850 to 1,200 square feet), would add a needed coffee/bakery/snacks component, and could also be combined with a Baskin-Robbins Ice Cream shop to extend attraction year round.

It may be worthwhile, as part of the redevelopment plan for the area to consider a strategy for keeping industrial uses as part of the "placemaking" approach for the area. Such a plan would design around areas in which the industrial heritage of the area is preserved and new uses seek to build around this concept. Examples could include the continuation of automotive repair onsite, with new retail to include transportation-related retail (i.e., a Harley-Davidson dealership, high-end car detailing and renovation, etc.), or home improvement retail that would concentrate, for example, high-end tile, glass, and reclaimed wood finishing. Along the lines of 4th Street in Berkeley, California and the Strip District in Pittsburgh. These types of uses rely upon large, high-visibility, affordable spaces to be viable, and could be successful for the one to two decades it may take for full build-out of the Arbor Place and Arboretum Projects. A larger second location for an architectural salvage company such as the Brass Knob would also complement the home-product focus. On smaller parcels, the fast food operations described above (Dunkin' Donuts, chain-affiliated Yum Foods such as Taco Bell, or an expanding local chain such as Five Guys) would serve both the commuter/drive through volumes as well as local residents, light industry and office users.

Urban Design

The extended timeframe for implementing the proposed Arbor Place project will allow time for the development of design standards for the areas on both sides of roads bordering the project. This will help to guide development that enhances both the appearance of the new development and the pedestrian experience of properties that will front on major roads. To coordinate changes within the neighborhood and at the large project at the submarket's center, the urban design plan should guide DDOT, the DC Office of Planning (DCOP) and property owners in building out commercial uses at all four corners of each major intersection to clearly integrate the new project into the surrounding neighborhood. This process could begin as part of any new developments outside the Arbor Place triangle even before ground is broken within the site.

Transportation Improvements

The submarket is, and will remain, very automobile dependent; any retail strategy must respond to this reality. As such, the success of the proposed Arbor Place development will rely on close coordination with the DC Department of Transportation (DDOT) on improved traffic infrastructure for the submarket. Development of a new Metro Station is unlikely due to the costs of extending connections from existing Metro lines over a mile away, but a major parking structure would help to accommodate both existing commuter demand and the additional need generated by high-rise residences and offices. Traffic calming will also be needed at the major intersections of New York Avenue with Montana Avenue and Bladensburg Road. In addition, improved waiting facilities at current bus stops are recommended.

Site & Market Capacity for Improvement

Office and hotel development along New York Avenue is increasing the demand for retail within the submarket, but these uses do not support the same types of retail needed by the surrounding residential neighborhoods. In the short-term, ground floor retail within any of these new developments will likely be sufficient to meet the demand of office workers and visitors. Existing retailers may be able to attract additional business by adapting their business models and price points to meet the demand of these new consumers.

Significant new retail development will only come via the planned Arbor Place mixed-use development with a substantial amount of high-density residential. This development may bring new consumers to the area and development of a large format retail shopping center that creates a destination for shoppers. Market forces dictate, however, that this project will be developed in phases, such that critical mass may not be in place for as long as a decade or two. For retail in the submarket to grow beyond its current mix and price points, it is important that both the core of the submarket and the surrounding boundary roadways must be redeveloped together, as the pacing of one will affect the other.

There are currently Metropolitan Police Department facilities that occupy key lots in the submarket that may need to be reconsidered for other uses in the future.

Retail Support

To provide opportunities for existing retailers within the submarket to remain in the area and succeed as the market environment changes, the Department of Small Local Business Development (DSLBD) should initiate technical assistance programs with area retailers now. These programs should focus on preparing retailers to adjust their product or services and price points to accommodate both their current and future customer bases, as well as identifying retailers with the capacity to relocate from their current locations to sites within the new mixed-use development, as appropriate.

In addition to these efforts to support existing retailers, the Washington DC Economic Partnership (WDCEP) should assist the developer of the Arbor Place project in attracting larger scale retailers to the submarket. This process could take 10 up to 20 years, as the residential units will only be developed and absorbed over an extended period of time and retail will only be developed in conjunction with the pace of mixed-use buildings.

Supportable Square Footage and Evolving Markets

As described in the market analysis, the Bladensburg-New York Avenue submarket is an evolving market that (when pipeline projects are taken into account) will have more retail space than is supportable under existing and near-term market conditions. This estimate, sometimes indicated

by so-called “negative” square footage, 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 projects such as Arboretum Place and longer term redevelopment of New York Avenue representing millions of square feet of new residential and office space. Available expenditures and the rate at which Bladensburg-New York Avenue can capture a share of those expenditures will be based on both median household income levels as well as the quality and quantity of retail uses that are retained and recruited to the corridor.

To put into perspective the incremental resident demand needed to balance the planned under-supported/“negative” 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 40,850 additional households would be required to place retail supply and demand in balance. Some of these resident expenditures may occur as inflow from beyond the primary and secondary trade areas as the Bladensburg Road-New York Avenue corridor continues to emerge as a residential/mixed-use area, transitioning from its former industrial/warehouse uses to a residential neighborhood anchored by projects such as Arboretum Place. However, these projects are likely to occur beyond the five year term of the retail study, especially given the recent characteristics of the economy.

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 in a commercial area supports between four and seven square feet of retail space. Each new employee will support between two and five square feet. The tourist/visitor market is less likely to be a major contributor to the Bladensburg Road/New York Avenue NE study area, despite the high volume of daily traffic on New York Avenue. In areas with established tourist destinations (which, other than the National Arboretum, the study area does not have), each visitor typically supports between one-half and one and one-half square feet of retail. 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 market beyond the five year study period help support additional retail space. The amount of additional retail space in planned projects totals 130,000 square feet, or almost 85% of the additional space generating the support differential.

Key Recommendations

1. This submarket will best function as a successful retail location with massive new development as called for by the private developer of Arbor Place. Consequently, the District government should encourage and support this project as a means to capture a significant amount of retail leakage and new tax revenue.
2. Ensure that retail planning addresses both the large format retail planned for the interior of the Arbor Place development and the smaller scale retail that already exists on the far side of each street bounding the proposed project.

a. Coordinate with the Arbor Place developer to prepare design standards that will guide redevelopment of properties facing Arbor Place across each of its boundary roads.

b. Encourage development along the outer boundaries of the key intersections that will create a strong, four-corner retail presence at these locations.

3. Implement traffic calming measures and infrastructure changes called for in existing DDOT plans for major intersections along New York Avenue.
4. Coordinate with Arbor Place developer as part of the PUD process to ensure the right balance of parking for proposed office and residential uses in the project, as well as for retail consumers driving to the site specifically for the retail experience. It is important not to overestimate parking while encouraging other forms of transit.
5. Implement technical assistance programs to assist existing submarket retailers in adapting to their changing market environment and to create and capitalize on opportunities to relocate or expand to locations within the new Arbor Place development, as appropriate.
6. Determine the viability and potential benefits of relocating and/or redeveloping the two MPD facilities adjacent to the proposed Arbor Place development.