Prince George's County

High-End Retail Market Analysis

Prepared for M-NCPPC by

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION
PRINCE GEORGE'S COUNTY PLANNING DEPARTMENT
14741 Governor Oden Bowie Drive
Upper Marlboro, MD 20772

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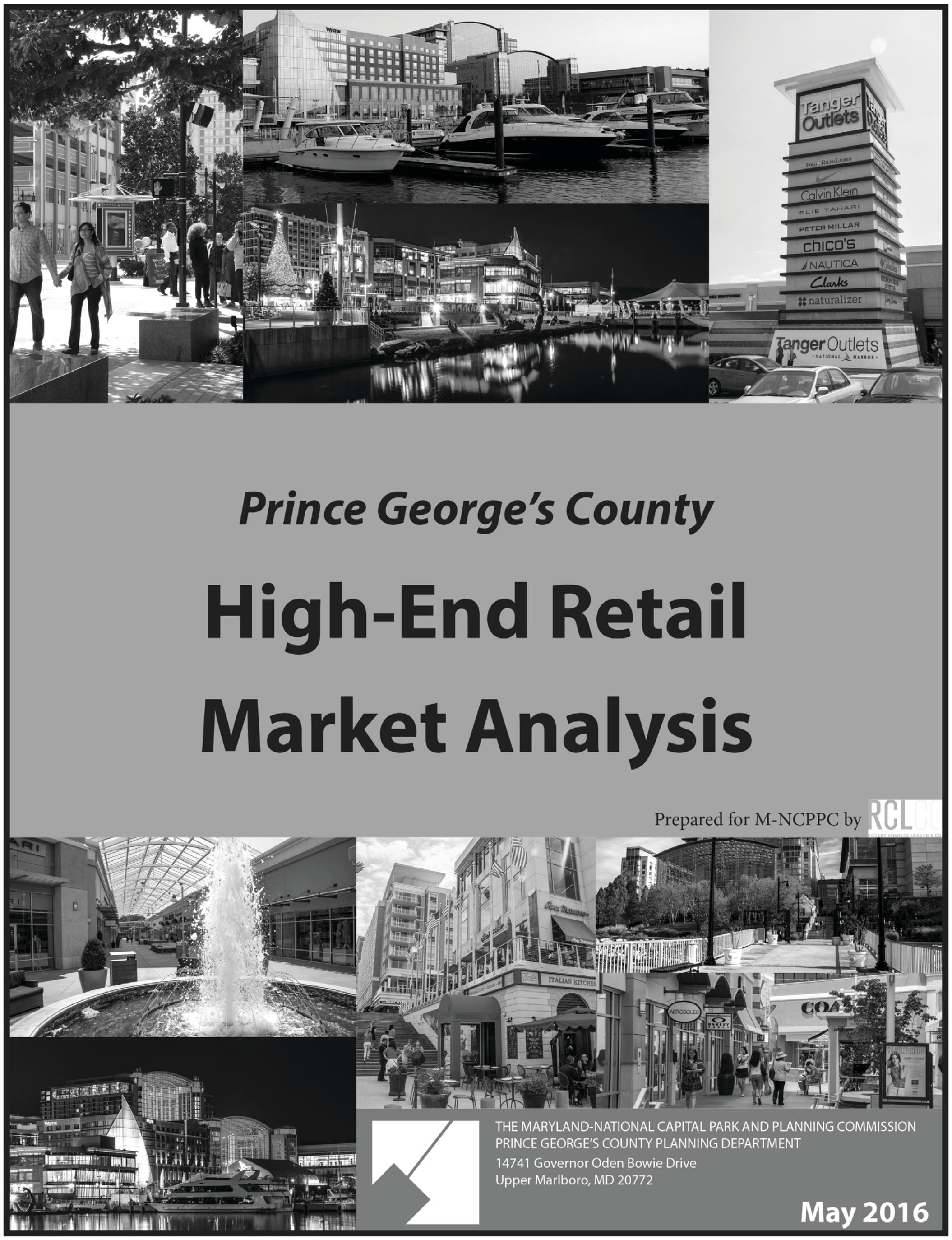

For additional information, comments, or questions, contact:

Jacqueline Philson
Project Manager, Countywide Planning Division
The Maryland-National Capital Park and Planning Comission
301-952-3627 (voice) | jacqueline.philson@ppd.mncppc.org (e-mail) | 301-952-4336 (TTY)

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Introduction

Local developers and brokers report that retail in the County is on an upward trajectory, with positive perceptions of developments underway at Riverdale Park Station, National Harbor, Hyattsville Arts District, and around University of Maryland (UMD) in College Park. The Prince George's County High-End Retail Market Analysis provides an assessment of high-end retail market trends and identifies opportunities for Prince George's County to attract luxury retailers. Furthermore, the report identifies growth opportunities at existing high-end shopping centers and discusses the potential for creating new destinations for high-end retail in the County.

True Luxury retail in the United States is currently a static market with exclusivity being a strong market criteria for attracting these retailers and their affluent, brand-conscious customer base. Concerned about the risk of over-exposure and market saturation, high-end retailers are very selective about the markets that they enter.

Nationally, and in Prince George's County and the surrounding region, many affluent consumers and new high-income earners are concentrating their high-end purchases toward attainable or experiential luxury goods and services that focus less on brand names but rather highlight place-based shopping experiences, premium necessity goods, and specialized consumer services. With the changing face of how consumers are choosing to spend their money, Prince George's County is well-positioned to capture this attainable, Experiential Luxury/high-end retail at the right locations in the near-term.

Study Goals and Objectives

- Assessment of the high-end and luxury retail industry nationally, and what can feasibly be attracted to Prince George's County.

- Trajectory of the United States luxury and high-end retail segments in the near-term, based on affluent spending patterns, and the impact on where they may locate and whether they will expand or contract their physical footprint.

- Explanation of the conditions necessary for high-end, experiential, and lifestyle retail to succeed in Prince George's County based on targeted outreach to high-end retail tenants, developers, and brokers active in the Washington, D.C. region.

- Typology of places that support high-end retail and identification of where these may already be located in the County today.

Key Findings

Defining Luxury Retail

- True Luxury retailers (designer apparel, jewelry, and cosmetics) are a stable niche in the United States. Broad industry and consumer trends, as discussed in this report, suggest that each individual retailer may be more likely to reduce, rather than expand, their brick-and-mortar footprint nationwide. While newer luxury retailers are expanding in the United States, their initial locations are most likely near established concentrations of luxury retailers, none of which are located in Prince George's County. The Washington, D.C., region is already well-served by True Luxury retailers, many of which have at least two or three locations in the region already.

- A new category of Experiential Luxury retailers (high-end spas, fitness, high-service stores, and high-end restaurants) are expanding both nationally and regionally. This category of retailers is less well-defined, and can also be referred to as Attainable Luxury or Functional Luxury, which includes retailers such as Apple or Whole Foods that sell premium versions of necessity items. With a targeted effort, Prince George's County has the capacity to attract some of these businesses.

Affluent Spending Patterns

- Overall, affluent spending patterns are shifting from spending on luxury goods towards luxury experiences, which includes such items as high-priced work out classes, organic foods, and customer service-oriented fashion retail.[1] Baby boomers and millennials are fueling this trend; affluent baby boomers have already purchased many of the luxury goods they want and millennials value experiences over ownership. New spending patterns are changing the way retailers think about offering a luxury experience, and unlike True Luxury these retailers are expanding rapidly.[2]

Potential for High-End Retail in Prince George's County

- To improve the overall quality of County retail in the near-term, pursuing attainable, Experiential Luxury/high-end retail in the right locations should be a County priority. To facilitate the attraction of Experiential Luxury retail tenants and create desirable places for these retailers to locate, the County should discourage, or at the very least, it should not encourage, new suburban retail in low-density areas of the County. The County should focus investment and efforts on a limited selection of locations for higher-end retail.

- The attraction of True Luxury retail tenants is a longer-term strategy for Prince George's County.

- Feedback from developers, brokers, and retailers, all active in the local market, suggests retail in the County is on an upward trajectory, with positive perceptions of developments underway at Riverdale Park Station, National Harbor, Hyattsville Arts District, and around University of Maryland (UMD) in College Park. Still, several interested parties report lacking the intimate knowledge and understanding of Prince George's County market dynamics—information that they possess for other markets in which they are more active. This suggests an opportunity for better outreach and information dissemination to the local real estate community.

- Developers in particular report that high-end, mixed-use development with the potential to attract True Luxury retailers requires long-term vision and commitment (10+ years) and a high-barrier-to-entry market (strong local demographics with little future competition) as critical success factors. Comparable developments in other jurisdictions have required 20 to 30 years of patience until land values at existing retail centers would support a major redevelopment project with True Luxury, high-end retail. Even then, the developer often subsidizes the initial retail phase, with the expectation of achieving premium rents for residential units or office space to justify the upfront investment in retail.

[1] The American Affluence Research Center, The Affluent Market Tracking Study #26, Fall 2014.

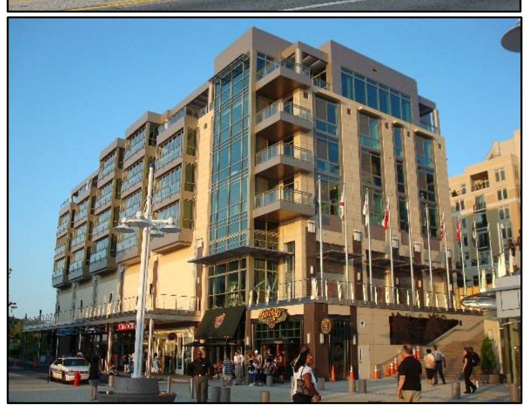
[2] The Boston Consulting Group, "Shocking of the New Chic: Dealing with New Complexity in the Business of Luxury", January 30, 2014.

- Demographics in some areas of Prince George’s County indicate the opportunity for higher-quality retail. However, developers described the County as having lower land values, lots of available land, few main street districts at the center of walkable neighborhoods, and an easy entitlement process for new single-use retail properties in suburban settings—all indicators of a low-barrier-to-entry market where the risk of future competition is quite high. Conversely, the higher-density, mixed-use environments required to support upscale retailers are more expensive to build, more difficult to entitle, finance, and, at least initially, provide lower financial returns than a single-use retail property. To make these projects worth the time and effort in any location in the region, developers need a high-barrier-to-entry market that allows the time for a long term investment in a catalytic project to pay off without the risk of other competitors reaping the value of their hard work.

- Prince George’s County could implement several strategies to assist development and attraction of higher-quality retail. While these strategies will be explored further in the *Competitive Retail Market Strategic Action Plan and Marketing Strategy for Prince George’s County*, developers cited the following as aids to development: a streamlined entitlement and development process; a subsidy for retailers to test the market in order to gain, or regain, confidence in the market; and educating brokers and tenants about stand-out areas of the County with strong demographics and lagging retail. These and other strategies will be explored further in the action plan.

<u>Creating Places for High-End Retail</u>

- High-end retailers prefer to locate in vibrant, unique lifestyle centers and town center-type locations. Generally, these centers must be mixed-use, walkable, and compelling environments. Prince George’s County has the seeds and beginnings of these centers, including:
    - **Mixed-Use Neighborhood Retail**: The Hyattsville Arts District reset the market in the US 1 corridor as a unique, interesting place that has the demand and capacity to support high-quality housing and retail.
    - **Regional-Serving Entertainment District**: National Harbor serves as a mixed-use entertainment district with high-quality restaurants. As The Peterson Companies continue to develop residential and office components, additional retail—particularly soft goods—will be supportable.
    - **Suburban Town Center**: Westphalia will add density and increased housing values to support town center retail that will serve those populations. Residents in this area will be able to afford higher-quality goods, and the planned retail



program has the potential to realize this opportunity. Konterra also has the potential to serve this niche when it is built.

- **Transit-Oriented Development**: New development at New Carrollton and Largo may attract a high-quality niche once other residential, office, and/or medical users have reached a critical mass. High-quality retail is possible, but will likely be a follower user rather than a catalyst.

- **Retail Districts**: The northern part of the County has several developments underway that have an elevated potential to attract high-quality retail.
  - Hyattsville, Mount Rainier, and other areas in the southern US 1 corridor already have successful developments complete or underway.
  - Whole Foods is currently under construction at Riverdale Park Station, which is bound to attract co-tenants that are often found flanking grocery, such as gyms, restaurants, and specialty shops.

  - UMD has attracted developers who are constructing mixed-use buildings with retail targeted to a college demographic with disposable income. This area continues to see new construction and exciting ideas.

  - Long-term, the Prince George's Plaza Mall offers a prime redevelopment opportunity that would enhance this area as a destination retail district if special attention is given to creating a walkable environment between surrounding housing, public transportation, and other mixed-use projects nearby.

- **Main Street Retail**: Main streets in northern Prince George's County, such as Laurel, Riverdale, and Mount Rainier have the potential to attract higher-quality retail, particularly those driven by local entrepreneurs and business people.

Assessment of Luxury and High-End Retail Industry

In the new millennium, the definition of luxury retail began undertaking a significant shift, a trend which was further compounded by the Great Recession that hurt many personal fortunes and the disposable incomes that support luxury retail. As RCLCO considered how luxury and high-end retail should be defined for Prince George's County, we acknowledged two distinct definitions to reflect this changing tide of consumers and their mentalities.

True Luxury

The traditional definition of True Luxury retail revolves around high-quality, designer-brand goods. Examples of these retailers include Tiffany & Co, Prada, and Gucci, who often have a limited number of flagship retail stores nationwide and may sell their brands within the highest-end department stores such as Saks Fifth Avenue or Barneys New York. Often, these brands have loyal customers who return time and again, and they attract new shoppers who want just one special item. While there is a stable customer base for this type of retail, these stores are not immune to a shift in luxury consumerism and the larger impact of online and bargain shopping. The majority of their expansion plans focus on secondary United States metro areas, as well as new markets abroad with rapidly rising incomes and expanding middle and upper classes, such as India, China, and the Middle East, where luxury products convey status and class.[3] Recently, some of these brands have expanded into the outlet space to clear previous years' merchandise at prices that are still profitable for retailers, but attainable for more consumers.[4]

Responding to market conditions, luxury retailers locate their flagship stores only in super-prime locations with neighboring tenants of similar price points; the store location and surroundings need to enhance a brand's essence of luxury and exclusivity.[5] These shopping center types usually include mixed-use centers, Class A malls, or established retail main streets—often referred to as high streets. In the Washington, D.C. region today, the only locations that likely meet these criteria include Tysons Corner, Georgetown, Friendship Heights/Chevy Chase, and CityCenterDC/Downtown. As the luxury retail environment grows more competitive and flagship stores for luxury brands seek even higher sales per square foot, luxury retailers will continually seek to operate their flagship stores in retail locations with the most prestige that allow them to reach the widest breadth of customers.

In the Washington, D.C. region, there are already more super-prime locations than will be able to attract and retain flagship stores from these traditional luxury retailers. As evidenced by the introduction of CityCenterDC as a new center for luxury shopping in downtown Washington, D.C., areas such as Friendship Heights may be at risk of losing its luxury tenant base, despite its long-standing reputation as an exclusive retail destination with some of the strongest demographics in the region.[6] The brick-and-mortar presence of most True Luxury brands is

[3] Jones Lang LaSalle, "The New World of Retail", December 2014.

[4] Ibid.

[5] Super prime locations can be defined as the most established, "high status", retail destinations that offer the strongest relative spending power, demographics, transportation/access, and place characteristics.

[6] Washington Post "Luxury Shopping Arrives Downtown, and Friendship Heights Braces for Departures". Jonathan O'Connell, June 1, 2015.

stable, with more moderate growth prospects in primary markets in the United States compared to past decades.[7] Given current market conditions, pursuing True Luxury retail tenants as a County priority is not the most practical strategy in the near-term for Prince George's County to improve the overall quality of its retail.

Attainable Luxury/High-End

While True Luxury retail in the United States represents a static, or even shrinking, market in the future, the opportunity for other types of high-end retail is expanding as consumers seek out Attainable Luxury that aligns with the changing face of how consumers choose to spend their money. This category of high-end retail revolves less around brand names and goods, and more around experiences and premium necessity goods. These types of tenants include organic grocers (Whole Foods and Mom's Organic Market), high-end movie theaters and bowling alleys (iPic, Pinstripes, and TopGolf), fitness and services (Soul Cycle, Aveda Spa, and Dry Bar), technology (Apple and Microsoft stores), and soft goods with exemplary customer service (Nordstrom, Apple, and Lululemon Athletica). These high-end retailers are growing faster than traditional luxury categories, and according to Boston Consulting Group, Experiential Luxury grew by a compounded average growth rate of 14 percent from 2010 to 2012, while spending on personal luxury goods (True Luxury retail) increased at 11 percent.[8] Worldwide, Experiential Luxury purchases comprise over half of spending in the luxury market, while personal luxury goods represent less than a quarter.

Retailers in the high-end/Attainable Luxury category are expanding as they attract a market group seeking a luxury experience, which is much deeper and offers more aggregate spending power than the audience for luxury goods. Because these retailers serve consumers within a local, rather than a regional, trade area, they can support more store locations across a region. For example, the Whole Foods model offers a premium grocery store and high-quality products for a relatively minimal premium compared to a traditional grocery store, meaning that a larger market of people can afford to spend slightly more money, more frequently, on their groceries.

Compared to the business model for luxury apparel or jewelry, which expects to command a large premium over non-branded products as an infrequent purchase, Attainable Luxury retailers can expand more frequently into new market segments and locations while growing their customer spending base, rather than cannibalizing revenue at other stores. At some point, these stores may also reach a saturation point at which they will no longer expand; however, recent growth in the Washington, D.C. market does not suggest this is likely in the near-term. As part of the experiential retail phenomenon, these retailers have strong co-tenancy preferences[9] and location requirements to enhance their brand. While some of the larger tenants can anchor a center (Whole Foods, iPic), many of the smaller tenants need a strong anchor tenant that will draw customers. Tenants ideally choose a modern and mixed-use environment with residents and businesses nearby where customers can spend an afternoon or evening on-site. The Mosaic District in Merrifield, Virginia and Pike & Rose in Rockville, Maryland are examples of developments that provide attainable luxury retailers.

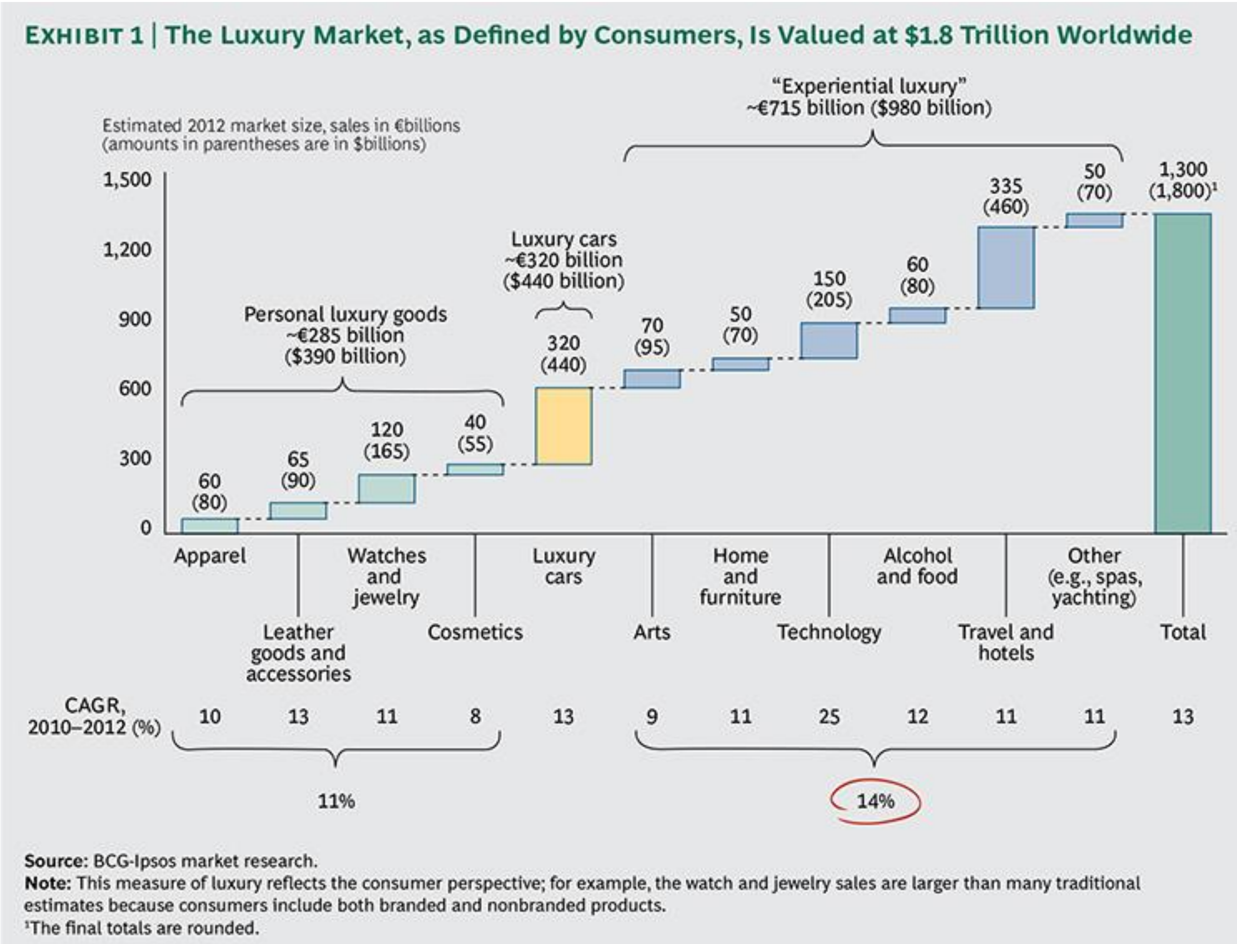
[7] Bain & Company; "Luxury Goods Worldwide Market Study", Fall-Winter 2014.

[8] The Boston Consulting Group, "Shock of the New Chic: Dealing with New Complexity in the Business of Luxury", January 30, 2014.

[9] Nearly every retailer has co-tenancy requirements, which are stipulations within their lease that their location decision is based on the presence of other desirable tenants within a particular shopping center. These co-tenants vary by retailer but are critical in attracting and retaining desirable retailers and achieving maximum rents.

The Changing Luxury Market

Figure 4.1 ***Worldwide***



> *Best Practice: Sites supporting high-end retail need to attract multiple customer groups across all times of day, either by having strong anchor tenants or being located in an area with employment and residential density.*

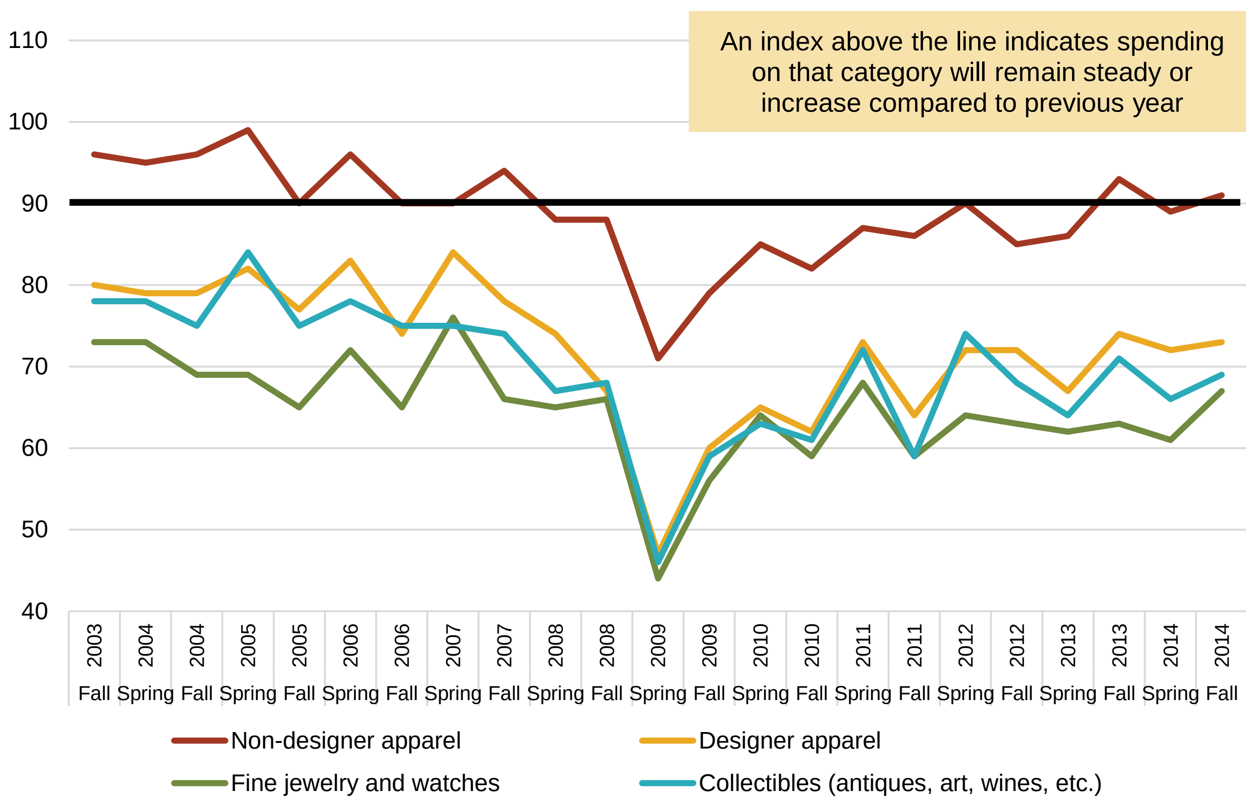
A second component of Attainable Luxury is the small, locally-driven boutiques. This would include apparel, home goods, and gift stores. These types of retailers are often successful along well-developed main streets such as Georgetown in Washington, D.C., or Carytown in Richmond, VA that often offer a variety of local and national retailers. The shopping districts are normally run by local entrepreneurs and artisans who live in or near the neighborhood.

While True Luxury retailers are likely out of reach for Prince George's County in the near-term, these growth dynamics all suggest that the right locations and center types can attract high-end/Attainable Luxury retailers to the County today. Throughout the rest of the report, luxury retail will refer to this second definition of high-end/Attainable Luxury.

Affluent Spending Patterns

Affluent Spending Patterns Suggest Changes in Luxury Retail will persist. As True Luxury retail has recently been a fairly static market, highly affluent customers continue to be well-served in the Washington, D.C. and Baltimore regions by existing retail and locations. Secondary research does not indicate that affluent spending patterns will increase significantly above historical levels, and certainly not enough to support additional luxury retail or enhance retail performance marketwide. Affluent Americans[10] report that they will spend less on designer apparel, fine jewelry, watches, and collectibles, than they were spending prior to the recession.[11] This index is shown in the Figure 4.2 below.

Affluent American Index of Anticipated Spending on Luxury Goods
Figure 4.2 ***United States***



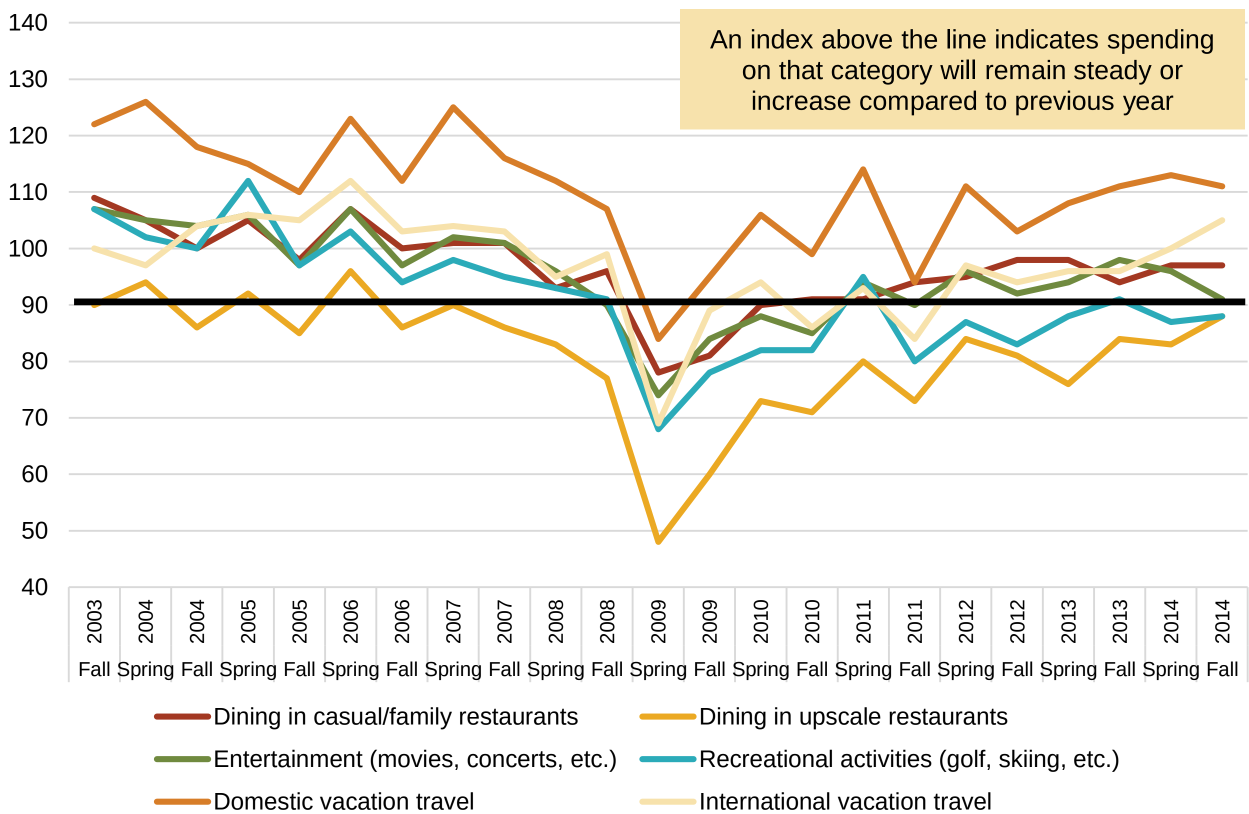
Note: Line indicates index level above which affluent spending pattern is anticipated to increase. Between 90 and 100 indicates about the same spending as last year, above 100 indicates intention to spend more than last year.

[10] Affluent Americans in this survey are defined as the wealthiest 10 percent of United States households based on net worth, with a minimum net worth of approximately $800,000. The average income among this sample was approximately $268,000 per year.

[11] The American Affluence Research Center, The Affluent Market Tracking Study #26, Fall 2014.

While the spending on True Luxury goods, such as designer apparel and collectibles, does not appear to be increasing, affluent Americans are reporting their intention to spend more on dining, entertainment, recreational activities, and travel. This research, and the stated intention to spend, is consistent with the definition of Attainable Luxury and the desire to pursue experiences as opposed to retail goods. Affluent Americans report that they will spend just as much, or more, than last year on vacation travel, dining in casual and family restaurants, and entertainment. While not as high as prerecession levels, spending is also expected to increase for fine dining and recreational activities.[12]

Affluent American Index of Anticipated Spending on Experiential Luxury
Figure 4.3 ***United States***



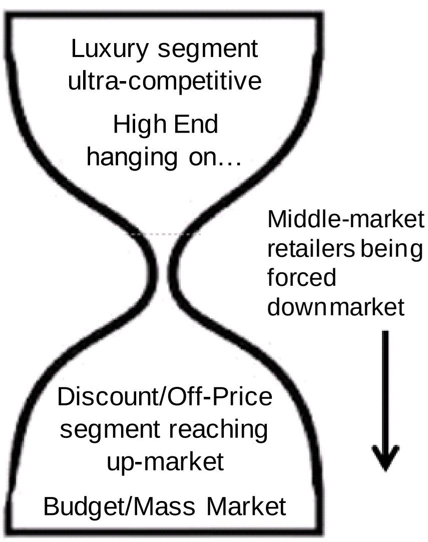
Note: Line indicates index level above which affluent spending pattern is anticipated to increase. Between 90 and 100 indicates about the same spending as last year, above 100 indicates intention to spend more than last year.

[12] The American Affluence Research Center, The Affluent Market Tracking Study #26, Fall 2014.

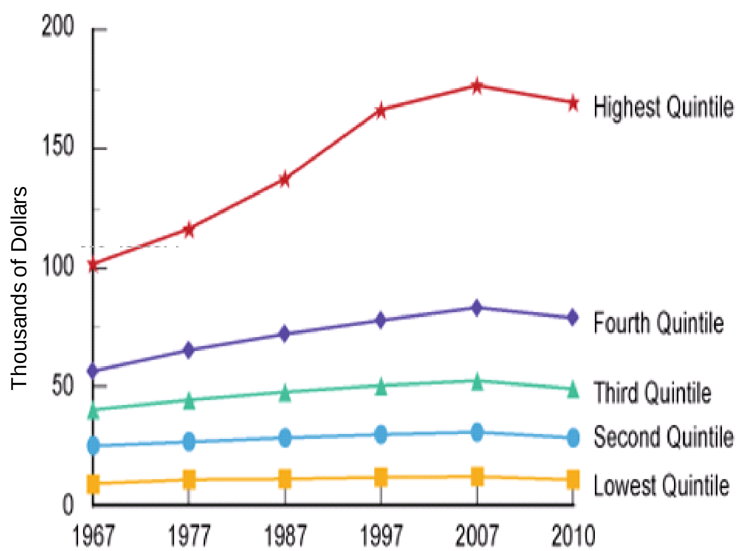
Impetus for changing definition of luxury spending. As the gap between the highest quintile of mean household income and the next highest quintile has increasingly grown over the last four decades, retailers targeting middle-market shoppers have been forced to lower prices as their customers have not seen much of a rise in discretionary income. However, as the highest quintile of spenders rapidly increases, True Luxury retailers have been able to continue their hold on high-income consumers. The lagging middle market of consumers has resulted in retailers being forced to lower the prices and quality of goods. These economic conditions have also been behind the rise in popularity of discount, fast fashion, and outlet/off-price shopping.

While the traditional consumer of luxury goods has a net worth of at least $500,000 and an annual income of at least $150,000, the customer for new luxury are sometimes nicknamed a HENRY (high earner not rich yet) as these households are younger and have incomes in the range of $100,000–$250,000.

Retailer Trajectory Reflects National Income Shifts
Figure 4.4 ***United States***



Trend of Mean Household Income by Quintile



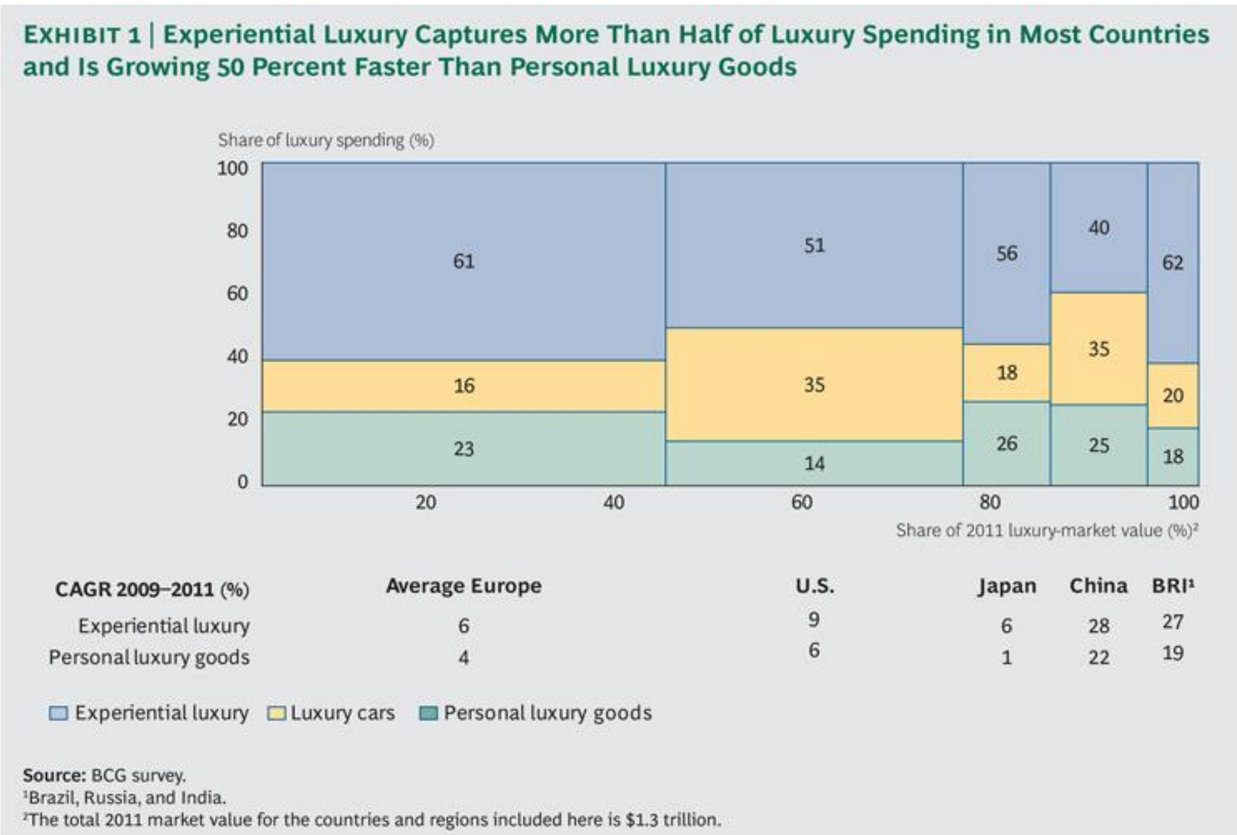
Source: US Census Bureau, Current Population Survey, 1967 to 2011 Annual Social and Economic Supplements

While the nature of luxury shopping began changing prior to the recession, the downturn sped the advent of a new thought and meaning behind luxury retail. The Millennial Generation entered their prime consumer years (20s and 30s) in the middle of, or after, the recession. As a result, millennials expect the tactics that retailers used to stay afloat during the recession (storewide discounts, off-price stores) to be commonplace. This age of bargain shopping has been compounded by omnichannel shopping and widespread internet access that allows easy comparison shopping and purchasing.[13]

[13] Omnichannel is a sales approach that provides the customer with a seamless shopping experience at a retailer, no matter how they are accessing or purchasing the goods or services (online, mobile, in-store, outlet store, etc.).

This shift to new values of luxury spending revolves around the hypothesis that affluent spenders value experiences above goods. As affluent baby boomers (roughly ages 50–70 as of 2015) have collected all of the luxury goods they want over their lives (car, vacation home, clothing, etc.), they now want to enhance their lives with experiences and stories, whether that means a fancy exercise class or an adventure vacation package.[14] As a generation, millennials (roughly ages 18–33 as of 2015) follow in their parents' footsteps; they prefer spending money on experiences over owning a good, and fall into this same pattern of luxury shopping.[15] As shown in Figure 4.5, consumers in the United States spend 3.5 times as much on Experiential Luxury as on luxury goods, and Experiential Luxury is growing at a faster rate.

Experiential Luxury vs. Personal Luxury Goods Spending[16]
Figure 4.5 ***Worldwide***



The new luxury trend is further compounded for the Millennial Generation by their access to the shared economy and divergence from previous generations in their ambivalence towards ownership. The shared economy includes business models such as subscription services, rental goods, and access in place of ownership. Examples of subscription services include Birchbox, where customers get beauty product samples delivered once a month for a subscription of $10 per box. Rent the Runway allows women to rent high-end designer dresses for $50 to $200 per

[14] The Boston Consulting Group, "Shock of the New Chic: Dealing with New Complexity in the Business of Luxury", January 30, 2014.
[15] Ibid.
[16] The Boston Consulting Group, "Luxe Redux: Raising the Bar for the Selling of Luxuries", June 5, 2012.

dress, whereas the purchase cost of the dress could be upwards of $1,000. Services such as ZipCar, Car2Go, and Uber give customers access to a car when they need it, without the cost of car ownership, insurance, maintenance, and gas. If millennials do not have to spend money to own expensive goods such as cars and clothing, they can free up money to spend on more experiences such as travel—a trade-off that allows consumers to reap the benefits of both types of luxury.

The evolving definition of luxury retail is certainly changing patterns of brick-and-mortar retail in interesting and sometimes undefined ways. Some of this preference for Experiential Retail cannot be captured in on-site retail. However, there is knowledge to be gained from the shift in consumer mentality. This desire for an experience has permeated retail in the development of sites such as Union Market in Washington, D.C. and other food halls—a concept that feels organic and cool, allowing a consumer to buy any cut of meat imaginable, specialty chocolate, home goods, and gifts, all while eating oysters at a full service restaurant followed by drinking craft beer out of a vintage trailer and possibly catching a movie at a pop-up theater afterwards.

Other retailers have capitalized on this changing trend by offering superior customer service and personally tailored shopping experiences. Some retailers combine on-line and mail-order shopping with in-store shopping by offering a showroom and then having the consumer's selections mailed to them, a model that the men's store Bonobos has followed.[17] Trunk Club, a men's personal stylist service, sets each client up with a stylist who makes clothing selections based on the client's needs and style preferences. The client can either choose to come into the Trunk Club for a fitting, or have the stylist send them a selection of clothing through the mail.

Another encouraging aspect of changing luxury preferences is that consumers prefer everyday goods and services at highly executed and highly curated stores. This includes everything from groceries to exercise classes to salon services that consumers generally will not travel more than 10 to 15 minutes to access. These "little luxuries" reach a broader market segment because they have a low cost for entry as compared to purchasing clothing from Prada or shoes from Jimmy Choo ($25 for an exercise class compared to $500+ for retail goods). These three factors lead to the ability for these new retailers to open more stores in more locations. Whereas the Prada and Jimmy Choo retailers can likely only support a limited number of stores, even in a very wealthy metropolitan area, Whole Foods can support dozens of stores in mid-level wealth areas.

As is further explored in the next section, Prince George's County has the market segments and demographics to support some of these attainable luxury stores. Some of these high-quality centers are already taking root in the County, bringing the essential tenants that will pave the way for similarly oriented retailers. The remainder of this report will discuss areas with the highest potential for capturing these new luxury retailers and nurturing developments that are already present.

High-End Retail Potential in Prince George's County

Locally and nationally renowned developers are executing these attainable luxury concepts across the Washington, D.C. region. RCLCO interviewed seven entities active locally to better understand site selection criteria, critical success factors, and how Prince George's County can best position itself to capitalize on this growth.

[17] The Boston Consulting Group, "Luxe Redux: Raising the Bar for the Selling of Luxuries", June 5, 2012.

High-end retail development does not happen overnight, or even within one market cycle. Development at large-scale, mixed-use retail centers can take decades to be realized. Often, the property needs a long-term owner with minimal land basis before a high-end retail project can be financially feasible, and even in submarkets with the strongest demographics, redevelopment often requires additional residential or office density on site or nearby to make the project feasible. The entitlement process, economic downturns, parcel assemblage, financing, and development team can be unpredictable and costly, requiring a patient sponsor with a long-term perspective on value creation in order to overcome these barriers. The Mosaic District in Fairfax, Virginia took 14 years from concept to completion of Phase 1, and Federal Realty owned the land that Bethesda, Maryland's Pike & Rose sits on for about 30 years before redevelopment of the existing shopping center was feasible.

Timeline of Development
Figure 4.6 ***Mosaic District Case Study***[18]

Total Acreage	32
Residential SF	1,061,000
Retail/Restaurant SF	520,000
Entertainment SF	42,000 (movie theater)
Hotel SF	100,000 (148 keys)
Office SF	171,000

- **1998** County Comprehensive Planning
- **2006** Land Acquired
- **2008** Finished Regulatory Process
- **2009** Infrastructure Groundbreaking
- **2012** Phase I Construction Complete
- **2016** Phase II Construction Est. Complete

Further complicating the retail component, development of this magnitude requires an infill location that has the existing population and employment density to support retail (CityCenterDC), or population and employment density must be created on-site by building residential and office uses (Pike & Rose, Mosaic).

Best Practice: Simultaneous development of retail, residential, and office allows for higher-quality retail in phase 1.

[18] NAIOP Development Magazine, 2013 (http://www.naiop.org/en/Magazine/2013/Fall-2013/Development-Ownership/The-Mosaic-District.aspx).

The upfront costs of high-quality retail are often cross-subsidized by the premiums that retail generates for other uses. Without residential and office uses on-site, the high-quality retail space necessary to attract quality retailers may not be feasible and creates a substantial hurdle to development. As a naturally risk-averse asset type, developers have to convince retailers to locate in a planned shopping center based on a vision and concept that will ensure their success. This takes a developer with the discipline to execute well and the patience for the right tenants that will create the envisioned environment and experience.

Prince George's County already has some of these types of high-quality retail centers in the initial phases, or in the pipeline. In the south regional trade area, The Peterson Company's National Harbor is a successful mixed-use area with thriving restaurants that attracts local demand but thrives on the built-in customer base provided by the on-site Gaylord National Resort Hotel and Convention Center with 2,000 hotel keys, 480,000 square feet of meeting space, and now 5 additional high-end hotels. Peterson is a long-term owner/developer who is carefully phasing residential units, office buildings, entertainment users, and additional hotels that will build added support for the existing retail and provide demand for more retail and restaurants.

In the north regional trade area, Riverdale Park Station is another planned mixed-use project that is under construction. A Whole Foods will anchor the site and draw other high-quality co-tenants. Despite the County's desire for higher-quality retail, this site took over seven years to get the necessary approvals for development. The County should continue to support this project and its opening to every extent possible in order to accelerate retail opening and density development of residential and office buildings to increase density.

> *Best Practice: High-quality, mixed-use sites are inherently risky and time consuming, but a smooth development process at key sites will enhance feasibility and reduce project risk.*

Understand tenant criteria, but do not let it be the end-all, be-all. Retailers have a general and varied set of demographic and site criteria that they look for when evaluating new store locations.[19] The demographics are a wish list, and a starting point, for making decisions, but tenants and brokers recognize that they do not always accurately predict which sites will be successful. Prince George's County has some existing sites that meet these demographic criteria and yet generate below-average revenues, as well as some sites that support higher-quality retail but are shy of the demographic requirements, such as the Hyattsville Arts District.

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[19] For more detail on site criteria see the Prince George's County's Retail Marketability and Competitiveness Study, 2016 (http://www.pgplanning.org/Resources/Publications/Retail_Marketability_and_Competitiveness_Study.htm).

In general, demographic criteria almost always include population density and median household income, and often expand to include additional metrics such as education level, growth trajectory, or nearby office employment. Site criteria typically focus on visibility and pass-by traffic (both vehicular and pedestrian), transportation access (Metro and roadway), and type of location (urban, suburban infill, greenfield, exurban). Tenants also have specific shopping center types, co-tenanting requirements, and/or noncompete metrics that may dictate their willingness to locate in specific places, even if all other demographic and site criteria can be met. Prince George's County should take steps to identify locations that most closely accommodate these tenant criteria today, and help prime the market for future retail by improving those criteria that may be weaker.

Best Practice: Identify and promote locations that closely match tenant criteria and offer an unmet market opportunity for higher-quality retail.

One deterrent to attracting certain tenants is the radius restrictions written into many tenants' lease clauses that will not allow two locations within a certain distance due to cannibalization of the market. As an example, Towne Centre at Laurel is about eight miles from the regional malls at Columbia Town Center and Arundel Mills, likely within the radius restrictions of many tenants, limiting the potential tenant pool. Considering these possible restrictions, the leasing experience in Towne Center at Laurel may be specific to the type of tenants pursued and trouble recruiting specific tenants to this site should not be considered a limit on the potential for this trade area to move up-market. Recently, Federal Realty Trust announced its intentions to redevelop Laurel Shopping Center, the property adjacent to Towne Center at Laurel.[20] Specific plans are not yet known, but it can be assumed that the quality of the center will improve even if the retail square footage may be reduced. This suggests that other shopping center owners and developers recognize the potential for higher-quality retail in this location.

Best Practice: Consider the locations of other competitive shopping centers with the desired tenants when determining the best sites to encourage high-end retail in order to mitigate the impact of radius restrictions in tenant attraction.

Developers of retail centers are concentrating on high-barrier-to-entry sites. As the nation is over-retailed and retailers rapidly adapt to new consumer behaviors, local developers are choosing higher-barrier-to-entry markets where they can truly create a destination that will be unique and draw shoppers from a large trade area. Building in a high-barrier-to-entry market reduces the risk of competition, helps prevent cannibalization of tenants by competitive developments nearby, and justifies the costs of investing in projects that create significant real estate and community value. High-barrier-to-entry markets typically indicate that the surrounding area provides very strong demographics (density, income, education), supports high land values and development costs, or has little available land remaining for competitive development. These market factors are sometimes, but not always, amplified by a regulatory environment that draws out the approval process, effectively limiting the number of parties willing to incur the increased cost and entitlement risk of a longer timeline.

In recent decades, Prince George's County has been a low-barrier-to-entry market for suburban retail. This has allowed new suburban centers to proliferate throughout the County, competing with nearby centers for limited tenants and customers, resulting in vacant centers and centers

[20] Prince George's County Newsletter, May 26, 2015.

with tenants that are overachieving as discussed in the 2015 *Prince George's County Retail Market Analysis*[21]. In addition, there has been an artificially high barrier-to-entry for mixed-use and higher-density projects based on a stringent regulatory process. Without the other market-driven components associated with a high-barrier-to-entry market described above, the regulatory process by itself is not enough to justify the risk to a developer or retailer to invest in a particular location.

To attract desirable high-end retail activity, the County should consider aligning its current regulatory process with its targeted high growth or preferred growth areas as indicated in the marketability analysis. The result will allow the County to focus its investments and efforts on a limited selection of sites for higher-end retail. By identifying a few sites for mixed-use, higher-density development with other criteria favorable to higher-end retailers, the supply for high-end retail sites will be limited and will reduce the potential for future competitive threats. These high-end sites will become attractive to developers and retailers who see the value in pursuing an opportunity in limited supply. At the same time, the County should reduce the number of sites available for more suburban retail development, thereby breaking the ongoing cycle of oversupply and tenants overachieving; the result being higher-barrier-to-entry submarkets that attract high-end retail in the short-term, with the potential for evolving up to True Luxury in the long term.

Best Practice: Focus County investment and efforts on a limited number of sites for higher-end retail to reduce the competitive risk for developers and retailers.

RCLCO will explore potential sites that the County could focus on in the retail marketability analysis.

Restaurants have a (slightly) different set of criteria. Restaurants have a different set of criteria from general retail. They even have varying criteria dependent on the restaurant type. There are two types of higher-quality restaurants. Some restaurants can be classified as neighborhood restaurants—highly dependent on evening and weekend crowds that supplement their dining purchases with alcoholic beverages sold at an attractive profit margin. Examples would include restaurants in Brookland, Shaw, and along the H Street corridor in Washington, D.C. such as Brookland's Finest, Smith Public Trust, Silvestre Café, Chercher Ethiopian Restaurant & Mart, and Copycat Co. The other category of high-end restaurants depends on a lunch and dinner crowd seven days a week. These regional restaurants require a concentration of office space—potentially in excess of 1 million square feet—or a steady stream of weekday visitors in order to flourish. Examples would include restaurants such as Founding Farmers, Matchbox, Clyde's, and The Capital Grille. Regional restaurants are most successful near anchor uses that draw a lot of traffic such as a movie theater, bowling alley, or high-end grocery store. Restaurants in both categories tend to prefer a compelling location (mixed-use, main street, walkable) and to cluster with other restaurants near entertainment venues.

Best Practices: Promote the place-based principles that will create a compelling location for high-quality restaurants, such as walkable accessibility, unique main street spaces, sidewalk dining, and green space.

[21] RCLCO, Prince George's County Retail Market Analysis, August 2015. (http://www.pgplanning.org/Resources/Publications/Retail_Market_Analysis.htm).

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Prince George's County has a few examples of restaurant clusters that offer higher-quality service and food. National Harbor—anchored by the waterfront and its walkability—draws traffic from nearby residents, visitors, employees, and outlet shoppers. Given the density, clustering, and anchors, the restaurants at National Harbor are performing quite well. The MGM Casino may be an additional boon that could drive support for even more retail or restaurants.

The Hyattsville Arts District is an example of a burgeoning "neighborhood restaurant" cluster. Restaurants such as Franklin's Brewery, Busboys & Poets, Tara Thai, and Elevation Burger are thriving in the area while serving mostly nights and weekend crowds. The Arts District is a lively and walkable environment for customers, and the performance of these restaurants should begin to draw more diners to the neighborhood, which will in turn support additional restaurants. Other areas of the County may have the ability to support this type of neighborhood restaurant cluster as well.

Prince George's has some real, but manageable, deterrents to development. Developers report that the entitlement process in Prince George's County is not streamlined and it takes an incredibly long time to get approvals for mixed-use and higher-density development. Developers (and retailers) with a short attention span and low risk tolerance are not willing to wait out the process and move on to other projects. This has left Prince George's County with a reputation of not being development friendly, precluding some high-end developers from even considering building in the County.

At the same time, suburban retail centers are easy to build as a part of new, low-density residential communities, which contributes to the sprawling retail environment and tenant cannibalization discussed in the 2015 *Prince George's County Retail Market Analysis*[22] . This low-barrier-to-entry market has created an oversupply of retail centers that will rarely appeal to high-end or luxury tenants, yet contributes to the retail market conditions that prevent higher-quality retailers from wanting to enter the market. Prince George's County should consider targeting certain high-growth or preferred-growth areas based on the marketability analysis that would streamline the entitlement process for mixed-use and higher-density development, and would limit the proliferation of additional suburban retail centers that are already well-supplied today.

Best Practice: Streamline the entitlement process for high priority retail sites.

[22] RCLCO, Prince George's County Retail Market Analysis, August 2015 (http://www.pgplanning.org/Resources/Publications/Retail_Market_Analysis.htm).

Retailers are hesitant to take a chance within the County when they could open in another location with stronger demographics. Conceptually, developers are aware that there may be strong areas of the County, but have more intimate knowledge of other areas of the region.

> *Best Practice: Educate brokers about the most marketable areas, highlighting the strong demographics, unserved market, potential for higher-quality retail, and renewed business-friendly attitude.*

Strategies and Best Practices for attracting development and tenants. Brokers, retailers, and developers mentioned strategies that would aid in their consideration of the County. These strategies will be further explored in the Action Plan in the next phase of this study. Ideas included incentivizing retailers with "test" stores, with caveats such as giving them a right to terminate their lease based on performance. Brokers try to offer these incentives occasionally, but it has not proven to be enough and County intervention would be helpful. If the County desires a particular type of anchor tenant, it could also provide short-term rent subsidies or other incentives to make them more economically-feasible to include in the development program.

Prince George's County should take steps to educate brokers and tenants and market to them, focusing on locations that will be most attractive to higher-end retailers. Most brokers representing higher-end tenants report knowing little about the County. The County needs to incentivize high-density development (both residential and employment) to allow for a strong retail program to follow. Redevelopment requires a low land basis and a significant amount of capital—the County could help developers with some of this financing for sites they prioritize as redevelopment areas that are favorable to retailers.

Creating Places for High-End Retail

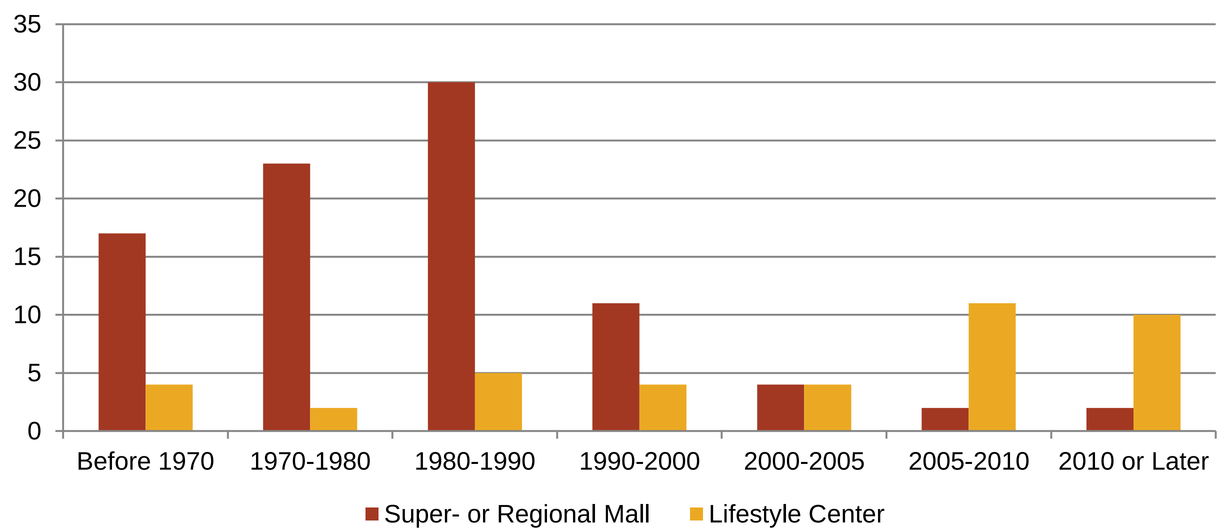
With a better understanding of affluent spending patterns, developer and broker perspectives of Prince George's County, and the demographic and economic criteria important for attainable luxury retail to take root, RCLCO evaluated the County's opportunity for attracting high-quality retail offerings.

The Washington, D.C. region already provides more appealing super-prime locations for True Luxury retailers (identified on page 6) than the number of physical stores those retailers are likely to operate. Attracting these retailers is a long-term opportunity at best, which requires building the foundation for higher-end retail today by attracting new retailers at more attainable price points. Attainable Luxury retailers, which are actively expanding, present the best near-term opportunity to attract higher-quality retail to the right location and development. When retailers make decisions about where to locate, they consider three important questions: will the surrounding market want the product they are offering at their price point (demographic/economic requirements), how do they fit into this place (access, visibility, pass-by traffic requirements), and is there a place or environment that they want to be in (space requirement)?

In addition to demographics that will support their store, retailers must have a space available in a center where they would like to be. Overall, high-end retailers like to be in mixed-use areas with a unique and vibrant environment. The exact orientation of these types of centers can vary, and for our purposes we have identified five common environments: Class A malls, neighborhood retail mixed-use (town center retail), regionally serving mixed-use, retail districts with clusters of smaller centers, and main street retail.

Class A Malls: High-end retail has traditionally been located in enclosed Class A malls. However, over the last few decades enclosed B and C malls have fallen out of favor, replaced by a variety of lifestyle centers as can be seen by Figure 4.7, which displays deliveries of malls and lifestyle centers by decade. The malls built in the 1980s and 1990s have drastically declined in quality or become defunct overall across the United States, with the exception of Class A malls, which have continued to perform well. Examples of Class A malls include Tysons Corner Center in Fairfax, Virginia and Fashion Centre at Pentagon City. Prince George’s County does not have any Class A malls, and should not expect retenanting of existing malls with higher-end retail without substantial redevelopment. For many failing regional shopping malls, the most likely future may not be as a regional retail center. Strategies for obsolete malls will be explored in the RCLCO case study analysis and action plan.

Mall vs. Lifestyle Center Openings
Figure 4.7 ***District of Columbia, Maryland, Virginia, and West Virginia***



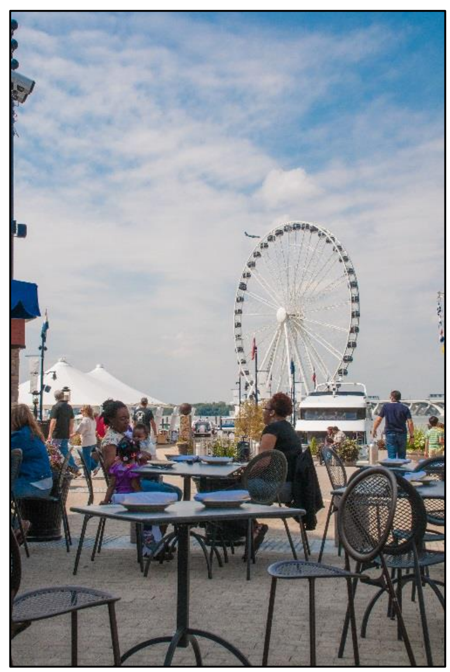
Mixed-Use Neighborhood Retail: These centers include retail, residential, and office components. The retail program is high-quality retail that is truly neighborhood serving, meaning that the retail categories are the same grocery, pharmacy, nail/hair salon, quick service and sit down restaurants, and soft goods retailers seen in typical neighborhood centers—at a much higher quality. If it was not for the quality and environment, the center would only draw nearby residents. Examples of this type of center include Market Commons in Arlington, Virginia and Bethesda Row in Bethesda, Maryland. This type of retail works in places with existing high residential and employment density, or density that is simultaneously created by the developer with apartment buildings and office buildings. Typically, these mixed-use centers have additional residential, hotel, and office square footage integrated within the development or immediately adjacent.

Best Practices: Encourage additional high-density, non-retail uses in locations where retail momentum is already building.

County Examples: The Hyattsville Arts District is a burgeoning example of mixed-use, neighborhood-serving retail. EYA, an innovative urban neighborhood developer, has integrated the necessary residential components (both rental and for-sale) to support high-quality retail. As more residential and office development follows in the US 1 corridor, additional retail can be added. EYA has done the heavy lifting of seeding this project and the County should encourage developers to continue adding both residential and retail in this area, both at the Arts District and from Mount Rainier through College Park to continue the retail momentum that is building.

Town Center retail can also fall into this category, often being less dense than a mixed-use center, but abiding by the same concept of high-quality neighborhood retail. The Westphalia development will drastically increase density in an area with few existing retail centers. At least two of the projects underway include a town center to serve on-site residents. The new housing stock will reset housing market pricing expectations in the area and the lifted incomes and added consumers can support somewhat higher-end retail. A suburban town center is a perfect complement to this demographic segment.

Through the efforts of the County's planning process, we believe development with the ability to attract higher-quality retail is already underway within Westphalia.



Region-serving entertainment district: The mixed-use entertainment district draws from a wider geographic trade area than typical mixed-use neighborhood retail centers. Generally, the center includes an anchor (or multiple anchors) that attract traffic to the site. The anchor could include a theater, cluster of restaurants, waterfront, or another unique amenity that attracts a crowd.

County Example: National Harbor is already fulfilling this niche in Prince George's County. It has a unique and dynamic location along the Potomac River with a marina, The Capital Wheel, programmed festivals and events, the outlet center, and a thriving cluster of restaurants. Customers can easily spend all day at National Harbor. Peterson has developed residential, office, and hotel components that have created a market for the retail. As density continues to increase, soft goods retail can begin to thrive. With the success of National Harbor, and the soon to open MGM Casino, National Harbor has established itself as the County's premier entertainment district.

Best Practice: Focus on key nodes for entertainment district retail as attempting to develop too many entertainment districts would dilute the effect of these and their performance within the County.

Transit-Oriented Development (TOD): Other areas of the region have demonstrated the market opportunity for high-quality, mixed-use development near Metro stations that can include a strong retail component. However, transit is not the only ingredient necessary for a successful retail development and TOD sites will also need to meet location and demographic criteria just like any other retail site. The evidence suggests that for TOD, which initial existing site conditions offered Greenfield or low density development patterns, new retail development typically follows after other anchor developments (residential, office, medical, and entertainment) have established a density of on-site customers and begun to define the look and feel of the place. Initial retail may be more convenience- and service-oriented, with the opportunity to increase the quality and scale of retail as development progresses. Recent and ongoing development near the Dunn Loring-Merrifield Metro station in Vienna, Virginia is one example of how this evolution could occur.

County Example: The County contains 15 Metro stations, some of which may offer long-term potential for retail in a TOD setting. In the near-term, the two stations closest to providing the opportunity for new high-quality retail as part of TOD are New Carrollton and Largo. At New Carrollton, development partners are already well into the planning process for a new 2.7 million square foot development in joint venture partnerships with the Washington Metro Area Transit Authority (WMATA) and the State of Maryland, and have landed the new headquarters for the state's Department of Housing and Community Development.[23] It is also the County's busiest Metro station. At Largo, plans for the new Prince George's County Regional Medical Center would provide the critical anchor for a walkable medical district near the Metro station that includes redeveloped retail. However, even with the new hospital and Metro station, careful planning will be necessary to integrate this anchor into TOD that can support high-quality retail.

> *Best Practice: Leverage transit and existing development plans to create high-quality TOD that can support retail as part of other mixed-use development, and remember that transit alone will not attract retailers as Phase 1 of development.*

Retail Districts: High-quality centers often cluster together in a geographic location, offering different niches and levels of retail, but functioning as a central location for shoppers. A strong example of this is Tysons Corner in northern Virginia. While there are high-quality centers throughout Arlington, Fairfax, and Loudoun counties, the largest cluster of high-quality retail in northern Virginia is located in Tysons Corner. Residents from across the Baltimore-Washington, D.C. region specifically come to this location as a one-stop, high-quality shopping experience. Even though the retail is in several centers or malls, a shopper has unlimited options for type of store, price point, and experience. Georgetown is another example of a retail district that is anchored by high-quality small shops, rather than a regional mall, and attracts shoppers from across the region.

County Example: Portions of the US 1 corridor already have successful development complete or underway at locations such as the Hyattsville Arts District, Riverdale Park Station, University Town Center, Mount Rainier's main street, and the new development occurring adjacent to the University of Maryland campus. Bookending the area on the north, IKEA already provides a regional attraction that brings consumers to the area. Prince George's Plaza Mall offers a prime redevelopment opportunity near transit that would enhance major retail offerings in the area, though is likely a long-term site that will capitalize on the increasing success of other retail centers and new residential development in the near-term. Prince George's County has the

[23] Metro, Forest City and Urban Atlantic unveil New Carrollton vision; Washington Business Journal, January 7, 2015.

seeds of establishing a collection of high-quality retail in the US 1 corridor, and should support the groups that are already working independently to grow this retail cluster.

Best Practice: Support independent groups and projects in Prince George's County that are working to establish high-quality retail districts.

Main Street Retail: High-quality retail, especially smaller and independently owned boutiques, are often found in revitalized main streets. Main streets in northern Prince George's County have the most immediate potential to attract higher-quality retail, particularly retail driven by local entrepreneurs and business people. Of the County's nine established main streets, those in the northern part of the County are better positioned to move up market.

County Example: Main streets in northern Prince George's County, such as Laurel, Riverdale, and Mount Rainier, have the potential to attract higher-quality retail, particularly driven by local entrepreneurs and business people.

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The Competitive Retail Market Analysis and Strategic Action Plan and Marketing Strategy for Prince George's County, Maryland Steering Committee

Prince George’s County Office of the County Executive
Rushern L. Baker, III, Prince George’s County Executive
David S. Iannucci, Assistant Deputy Chief Administrative Officer
Brad Frome, Assistant Deputy Chief Administrative Officer
Lavinia Baxter, Special Assistant to Deputy Chief Administrative Officer

Prince George’s County Economic Development Corporation
Jim Coleman, President/Chief Executive Officer
Larry Hentz, Business Development Specialist

Prince George’s County Council
The Honorable Dannielle Glaros, Councilmember (District 3)
Jackie W. Brown, Planning, Zoning and Economic Development (PZED) Committee Director

Prince George’s County Department of Housing and Community Development
Eric Brown, Director

Prince George’s County Redevelopment Authority
Stephen J. Paul, Associate Director

Prince George's County, Maryland Conference & Visitors Bureau, Inc.
J. Matthew Neitzey, CAE, CDME, CEcD, Executive Director

The Maryland-National Capital Park and Planning Commission (M-NCPPC)
Prince George’s County Planning Department
Countywide Planning Division
Derick P. Berlage, AICP, Chief
Jacqueline Philson, Project Facilitator and Manager
Ted Kowaluk, Senior Planner, Special Projects

Community Planning Division
Ivy Lewis, AICP, Chief
Teri Bond, Planning Supervisor

Strategy and Implementation Division
Vanessa Akins-Mosely, Chief

Special recognition and appreciation is extended to:
Robert Charles Lesser and Company Real Estate Advisors (RCLCO)
Lee Sobel, Principal and Director of Public Strategies, Project Director
Erin Talkington, Vice President, Project Manager
Margaret Liddon, Associate

The Maryland-National Capital Park and Planning Commission
Prince George's County Planning Board

Elizabeth M. Hewlett, Chairman
Dorothy F. Bailey, Vice Chairman
Manuel R. Geraldo
John P. Shoaff
A. Shuanise Washington

The Maryland-National Capital Park and Planning Commission,
Prince George's County Planning Department

Office of the Planning Director
Fern Piret, Ph.D., Director

Office and Publications Services, Publication and Graphic Design
Susan Kelley, Administrative Manager
Ralph Barrett, Clerk Supervisor
Robert Getz, Publications Specialist
Ryan Craun, Senior Visual Media and Imaging Specialist

Countywide Planning Division
Brenda Spears-Travis, Principal Administrative Assistant

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION
PRINCE GEORGE'S COUNTY PLANNING DEPARTMENT
14741 Governor Oden Bowie Drive
Upper Marlboro, MD 20772