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Prince George's County Retail Market Analysis

PREPARED BY **RCLCO** FOR M-NCPPC
ROBERT CHARLES LESSER & CO.

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THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION
14741 GOVERNOR ODEN BOWIE DRIVE
UPPER MARLBORO, MD 20772
WWW.PGPLANNING.ORG

Table of Contents

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Introduction and Key Findings.....	1
Chapter 1: Retail Market and Locational Analysis	
Goals and Objectives	5
Key Findings	5
National Retail Trends.....	7
Retail Inventory Analysis.....	10
Methodology.....	10
Retail Center Typology	11
Tenant Mix	13
Location Criteria and Examples	13
Retail Center Age/Year Built.....	13
Level of Repair/Reinvestment.....	15
Visibility and Local Access.....	16
Shopping Centers by Trade Areas.....	16
Retail Centers by Local and Regional Trade Area.....	19
Distribution by Center Physical Quality	20
Distribution by Tenant Level	21
Unique Retail Locations.....	24
Main Street Districts	24
Mixed-Use Retail Districts.....	25
Goals and Objectives	27
Key Findings	27
Competitive Advantages.....	31
Economic Assessment and Current Land Use	31
Economic and Demographic Trends	31
Employment Growth.....	32
Household Growth.....	35
Regional Household Comparison	36
Current Land Use and Retail Fundamentals	36
Retail Spending in the County.....	39
Spending Power, Competitive Analysis, and Supportable Retail	39
Sources of Demand and Spending per Group.....	40
Demand by Consumer Source.....	43
Retail Demand by Trade Areas	44
Methodology	45
Analysis of Supply and Demand within Trade Areas	46

Table of Contents

Goals and Objectives	51
Key Findings	51
Retail Consumer Segmentation	52
Household Consumer Tiers	52
Regional Distribution	54
Location Comparison.....	55
Employee Consumer Segment	62
Visitor Consumer Segment	63
Retail Opportunity	64
Critical Assumptions	67
General Limiting Conditions	68
Acknowledgements	69

Full Document (including Appendices) available online at:
http://www.pgplanning.org/Resources/Publications/Retail_Market_Analysis.htm

Online Appendices include:
Appendix A – Other Qualitative Performance Metrics
Appendix B – U.S. Shopping-Center Classification and Characteristics
Appendix C – ESRI Tapestry Segmentation
Appendix D – Analysis

Introduction and Key Findings

The challenge for retail in Prince George's County pertains to quality more so than quantity. On the surface, the County is not significantly over-retailed relative to the national or regional average retail square feet (SF) per person, but the average productivity (sales per square foot) of that retail space is less than in other comparable counties in the Washington-Baltimore region. New retail centers built since 2006 have demonstrated strong market absorption, but are often cannibalizing the tenants of older shopping centers which show negative net absorption during the same time period. This creates an environment where lower quality tenants can over achieve and locate in better space than they typically would occupy. Local-serving retail centers in Prince George's County display this phenomenon most often: many community centers contain tenants that would be more appropriately located in neighborhood centers, and neighborhood centers contain tenants that would be more appropriate for unanchored convenience/in-line retail.

At an aggregate level, minimal household expenditure potential is leaking outside of the County. However, aggregate spending reflects total dollars spent – not necessarily whose dollars are spent and where. Based on the composition of the County's retail, the County likely attracts outside demand in support of its low end retail and loses some resident spending to locations outside the county with higher quality retail. Locations where this dynamic likely occurs are discussed in Chapter 2.

When accounting for other primary sources of demand such as visitors and employees, the gap between demand potential and realized spending in the County is greater. Reported retail sales data indicates that \$7.2 billion in spending occurs in Prince George's County on retail goods and food services, representing the majority of purchases made at shopping centers and retail stores.

RCLCO calculates nearly \$8.6 billion of retail demand potential available to Prince George's County – a spending gap of \$1.4 billion or approximately 20 percent of current retail expenditures. Translating that demand into square feet indicates that Prince George's County can support an estimated total of 20.1 million square feet of high-performing retail space (excluding gas stations and other auto-related uses).

The current inventory of retail in the County includes 241 shopping centers comprised of approximately 26.4 million square feet of retail space (for shopping centers over 10,000 SF). RCLCO evaluated each retail center over 10,000 SF on the qualitative factors that influence its performance and competitiveness (detailed further in the Inventory section). Of 241 shopping centers, only 48 percent of these retail centers demonstrate a level of physical repair that would make them competitive for high quality retail tenants. Only 18 percent of all shopping centers are occupied with mid- or high-quality retail tenants. This supports the position that the quality of retailers located in Prince George's County is the most substantial challenge to improving the County's retail environment and growing retail sales.

The County's primary retail consumers are its own residents, with visitors and employees living outside of the County contributing an estimated 4 percent and 6 percent of total retail expenditures, respectively, and an outside market capture (including pass-through traffic and cross-jurisdictional shopping within the metro area) of 10 percent. Non-residents, including both visitors/tourists and employees will be more substantial drivers of future retail demand growth. 24 percent of incremental growth in demand could come from increasing visitation/tourism and 16 percent could come from new employees. However, the strategy with the greatest potential for growing the County's retail sales is to attract new households that both live and work in Prince George's County.

Introduction and Key Findings

Looking at the consumer make-up of nearby counties, the extreme affluence of the region is readily apparent. Some nearby suburban counties have over half of their households in the most affluent spending tier (detailed further in the Market Segment Profiles chapter). Prince George's County only has 8 percent of its households at this affluence level. Relative to region, the County lacks affluence to support significant increases in true luxury retail¹ – however, most retail options available in Prince George's County today undervalue the consumer potential of the top 30-40 percent of County consumers. The success of Tanger Outlets and National Harbor has begun to demonstrate this market potential.

RCLCO identified ten local retail trade areas using Census block groups, and based on general geography, natural divisions, major route boundaries such as I-495, and distribution of local-serving shopping centers (including in-line/strip, neighborhood, and community centers). The ten local trade areas were then condensed into five larger regional trade areas of North, Central Inside I-495, Central Outside I-495, Southwest, and Southeast Prince George's County in order to more effectively evaluate regional-serving retail. Regional trade areas represent the consumer base of Prince George's County households that support the regional-serving retail (power centers, lifestyle/festival, regional malls, and outlet centers) within these areas. These centers also rely on capturing demand from outside of Prince George's County for a portion of their retail sales. The extent to which regional retail centers will capture spending from outside the county depends on the quality, availability, and proximity of other similar retail to households outside the County. A map of local and regional trade areas is shown in Figure 3.8 (page 14) of the Inventory Analysis. An annotated trade area map showing where these trade areas may cross jurisdictional lines is shown in Figure 4.9 (page 38) of the Inventory Analysis in Chapter 2.

At a high level, market dynamics today demonstrate that the North trade area is relatively in balance in terms of supply and demand. The Central Outside I-495 trade area has experienced much of the new shopping center development in recent years and provides the highest quality regional retail tenants, attracting shoppers from the County as a whole. The Central Inside I-495 is experiencing challenges in retail vacancy and center disrepair. The Southwest trade area has the lowest quality of existing retail centers, but is beginning to create energy at National Harbor as a mixed-use destination attracting visitors from the broader metro area. The Southeast trade area has a relatively low population density and relatively little retail inventory.

Examining consumer psychographics by trade area begins to point to a segmentation strategy for County retail efforts that can be explored further in the next phase of work:

The North regional trade area offers the highest household density but more moderate spending power than other trade areas, with a predominantly young and urban customer and a clear preference for walkable neighborhoods with multimodal access. Smaller-scale centers in closer proximity to household base and transportation options will better serve these consumers. Retail tenants with a focus on household needs (grocery, drug, and convenience), mid-priced food and dining options, and entertainment venues like bars, art venues, and movie theaters would likely be most successful. Older buildings and existing communities can appropriately accommodate these tenants, which points to a main street and urban infill retail strategy. This is where transit-oriented development (TOD) also has the most chance of being successful.

¹ There is no hard and fast definition of luxury retail that spans across all retail categories. In this context, "true luxury" retail can be described as high-quality, high-status products that are sold at full retail price, convey prestige based on brand name, and are limited in distribution.

Introduction and Key Findings

The Central Outside I-495 trade area provides the strongest opportunity for higher quality retail to serve Prince George's County residents, which could be achieved by improving the quality of tenancing at newer retail centers such as Woodmore Towne Centre.

The Central Inside I-495 trade area has a population with significantly less spending power than others in the County. Inline/strip, neighborhood, and community retail centers compose the majority of retail centers. The tenancing is weak and retail gaps exist for basic household needs like grocery, pharmacy, and services. There are few credit tenants and space in these retail centers is challenging to fill even at relatively inexpensive lease rates. Many centers have begun filling space with non-retail tenants such as churches, tax and insurance service providers, and doctor/dentist offices. Many centers in this area might make good candidates for the case studies on repurposing or redeveloping low performing retail centers.

The Southwest trade area also has strong household spending power but represents a relatively small market in comparison to the Central Outside I-495 trade area. High-end retail in this location will need to be located where visitors/tourists, employees, and pass-through traffic can provide significant support for retailers.

The Southeast trade area has very low household density and relatively modest opportunities for new retail. Consumers in this trade area have good access to major retail centers just to the south in Charles County. Due to this relatively new retail concentration in close proximity, it will be challenging to capture these residents' spending entirely in Prince George's County. However, because the household density is so low, the Southeast trade area represents a relatively small portion of the County's overall leakage.

The following chapters present the "Assessment" of today's retail, tenants, and land use/economic context that are influencing the County today. This information will guide how to prioritize future opportunities (such as high end retail or redevelopment/reuse of failing centers), and then lead to the broader goal of this engagement in Phase 2, which will result in a Five-Year Strategic Action Plan that identifies how to effect change in the retail environment.

Together, the Assessment phase of this work includes:

- Chapter 1:
 - Key Retail Trends nationally and their impact on Prince George's County.
 - Local and Regional Trade Areas: What retail is where and who supports it?
 - Retail Hierarchy Matrix focused on identifying retail centers that are healthy, those that are stable, and those that might be in trouble.
- Chapter 2:
 - Competitive Advantages of the Region and Prince George's County to attract commercial users.
 - Land Use and Economic Assessment of the retail, people, and place that have created and will affect future viability of retail in Prince George's County.
 - Assessment of spending patterns and supportable retail; characterization of retail consumption and consumer demand.
- Chapter 3:
 - Retail Consumer Make-up by Trade Area.
 - Comparison of Consumer Psychographics to the Washington-Baltimore region.
 - Initial Opportunities by Trade Area.

Chapter 1: Retail Market and Location Analysis

Goals and Objectives

- Key Retail Trends nationally and their impact on Prince George's County
- Local and Regional Trade Areas: What retail is where and who supports it?
- Retail market inventory to assess the type, quantity, and quality of retail centers and retail tenants in Prince George's County. As well as, place-based assessment of these retail centers

Key Findings

National Retail Trends

- Nationally, retail properties have lagged the broader economic and real estate recovery and are just now entering the growth phase of the market when new development activity becomes attractive.
 - Since 2009, most major markets have seen little new retail construction and have relatively low occupancy rates compared to their historical average. Rent growth is just beginning to return to the market.
 - In the Washington, D.C., metro area, market fundamentals have returned more quickly. Occupancy is at a strong 95 percent and rent growth in 2014 was nearly 8 percent.
- Existing retail space saturates the market relative to spending power. Nationally, the ratio of square feet of retail to real median income is at an all-time high of 320 SF per dollar of real income compared to only 280 SF per dollar as recently as 2006. Retail sales growth reflects a market with stagnant consumer spending and low retail sales growth. Department stores, including discounters, struggled before the recession and have continued to be the hardest hit.
- Retail industry is adapting to a “new normal” that reflects lagging overall consumer spending; broader economic shifts, that are stratifying consumers toward the low and high end, and squeezing the middle; the rise of e-commerce; and pressure to use store space more efficiently to drive revenues per square foot.
- These trends affect each retail property type differently:
 - Class A malls are performing exceptionally well. Class B and C malls are at risk even in stronger markets.
 - Lifestyle centers focused on experience more than convenience or purchasing are rising in popularity. Rather than department stores, restaurants often anchor these centers.
 - Neighborhood centers that provide convenience-oriented goods and services to a localized market are facing oversupply. These centers are at less risk to e-commerce but consolidation in the grocery and pharmacy industries has reduced the variety of tenants available to anchor these centers. Centers without strong anchors will continue to struggle.

Prince George's County Retail Inventory

- RCLCO identified a total of 241 retail properties greater than 10,000 square feet in Prince George's County, comprising approximately 26,470,000 square feet of retail space. In addition, the inventory included ten “main street” retail areas that are not formal shopping centers but may provide a unique retail opportunity. Beyond the base of

Chapter 1: Retail Market and Location Analysis

quantitative data that CoStar provides on each retail center, RCLCO evaluated the qualitative factors that influence a center's retail potential and assigned each center a grade of A through F/defunct. These can be found in Appendix A.

- RCLCO found approximately 18 percent of shopping centers were well-occupied with strong or mid-level national or regional tenants, or strong local tenants, and the buildings were in a good state of repair. Of these 44 centers, about 39 percent are located in the North regional trade area, 43 percent are located in the Central regional trade area, and 18 percent are located in the South regional trade area. Four of these properties have high-quality regional or national tenants, and include College Park Center, the Tanger Outlets, The Hilltop Plaza, and The Shoppes at Arts District.
- RCLCO rated approximately 48 percent of shopping centers in Prince George's County as an "A" or "B" property in terms of repair and reinvestment (according to our internal grading system), indicating that the center is well-maintained and may need only a few repairs. The other half of shopping centers was of lower quality and received a grade of "C" or below. These shopping centers generally need significant repairs and maintenance and local tenants make up most or all of the spaces in these centers.
- Local retailers of "low" quality, such as independent convenience stores or beauty supply shops anchor over 40 percent of the 241 shopping centers surveyed.

Local Tenant and Retail Center Trends

- RCLCO observed that Prince George's County tenants seem to "over-achieve" in terms of the type of center in which they locate. Repeatedly, we found tenants that usually locate in strip centers (nail salons, check cashing, etc.) locating in a center intended to host community center retail, or more strikingly, tenants such as fitness centers or thrift stores occupying anchor spaces meant for a grocery or "category killer" tenant, suggesting that commercial rents have slipped, so that lower-rent tenants are able to rent space designed for, and that was once leased for, higher rents.
- Lower quality tenants filling shopping center space leads to the under-achieving of large-scale shopping centers, which poses a problem to County retail centers looking to attract national and higher-quality retailers as big name and higher-end retailers frequently want to locate in centers with other tenants of similar quality. The issue of co-tenancy stems from a lack of quality tenant programming that reduces the attractiveness of a shopping center.
- While certain retail corridors readily displayed the "cannibalization" effect of a fully-occupied new center located adjacent to an aging and vacant older center, which tenants had forsaken for new space, this trend was not as common as we had anticipated. This is potentially widely perceived to be the main issue with retail tenancing in the County, but may be a symptom more than a cause.
- Center after center have similar retail programs – a pharmacy, beauty supplies stores, nail salons, and take-out restaurants, or an Auto Zone with barber shops, RadioShack, and a 7-Eleven. The repetitive nature of tenancing is indicative of a retail market that has plenty of square footage yet residents still must leave the county for shopping needs that cannot be met in their neighborhood or community.

Chapter 1: Retail Market and Location Analysis

- Few centers displayed the attentive detail and discipline it takes to create a truly unique shopping experience with the caliber of tenants that make a whole that is greater than the parts. The Hyattsville Arts District is one good example of this, as well as Bowie Town Center. Most centers in Prince George's County seem to operate under a strategy of building and tenanting as quickly as possible, regardless of overall programming considerations.
- Overall, Prince George's County has room for improvement in its retail environment, but there are also some places that are already successful or have high potential for improved conditions. At a high level, RCLCO has seen strong performing centers (Woodmore, Laurel Lakes, Greenway), some areas with strong potential of reinvestment (Langley Park), some pioneers with the potential to change the currently drab retail fabric (Hyattsville), some main streets with the infrastructure and bones to reclaim active town centers and locally-flavored retail (Laurel, Bowie, Riverdale), some areas with built-in consumer segments that remain untapped (College Park), and some areas of significant investment that could flourish as regional centers of high-end retail (National Harbor, Laurel Town Center). While some of this development is already naturally occurring, the next phases of this analysis will consider what and how to build momentum and incentives to further improve retail and build-upon already occurring successes.

National Retail Trends

Nationally, performance in the retail sector has lagged other real estate types coming out of the downturn. It is just now entering the growth phase of the market cycle in which significant new development and investment will begin to occur. Since 2009, most major metro area markets have seen little new retail construction and have relatively low occupancy rates compared to their historical average. Rent growth is just beginning to return to the national market.

In the Washington, D.C., metro area, the retail market rebounded significantly sooner. The retail occupancy rate in the U.S. overall is just below 90 percent; in the Washington, D.C. metro area the occupancy rate is over 95 percent. Rent growth in the U.S has been flat; in the D.C. metro area it was nearly 8.0 percent in 2014. There has been significant new construction, with 1.6 million square feet of new retail delivered in 2014 and another 1.8 million under construction. Strong household growth has fueled this strong performance in the short term. For this to continue long term, the region will need to resist the national trends of declining real median incomes and continue to offer compelling employment growth to attract young, educated households to locate in the region.

Like other real estate sectors, the retail industry is emerging from the Great Recession and is learning to adapt to what has become the "new normal." Economic indicators are positive even if growth is gradual. A slower economic rebound, with only a gradual housing recovery, has delayed consumer spending. Although the slow recovery has reduced the pace of retail construction, this has created high demand for existing space in good locations. Convenience-based and restaurant concepts continue to perform well in traditional retail formats. This is good news to an industry that continues to keep an eye on the ever growing expansion of e-commerce. Online shopping continues to be a concern to brick and mortar retailers, property owners, and operators, though not without a fight. Many are developing diverse omni-channel strategies to maintain interest in the shopping experience that comes from retail stores and malls. Speaking of malls, outlet malls are attracting significant investor attention, while Class C

Chapter 1: Retail Market and Location Analysis

malls are struggling. These trends reaffirm just how susceptible retail is to change and how diligent the industry is at adapting to new challenges and opportunities.

The Federal Reserve retains confidence that the economy is on sound footing following the 3.3 percent annualized GDP growth in the second half of 2013. Payrolls expanded by nearly 2.3 million jobs in 2013, bringing the total number of jobs created since the recession to 8 million, less than one million short of total employment at the pre-recession peak. Employers are expected to add 2.7 million jobs in 2014, barring any unforeseen circumstances. The unemployment forecast is expected to drop below 6.5 percent at the close of 2014.²

Nationally, retail space totals more than 12 billion square feet, including nearly 100,000 shopping centers with a total of 6.8 billion leasable square feet.³ According to Reis⁴, the average vacancy rate for U.S. retail property in mid-2013 fell to 10.5 percent, the lowest rate in more than three years. The average vacancy rate at U.S. malls was at 8.3 percent in mid-2013, the lowest in more than four years. Average strip center vacancy had a rate of 10.5 percent, the highest of all retail property types.⁵

To date, seasonally adjusted retail sales for 2014, are showing a 3.8 percent increase, year-over-year, with broad-based increases, though much of the gain is coming from auto-related sales.⁶

At the national level, retail construction remains low. Supply starts during the first quarter of 2014 totaled 6.7 million square feet, a decrease from the previous quarter and down almost 60 percent compared to the same period last year. Similarly, deliveries declined to 9.9 million square feet the first quarter of 2014 and down 7.3 percent from a year ago. Retail absorption at the national level has been positive for 19 consecutive quarters. This year's first quarter absorption was approximately 24.4 million square feet, well ahead of the four-year quarterly average.⁷ The challenges of retail supply and demand show the difficulty with which the retail industry is transitioning into recovery. Most of the demand is new growth with little speculative construction. Yet, the positive absorption implies increased demand for existing space. As existing vacancy is further reduced, new development will increase.

Consumer spending has been rising since 2009, with annualized growth for 2012 at 3.8 percent. This news, coupled with gains in pricing for most major U.S. housing markets, is encouraging. It is important for the retail industry as there is a direct correlation between housing wealth and consumption.⁸ The delay of consumer spending has created its own "new frugality" with middle-class consumers. During the Great Recession, lower-end retailers thrived, and over the past few years higher-end retailers have gradually returned to a growth mode, but mid-priced retailers have not yet felt the welcome return of customers.⁹

The slowdown in new development has put existing retail space at a premium, particularly for grocery and restaurant concepts. Limited new development in the retail sector is causing retailers to enter existing markets hungry for space. In these situations, retailers are willing to

² 2014 Real Estate Investment Research. National Retail Report. Marcus & Millichap. 2014 Annual Report.

³ Foundering retailers drag malls into a failure vortex. Richard Collins. The Deal Pipeline. April 1, 2014.

⁴ Reis is a proprietary subscription database of commercial real estate market information and analysis.

⁵ Retail Vacancies Lowest in 4 Years. Wall Street Journal. Dawn Wotapka. July 3, 2013.

⁶ United States Highlights. Retail Outlook. Colliers International. 2014.

⁷ Retail Sector Continues Slow Recovery After A Harsh Winter. Retail market Report: 1Q2014. PNC Real Estate. 2014.

⁸ 2014 Retail Forecast. Cassidy Turley. 2014.

⁹ Ibid.

Chapter 1: Retail Market and Location Analysis

take smaller or multi-level formats.¹⁰ The tradeoff for this non-traditional space comes from identifying mature submarkets with high income levels, high education levels, and density.¹¹

Convenience-based and other retail essentials continue to perform well in traditional retail formats. That is good news to an industry that continues to keep an eye on the ever growing expansion of e-commerce.¹² The U.S. Census estimates that second quarter retail e-commerce sales for 2014 were \$75 billion (seasonally adjusted), or 6.4 percent of all retail sales. But the concern is that e-commerce sales increased 15.7 percent from the same period last year, while total retail sales grew by only 4.4 percent from last year.¹³ Retailers that do not compete heavily with e-commerce include convenience-based retailers such as grocery and restaurants, automotive service, dry cleaners, and financial services.¹⁴ Property owners are taking notice.

Retailers, property owners, and operators continue to watch e-commerce and they are developing omni-channel marketing strategies. This strategy focuses on a holistic approach for how the customer's shopping experience develops through an interrelated combination of in store, website, cellular telephone, or social media interactions.

E-commerce is influencing some traditional mall-based chains to open shops at open-air properties. This is advantageous to merchants who must ship goods to nearby e-commerce customers and still serve brick and mortar shoppers. Store size is also being influenced by e-shoppers' preferences for a wider range of goods. Other retailers may increase space needs to display high demand items purchased online even if they are not frequently purchased in-store. Omni-channeling tells shoppers about nearby stores, where items can be reserved and held for pickup.¹⁵

In addition to retail stores, shopping malls are pursuing their own omni-channel strategies. Malls are considering serving as distribution centers in a possible move to increase sales at the entire mall. Many chains already offer consumers the option of buying products online and picking them up at their store in the mall. Brick and mortar may also expand same-day delivery service given mall locations and wide consumer coverage.¹⁶

E-commerce aside, outlet shopping malls are stirring development trends. Eleven outlet centers brought an additional 3.8 million square feet of shopping space on-line nationally during 2014. Since 2009, outlet shopping sales have more than doubled sales to \$42 billion in 2013 from \$19.9 billion in 2009.¹⁷

Another popular retail property type is the single-tenant property. These net lease investments continue to be attractive for investors offering local areas strong retailers. Because these retailers are convenience-based, offering food, pharmacy, banks, and other services, they tend to do well during economic downturns. They are also less susceptible to threats from e-commerce. Should a retailer happen to vacate the premises, the current lack of speculative

¹⁰ Retail Investment In A "New Normal" Economy. Richard W. Chichester. Shopping Center Business. September 2014

¹¹ Capital Markets. Randall Shearin. Shopping Center Business. September 2014.

¹² Need-based shopping is shopping for essentials, with frequent visits. Urban Retail Fundamentals. Yaromir Steiner. Shopping Center Business. May 2014.

¹³ http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

¹⁴ 2014 Retail Forecast. Cassidy Turley. 2014.

¹⁵ E-commerce influences real estate strategy. Shopping Center Today. January 2014.

¹⁶ Shopping Without the Schlepping. Joel Groover. Shopping Center Today. March 2014.

¹⁷ Outlet center development surging. The Common Area. Shopping Center Today. September 2014.

Chapter 1: Retail Market and Location Analysis

construction and strong demand from other single-tenants make re-letting these properties less of a challenge.¹⁸

Recently, Class B malls have been able to take advantage of better retail activity as Class A mall space has reached a premium. On the other hand, Class C malls are not seeing higher occupancies or rising rental rates. These Class C malls continue to have difficulty attracting tenants even in markets with tight vacancy rates.¹⁹

While the economy and retail fundamentals are not exceptionally strong at this time, growth is moving in the right direction. Retailers, owners, and investors are cautious about the economy and the significance of e-commerce. If nothing else, the retail industry proves that growth comes as a result of constant challenge to evolve and innovate.

Retail Inventory Analysis

Methodology

Understanding the retail environment from macro-level trends to the state of every single shopping center provides a holistic foundation upon which RCLCO can drill down into the smallest geographies of the County to pinpoint underserved communities, failing retail areas, and areas with high potential, as well as to identify trends in the character of retail and tenancy within the County.

Using CoStar data as our starting point, RCLCO found 26,123,000 square feet of retail space in 237 shopping centers that met the County's request to survey all shopping centers above 10,000 square feet in Prince George's County. During our survey RCLCO identified an additional four shopping centers containing approximately 400,000 square feet not identified in the CoStar data. Some of these shopping centers, such as Ritchie Station Marketplace, contain several hundred thousand square feet of retail space which may have either been under construction when CoStar last updated its data or was mislabeled. In addition to the shopping centers, we also noted large freestanding retail spaces (above 10,000 square feet), main street retail, and other concentrations of retail that may not fit into the traditional definition of a shopping center such as National Harbor, which are discussed later in the report. Surveying all of the listed shopping centers allowed RCLCO to ensure the data was most up-to-date and to add qualitative data to the narrative.

While the CoStar data provided each center's occupancy, rentable building area, anchor tenants, and location in the County, we visited each center and evaluated the sites for building quality, surrounding land uses, tenant mix and vacancy, level of repair, and reinvestment among other factors that allowed us to draw conclusions on the state of shopping centers in the County. A list of factors and grading criteria can be found in Appendix A.

Upon surveying properties, we grouped the centers according to center type, tenant quality, and level of repair in order to categorize the large array of centers, draw conclusions from the inventory, and better reveal trends in the County's retail environment.

¹⁸ Retail Investment In A "New Normal" Economy. Richard W. Chichester. Shopping Center Business. September 2014.

¹⁹ 2014 Retail Forecast. Cassidy Turley. 2014.

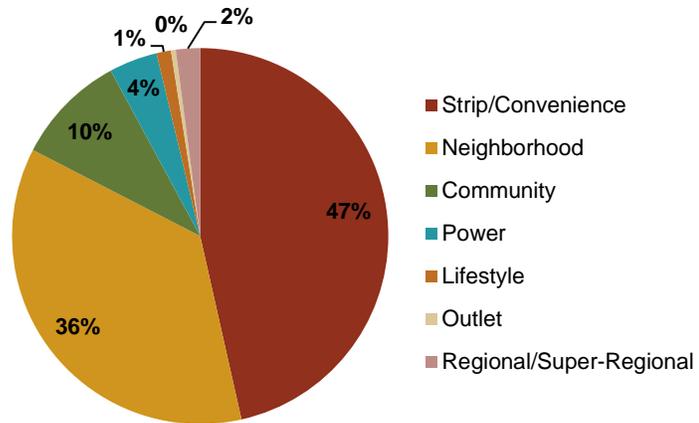
Chapter 1: Retail Market and Location Analysis

Section IV: RCLCO Retail Inventory, Exhibit IV-1, in the analytical appendix details the results of the inventory analysis, including detail by center for each of the factors discussed in the section below.

Retail Center Typology

County shopping centers were first examined in categories based on size and typical tenancy, according to the International Council of Shopping Centers (ICSC). These designations are defined in the list below, and additional descriptions can be found in Appendix B. These shopping centers were then divided into categories based on the size of the centers: strip and convenience (the smallest category), neighborhood, community, power, lifestyle, outlet, and regional and super-regional malls (the largest categorization).

Distribution of Shopping Centers by Center Typology
Figure 3.1
Prince George's County



Section I: Existing Retail

Performance in the Analytical Appendix contains a matrix of Prince George's County retail centers by center type. The specific exhibits for each retail center type are referenced below.

As shown in Figure 3.1, RCLCO identified retail centers based on the following categories:

- Strip Centers are the smallest of centers and generally do not have an anchor tenant. The typical gross leasable area (GLA) of these centers is less than 30,000 square feet.
 - 112 shopping centers (approximately 47 percent) were strip and convenience centers made up of 2,915,000 square feet of space and were approximately 91 percent occupied.
 - Strip centers in Prince George's County averaged approximately 26,000 square feet each.
 - Exhibit I-22 shows the inventory of strip and neighborhood centers in the County.
- Neighborhood centers are slightly larger than strip centers and are characterized by one or two anchor tenants with some in-line stores. The typical GLA of these centers is between 30,000 and 125,000 square feet.
 - 87 shopping centers (approximately 36 percent) were neighborhood centers comprised of 8,508,000 square feet and were approximately 93 percent occupied.
 - Neighborhood centers in Prince George's County averaged approximately 98,000 square feet each.
 - Exhibit I-22 shows the inventory of strip and neighborhood centers in the County.

Chapter 1: Retail Market and Location Analysis

- Community centers serve a slightly larger trade area than neighborhood centers, with a greater variety of anchor tenants, and additional in-line retail. The typical GLA of these centers is between 125,000 and 400,000 square feet.
 - 23 shopping centers (approximately 10 percent) were community centers composed of 5,224,000 square feet of space and were approximately 94 percent occupied.
 - Community centers in Prince George's County averaged approximately 227,000 square feet each.
 - Exhibit I-19 shows the inventory of community centers in the County.
- Power centers have multiple big box stores, few in-line tenants and serve a regional trade area beyond the scale of neighborhood and community centers. The typical GLA of these centers is between 250,000 and 600,000 square feet.
 - 10 shopping centers (approximately 4 percent) were power centers that made up 4,412,000 square feet of retail space in the County and were approximately 93 percent occupied.
 - Power centers in Prince George's County averaged approximately 441,000 square feet each.
 - Exhibit I-13 shows the inventory of power centers in the County.
- Lifestyle centers are primarily characterized by their walkable, attractive environments with soft-goods in-line tenants and often restaurant and food clusters. The typical GLA of these centers is between 150,000 and 500,000 square feet.
 - Three shopping centers (approximately 1 percent) were lifestyle centers that were comprised of 1,432,000 square feet of space and were approximately 92 percent occupied.
 - Lifestyle centers in Prince George's County averaged approximately 477,000 square feet each.
 - Exhibit I-16 shows the inventory of lifestyle centers in the County.
- Outlet centers are generally lower-priced components of high-end stores that sell discounted merchandise. Strong outlets have a large regional draw. The typical GLA of these centers is between 50,000 and 400,000 square feet. Prince George's County has one outlet center with 221,765 square feet of space and is fully leased.
- Regional and super-regional malls are typically enclosed malls with a few large anchor tenants and a significant amount of in-line tenants. The typical GLA of these centers is greater than 400,000 square feet.
 - Five (approximately 2 percent) shopping centers were regional or super-regional malls with 3,758,000 square feet of space and had an occupancy rate of approximately 97 percent.
 - Regional and super-regional malls in Prince George's County averaged approximately 751,500 square feet each.
 - Exhibit I-10 shows the inventory of regional and super-regional malls in the County.
- Main streets are collections of ground floor commercial space, often in historic town centers, where each building may be individually owned. These spaces can be challenging to market but have the potential to be strong hubs for local businesses that may lack the credit necessary to lease space in a shopping center.

Chapter 1: Retail Market and Location Analysis

- Ten potential main street retail areas were identified with a total of 170 retail spaces and 1,128,993 square feet. The occupancy rate is approximately 90 percent.
- Detail on main street and mixed-use retail locations is located in the Analytical Appendix: Section IV: RCLCO Retail Inventory, Exhibit IV-2.

Tenant Mix

Shopping centers in Prince George's County are comprised of many tenants, including anchors, junior anchors, and in-line retail, that are over-achieving by locating in centers normally too large or too expensive to support them. Retailers, including gyms and pharmacies are frequently found occupying anchor spaces in community centers, when they typically belong in in-line²⁰ or outparcel²¹ space in this center category. Similarly, dry cleaners, nail salons, and independent ethnic restaurants often comprise the full tenant list in a neighborhood center. While this mix may be appropriate for strip center retail, a neighborhood center generally needs a major anchor and a diverse set of tenants in order to effectively fulfill the retail needs of nearby residents. A majority of the centers surveyed have this mismatch of tenants and center types, especially centers that are older and smaller. Retail centers with a declining tenant base provide a challenge for attracting new anchor tenants or higher-quality in-line tenants.

Location Criteria and Examples

New shopping centers capable of attracting higher quality retailers generally seek to locate in areas with affluent and well-educated households, areas with high population density, and/or areas with strong transportation access and visibility. Most shopping centers in Prince George's County are older and in less-pristine physical condition compared to the newer centers mentioned below, yet they still demonstrate strong occupancies and active shopping environments.

While the physical quality of the shopping center certainly plays a role in tenant attraction, the retail inventory also made it apparent that centers of lower physical quality still fulfill market demand from residents in the County. Shopping centers of all quality types often had high occupancy as well as a significant amount of shopping and consumer activity.

Retail Center Age/Year Built

New Center Example: Brandywine Crossing

Section 2, Figure 4.11 (page 40) and Section 3, Figures 5.2-5.10 (pages 49-56) shows the demographic and spending statistics by trade area referenced for the following examples.

²⁰ In-line retail spaces are small shops located in the same retail structure as a larger anchor and are commonly found in strip malls, neighborhood, and community shopping centers

²¹ Outparcel retail spaces are freestanding parcels located in front of a larger shopping center (also referred to as "pad sites") that provide increased access and visibility relative to similar-sized spaces within the shopping center.

Chapter 1: Retail Market and Location Analysis

Brandywine Crossing, built in 2008, is a well-maintained hybrid between a lifestyle center for in-line retail and a power center for larger tenants, which include Marshalls, Target, Safeway, a new movie theater, and a diverse mix of local and national inline retail and restaurants. The Southeast trade area (identified in Figure 3.8 (page 14)) is more affluent than many other trade areas in Prince George's County and has the third highest average household retail spending in the County, despite comprising only two percent of all households. This is an example of a successful shopping center that has attracted higher-quality tenants based on its location in a high-income area with little competition in the trade area.

Brandywine Crossing Shopping Center
Figure 3.2 **Prince George's County**



New Retail Center Example: Vista Gardens Marketplace

Vista Gardens Marketplace is located in the Landover Hills trade area, which is a high density area of Prince George's County. The power center succeeds based on strong proximity to households, regardless of income levels. The center has typical power center retail including a Target, Home Depot, Shoppers, and Office Depot, as well as smaller tenants and restaurants located in outparcels on the same property.

Vista Gardens Marketplace
Figure 3.3 **Prince George's County**



New Retail Center Example: Woodmore Towne Centre

Woodmore Towne Centre, a new lifestyle center, is located directly off of I-495, in the center of the County with strong interstate accessibility within Prince George's County as well as from Eastern Washington, D.C. With a Wegmans and a Costco, this center has a larger regional draw, for which the interstate is a necessity. Smaller soft goods stores, in turn, can benefit from the regional consumers that Costco and Wegmans draw.

Woodmore Towne Centre
Figure 3.4 **Prince George's County**



Chapter 1: Retail Market and Location Analysis

Older Retail Center Example: Iverson Mall

Iverson Mall in Temple Hills commands low rental rates for its tenants and is nearly 100 percent occupied. The center was busy with shoppers, including many patronizing the stores and food court, even in the middle of the afternoon during a weekday. Despite having lower-end retailers such as discount jewelers, discount clothing stores, and a tattoo parlor occupying the majority of spaces in the mall, the center has been successful in programming its retail mix to its target market.

Iverson Mall

Figure 3.5

Prince George's County



Older Retail Center Example: Langley Park TNI Area

Similarly, shopping centers at the intersection of New Hampshire and University Boulevard (in the Langley Park TNI Area) could use significant reinvestment to bring the centers up to an "A" grade, but were fully occupied, and seemed to have more patrons than most other centers in the North regional trade area – evidence of retail matching surrounding consumer demand. While retailers similar to the ones found in these centers may not be the end-goal for attracting new tenants to the County, these centers and retailers are essential to meeting community needs, and as long as they remain safe, clean, and occupied they are beneficial to the surrounding neighborhoods.

Langley Park Center

Figure 3.6

Prince George's County



Level of Repair/Reinvestment

Throughout the County, RCLCO found that a high proportion of shopping centers of all sizes and categories are in need of maintenance or upkeep of facades and parking lots. Although the number of centers with deferred maintenance varied by trade area, a significant amount of shopping centers had cracked or faded asphalt, weeds and vegetation penetrating through the parking lots, minimal lighting, and outdated facades with inconsistent signage. Roller bars covering storefront windows were common in neighborhood and strip centers giving the perception of the shopping center being prone to theft, vandalism, or being located in an unsafe area. Frequently, the presence of roller bars was paired with other characteristics of low-quality shopping centers, including cracked asphalt, poorly maintained buildings, and a lack of landscaping throughout the center.

Chapter 1: Retail Market and Location Analysis

Visibility and Local Access

Approximately 20 percent of strip, neighborhood, and community centers in the County (3,300,000 square feet of retail) did not have good pass-by visibility and were difficult to find, even if they were located directly off of a main thoroughfare. These retail centers were partially or completely hidden from the view of the street for reasons that include:

- Irregular lot or building orientation—That is, the building was constructed at an angle to the main road in order to maximize rentable building area.
- Far setback—The center was set back from the main road so far that outparcels blocked the view of the building or it was difficult to see store signage. In some cases, numerous turns were required to reach the parking lot even after turning off of the street.
- Unusual grading compared to the main road—Some shopping centers were constructed at a grade that was significantly below that of the main road which made accessing the shopping center a challenge.
- The building did not give appearance of having a retail component—This was the case for centers with second floor office tenants with little or no retail signage. The storefronts seemed to blend in with the suburban landscape and did not stand out from the office component.

Limited visibility can have a significant impact for shopping centers, particularly on the smaller centers that are dependent on pass-by traffic. For larger retailers, such as grocery, big box, and department stores, visibility is critical in making a decision on where to open and operate a store. Oftentimes, a center with low visibility has anchor and junior anchor spaces sitting vacant or occupied by tenants that command lower rents per square foot such as fitness centers and discount stores. This becomes a cycle that leads to disrepair, with property owners under-investing in their properties because their tenants generate lower revenues, tenants continuing to over achieve in terms of the type of retail space they are able to lease, and sales per square foot and rental revenues continuing to decrease and further discourage reinvestment.

One large community center in District Heights, Penn Station Shopping Center, has a limited number of storefronts visible to the main road. Most spaces, including anchor and junior anchor spaces, can only be seen by entering the center. The lack of large grocers and mid- to high-quality retailers that attract shoppers to centers with low visibility further contribute to shopping center's level of deterioration and disinvestment.

Penn Station Shopping Center
Figure 3.7 ***Prince George's County***



Shopping Centers by Trade Areas

As part of RCLCO's analysis of the Prince George's County retail inventory, RCLCO designated five regional trade areas using Census block groups. These trade areas are based on general geography, natural divisions, transportation and access patterns, and shopping patterns and they reflect broader spending patterns and regional consumer draw for major shopping centers. These five regional trade areas are North, Central Inside I-495, Central Outside I-495,

Chapter 1: Retail Market and Location Analysis

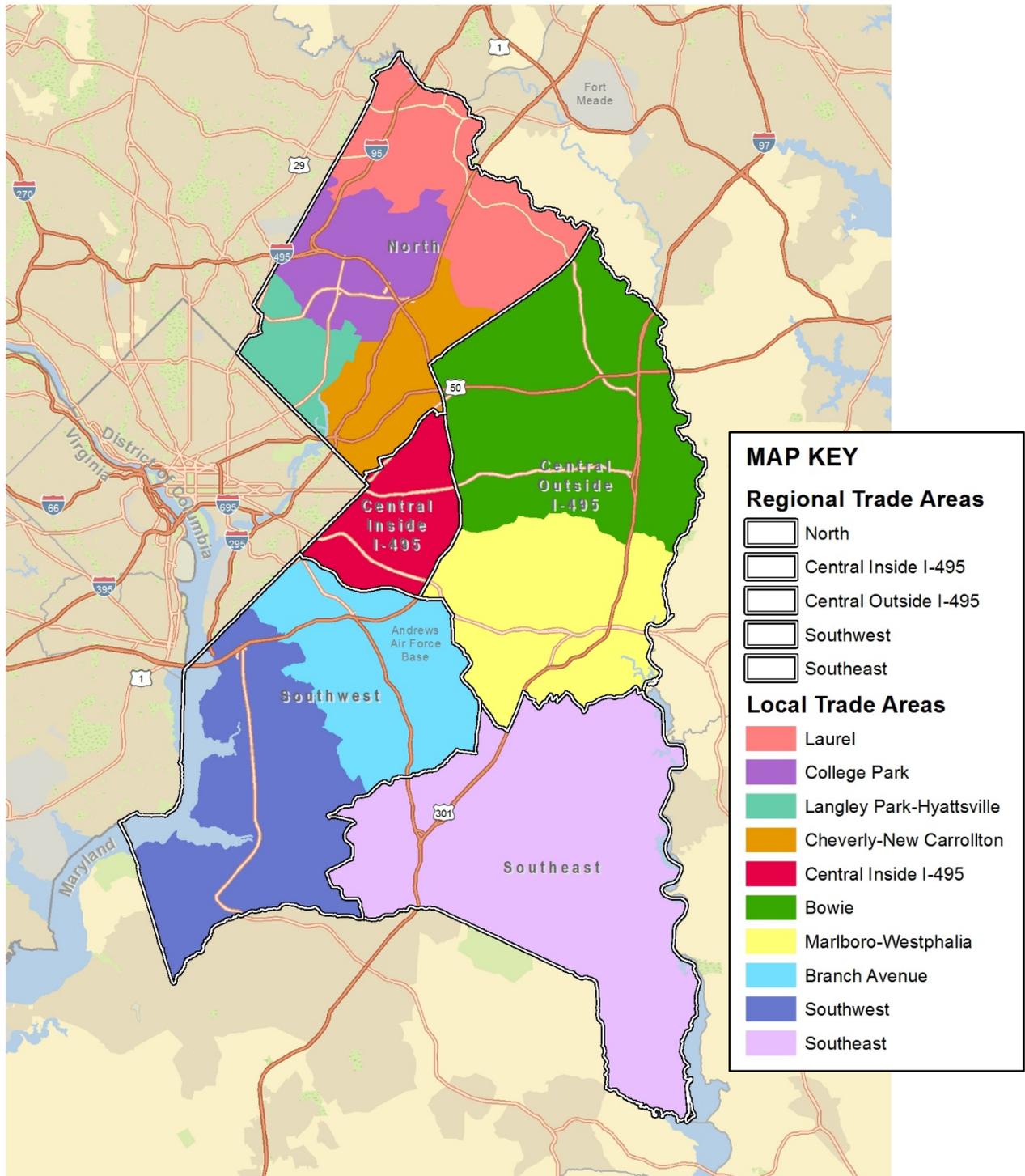
Southeast, and Southwest Prince George's County. We then subdivided these regional trade areas into ten local trade areas that reflect the geographic regions within which residents can easily shop for neighborhood retail, including groceries, dining at restaurants, clothes, and home goods, within close proximity to their homes. Local retailers are primarily located in in-line, neighborhood, and community centers. The boundaries and names of these trade areas reflect feedback from project team members based on initial review.

A map of the trade areas within Prince George's County is shown on the next page in Figure 3.8 (page 14). Figure 4.9 (page 38) in Chapter 2 details where and how spending from these trade areas may cross jurisdictional lines.

Chapter 1: Retail Market and Location Analysis

Map of Local and Regional Trade Areas
Figure 3.8

Prince George's County



Chapter 1: Retail Market and Location Analysis

Retail Centers by Local and Regional Trade Area

The trade areas contain varying shares of the County’s retail centers, with Langley Park-Hyattsville, Central Inside I-495, and Cheverly-New Carrollton capturing the largest percentage of retail centers. The retail center distribution, based on number of centers, for each trade area is as follows:

North Regional Trade Area (39.1 percent of shopping centers)

- Laurel, 10.2 percent—includes the town of Laurel.
- College Park, 7.6 percent—includes College Park, Adelphi, Berwyn Heights, Beltsville, and Greenbelt.
- Langley Park-Hyattsville, 10.3 percent—includes Colmar Manor, Mount Rainier, Hyattsville, and Langley Park.
- Cheverly-New Carrollton, 11.0 percent—includes Bladensburg, Landover, Landover Hills, Lanham, and New Carrollton.

Central Inside I-495 Regional Trade Area (13.9 percent of shopping centers)

- Central Inside I-495, 13.9 percent—includes Capitol Heights, Largo, Temple Hills, District Heights, Forestville, and Suitland.

Central Outside I-495 Regional Trade Area (24.1 percent of shopping centers)

- Bowie, 21.9 percent—includes Bowie, Glen Dale, and Woodmore.
- Marlboro-Westphalia, 2.2 percent—includes Upper Marlboro and Westphalia.

Southwest Regional Trade Area (20.4 percent of shopping centers)

- Southwest, 7.1 percent—includes Accokeek, Fort Washington, and Oxon Hill.
- Branch Avenue, 13.3 percent—includes Camp Springs, Clinton, and Morningside.

Southeast Regional Trade Area (2.5 percent of shopping centers)

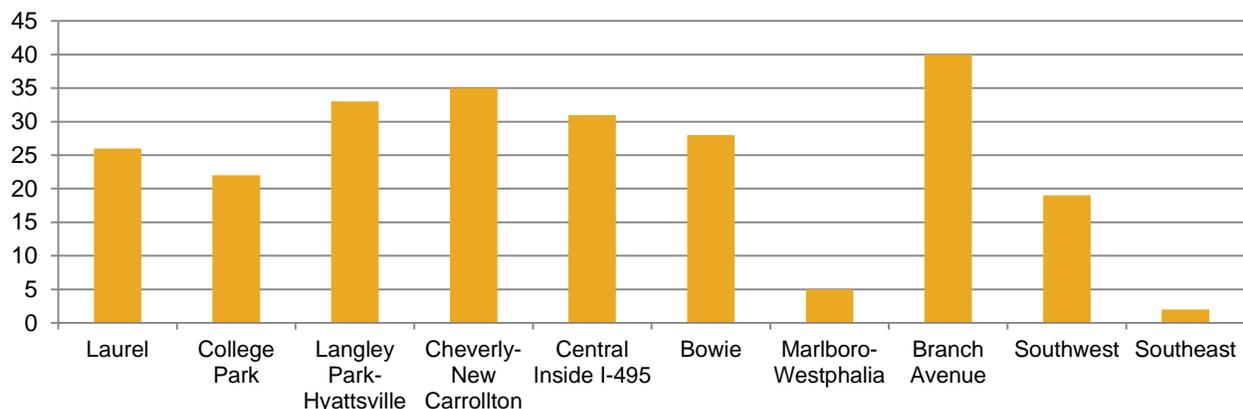
- Southeast, 2.5 percent—includes Brandywine and the southeast portion of the County.

A breakdown of each trade area’s share of retail properties is shown below.

Count of Shopping Centers by Trade Area

Figure 3.9

Prince George’s County



Chapter 1: Retail Market and Location Analysis

Distribution by Center Physical Quality

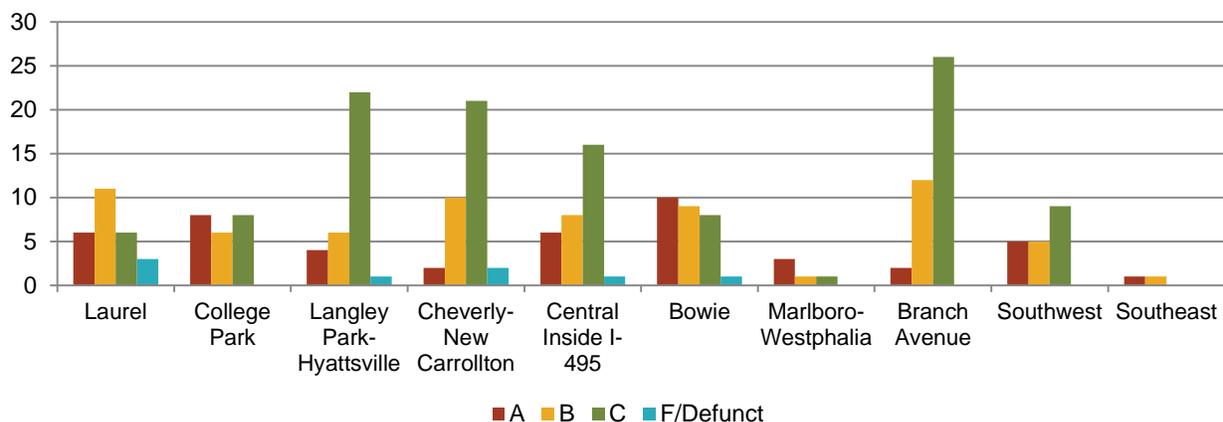
RCLCO graded each center on a scale of level of repair and reinvestment in order to determine which centers are in good physical shape with attentive owners and which could use additional work. A shopping center received an A if it was recently built or renovated with high-quality design and landscaping. It received a B if it was in good condition for the most part, but required some maintenance or repair. A center received a C if it needs repair beyond minor fixes or general upkeep. Shopping centers that failed required significant repairs and were, in general, “run down.” Defunct shopping centers included retail centers that were completely or almost completely vacant and no longer served their original purpose. In total, nearly 20 percent of shopping centers received an A, approximately 29 percent received a B, 49 percent received a C, 1.5 percent received a failing grade, and 1.5 percent of shopping centers still standing were defunct.

While the largest percentage of shopping centers (nearly half) in Prince George’s County received a grade of C according to RCLCO’s grading criteria, this was not the case for each individual trade area. For example, over 75 percent of shopping centers in Bowie earned a grade of B or better, and nearly 70 percent of shopping centers in the North Laurel trade area received a grade of B or better. Consistent across most trade areas, shopping centers located inside I-495 were in poor physical condition. Beyond I-495, as median income goes up, the physical quality of shopping centers also improves. The condition of shopping centers by trade area is shown in Exhibit IV-5 in the Analytical Appendix.

Physical Quality of Shopping Centers by Trade Area

Figure 3.10

Prince George’s County



Although the condition of a shopping center plays an important role in the quality of tenant that locates in a storefront or anchor space, a lower-quality center does not necessarily indicate a lack of retail demand in the trade area. For example, when property owners replace or renovate dying malls and underutilized shopping centers, this physical investment restores their competitive positioning with newly delivered products and enables them to appeal to higher quality tenants and capture a greater share of local expenditures. Older shopping centers, especially in the cases of centers in strong trade areas with high visibility or a strategic location, can pursue a tenant-based revitalization strategy by attracting a higher-quality anchor tenant and reinvesting in the property.

Chapter 1: Retail Market and Location Analysis

This presents an opportunity for trade areas featuring a high proportion of C shopping centers, and unmet demand for higher quality retail. Several of these opportunity sites are in areas near public transit stations and areas with higher-incomes, which are also typical locations that retailers new to the County may find attractive. If even a small portion of these C shopping centers reinvest and make necessary repairs in order to reprogram the tenant mix, good quality buildings and strong co-tenancy could attract more national and regional high-quality retailers to Prince George's County.

Distribution by Tenant Level

Ratings for the quality of retail tenants divide into nine categories based on anchor tenant type (national, regional, and local) and anchor tenant quality/price point (high, mid, and low). For example, department stores like Nordstrom would be considered National-High, whereas a Shoppers Grocery Store would be considered Regional-Low. A scoring guide with additional examples for each tenant level can be found in Appendix A.

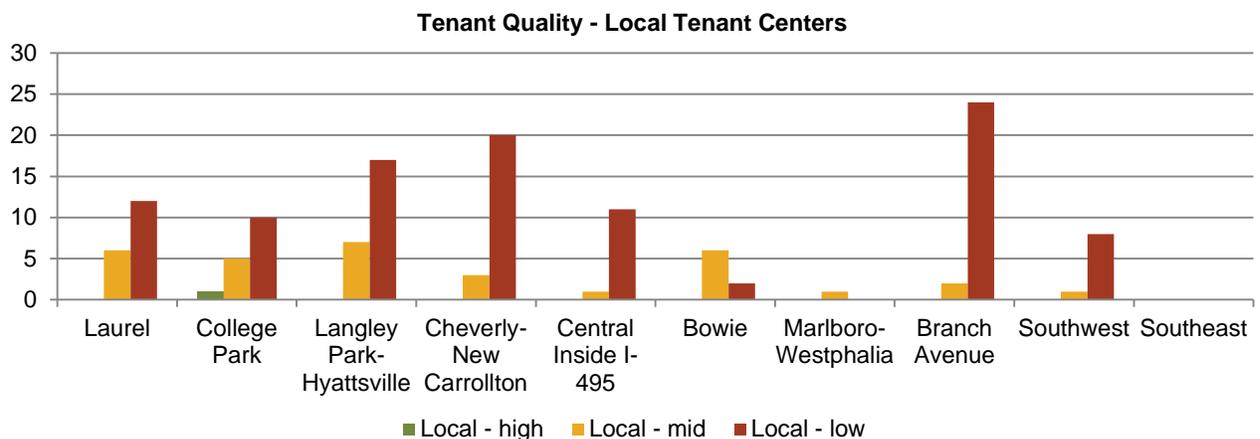
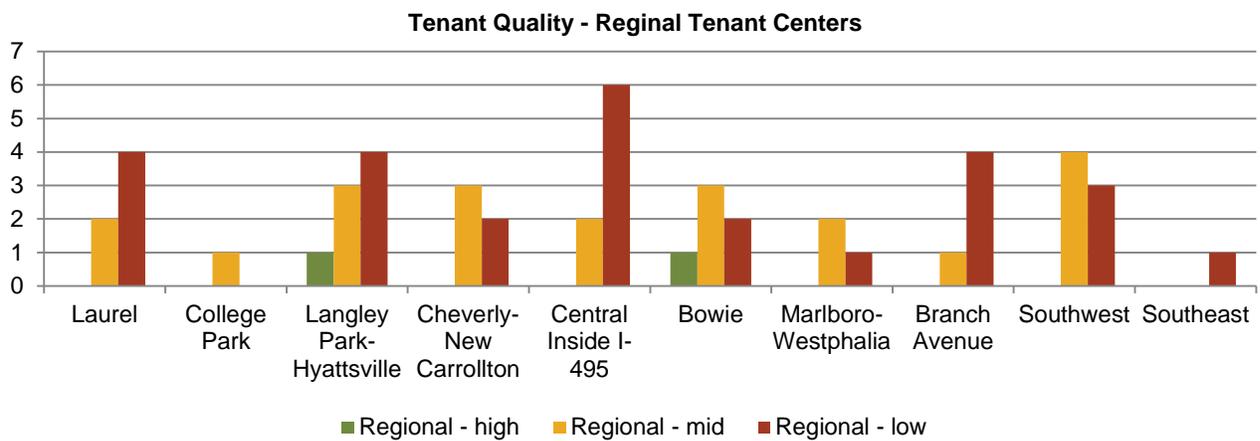
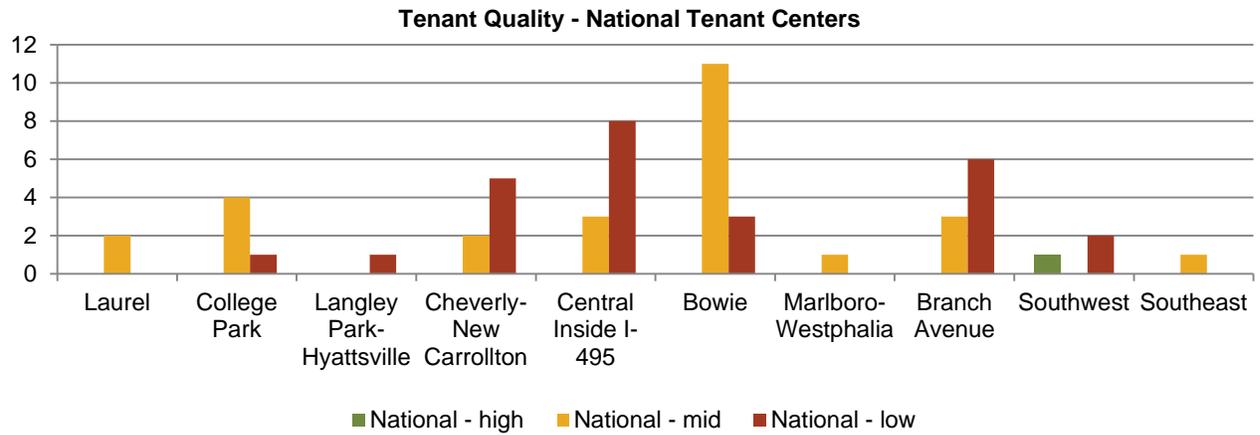
Approximately 23 percent of shopping centers featured national-level tenants (of varying degrees of quality), which could include CVS, Rite Aid, and Family Dollar. Regional-level tenants, such as Shoppers and Giant grocery stores, characterize an even lower percentage, with approximately 21 percent of centers anchored by these retailers. Local tenants, such as nail salons and laundromats, anchor or completely occupy approximately 57 percent of shopping centers.

Few centers have high-quality anchor tenants (including national, regional, or local), and only four centers are primarily comprised of high-quality retail. Approximately one-third of shopping centers featured mid-level retail, while the remaining 65 percent of retail centers featured predominantly low-quality tenants. A full breakdown of shopping center tenant quality categorized by trade area is illustrated in Figure 3.11 (page 18).

Chapter 1: Retail Market and Location Analysis

Quality of Tenants by Trade Area
Figure 3.11

Prince George's County



Chapter 1: Retail Market and Location Analysis

Examples of shopping centers that have the highest quality regional and national retail include the Tanger Outlets, The Hilltop Plaza, and The Shoppes at Arts District, with other notable national mid-level retailers found in Bowie Towne Centre, Laurel Lakes, Towne Centre at Laurel, and Woodmore Town Center, among others. These centers have likely achieved this level of tenancy due to the quality of the buildings, demographics of the surrounding areas, the vision of the developer and leasing company, and co-tenancy alignments.

Another factor that impacts quality of tenants is inter-regional competition for national and regional retailers. Often, national and retail tenants are willing to open only a set number of locations in the Washington, D.C. region to maintain their brand prestige. The inherent issue may not lie in attracting the first location for a retailer, as Prince George's County has a large population with varying degrees of incomes and consumer preferences, but for existing retailers to justify a second or third location within the County, even if their store locations would be geographically separated. The next phase of RCLCO's analysis will explore these issues further through outreach and consumer research.

Levels of shopping activity, street activity, and tenant mixes vary by trade area. For example, shopping center concentrations in the District Heights trade area were consistently busy across the numerous days that RCLCO visited despite the level of repair and similar tenant mixes of the numerous shopping centers. Tenant mix was similar in both new shopping centers and older ones with deferred maintenance, and included nail salons, branch banks, pharmacies, and dry cleaners mostly in in-line space. In addition, some parts of the trade area had more people loitering in parking lot and common areas of shopping center than others, but nearly all neighborhood centers and larger centers saw a significant number of store patrons, especially when a grocery anchored the center. This pattern of patronage and tenants seemed consistent throughout the trade areas—namely, the higher density trade areas including Langley Park-Hyattsville, Cheverly-New Carrollton, Central Inside I-495, and Branch Avenue.

As population density and real estate development decreases outside of I-495, the retail environment changes quickly. As a result, Bowie and Marlboro-Westphalia had very unique dynamics not seen elsewhere in the county. Retail centers in these trade areas were much cleaner, less congested, and more appropriately tenanted in many cases. A notable exception included Marlborough Village Center, where a farmers market occupied the space meant for a large grocery anchor and had very few shoppers. These areas transitioned quickly from dense suburban development to rural and newer low-density suburban development.

The College Park Trade Area presents a unique shopping environment based on the presence of the University of Maryland serving as a large anchor institution and a captive audience of students, faculty, and staff. Shopping centers in the College Park trade area are largely oriented towards and patronized by students attending the university and living near-by. Some of this retail is on the ground floor of student housing or within a walkable distance to campus and is comprised of fast-casual restaurants, services, and a few soft goods stores. Centers immediately adjacent to campus were well attended and patronized by students, faculty, and staff during daytime hours.

Multiple local trade areas contain Transforming Neighborhood Initiative (TNI) areas, all inside I-495 in areas that USDA classifies as food deserts.

- Southwest Trade Area: Glassmanor-Oxon Hill TNI
- Branch Avenue: Hillcrest Heights-Marlow Heights TNI
- Central Inside I-495: Coral Hills/Suitland TNI
- Cheverly-New Carrollton: Kentland/Palmer Park TNI

Chapter 1: Retail Market and Location Analysis

- Cheverly-New Carrollton: East Riverdale/Bladensburg TNI
- Langley Park/Hyattsville: Langley Park TNI

Although every trade area contains numerous grocery retailers, some areas have better access to grocery stores than others. Figure 3.12 (page 20) shows census tracts in Prince George's County, MD classified as food deserts by the U.S. Department of Agriculture (USDA). Green areas show official "food deserts" – low income and low access areas where a significant share of residents are more than one mile from the nearest supermarket (urban areas) or ten miles from the nearest supermarket (rural areas). Yellow areas are "moderate access" areas where few low income households have vehicle access.

In Prince George's County, the majority of Census Tracts with low supermarket access are in the Central Inside I-495 trade area, with pockets in the North and Branch Avenue submarkets also reflecting moderate access. The green area near University of Maryland may be misleading as the College Park campus and athletic facilities comprise a large portion of these census tracts. Specific areas where grocery demand may be high include Capitol Heights, District Heights, Silver Hill, and Oxon Hill. While there are numerous supermarkets in these towns, a significant share of households does not have easy access to them.

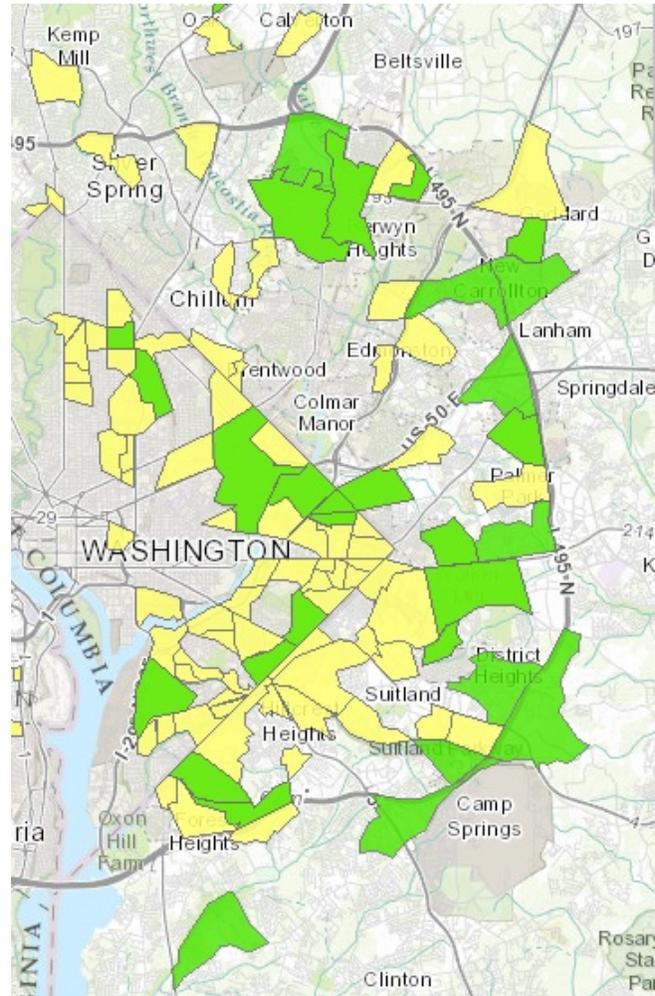
The Retail Marketability analysis in the next phase of work will identify if there are specific retail opportunities beyond grocery that would better serve the TNI areas.

Unique Retail Locations

Main Street Districts

"Main Street" districts—groups of street-oriented, contiguous storefront buildings, often older and historic, and with a mix of uses—offer special opportunities and challenges. They are usually pedestrian-friendly and sometimes transportation hubs. Their distinctive architecture and small shop format differentiates main street districts within the regional marketplace. Because the building space is usually adaptable for a wide range of uses, it is possible for main street districts to accommodate many different combinations of shops, offices, and apartments. Some main street districts therefore function primarily as community-serving commercial centers, while

Locations of Food Deserts
Figure 3.12 *Prince George's County*



Chapter 1: Retail Market and Location Analysis

others function as regional destinations. But, because each property owner leases space individually, the mix of retail businesses in main street districts is often somewhat haphazard.

We identified ten main street districts in the County—in Laurel, Mount Rainier, Hyattsville, Riverdale Park, College Park, Bowie, Upper Marlboro, District Heights, Suitland, and Clinton. For each of these districts, we examined tenant mix, physical condition, accessibility, and streetscape design.

The main street districts in Laurel, College Park, Hyattsville, and Upper Marlboro are the largest, and their buildings and streetscapes are generally of higher quality than those in the other main street districts. The main street districts in District Heights, Suitland, and Clinton are very small and, in some cases, building facades have been remodeled to resemble that of a shopping center, diminishing their distinctive architectural characteristics. But their locations, at the intersections of major roads, offer good potential for improvement. Riverdale Park's main street district benefits from the presence of a MARC station, but most of its property is owned by a single property owner who has kept his property vacant for almost a decade. As a TNI district with Metro proximity and a major employer (the Census Bureau), Suitland may have some special business development possibilities.

Mixed-Use Retail Districts

National Harbor is another retail concentration that is included in our retail inventory but lies outside of the normal characteristics of shopping centers as ICSC defines them. National Harbor may be the best example of mixed-use development within Prince George's County as it includes office space, multiple hotels, a conference center, residential development, and ground floor retail throughout. The retail program at National Harbor largely caters to tourist and regional destination-visitor consumers with restaurants, gift shops, and specialty shops, along with service-oriented and neighborhood retail such as a small market and a pharmacy. National Harbor's location within the County and region is relatively isolated from other nearby commercial developments and residential neighborhoods. Expanding the retail program beyond visitor-oriented restaurants and shops likely depends on improving its local accessibility. However, as a destination shopping location, National Harbor has some of the highest quality tenants within the County.

Chapter 2: Competitive Analyses, Estimation of Market

Goals and Objectives

- Competitive Advantages of the Region and Prince George's County to attract commercial users.
- Land Use and Economic Assessment of the retail, people, and place that have created and will affect future viability of retail in Prince George's County.
- Assess spending patterns and supportable retail; characterize retail consumption and consumer demand.

Key Findings

Competitive Advantages

- The Washington-Baltimore region has a competitive advantage of being one of the most prosperous areas in the nation with median household incomes about 1.5 times the national average. Retailers are attracted to, and are successful in, this region because of the spending power that comes with high consumer spending and household and employment density.
- The region's competitive advantages in attracting retail and commercial development reflect the demographic and locational criteria that are driving retail trends and performance nationally:
 - A high-density of affluent consumers.
 - Population growth driven by a young, highly-educated workforce.
 - Urban and urbanizing locations, with strong access and multimodal transportation, that are supportive of pedestrian-friendly retail and lifestyle centers.
 - A stable and enduring appeal to tourists who visit the region's cultural attractions.
- Prince George's County benefits from the region's advantages in attracting retail and commercial interest while also facing challenges to win retailers in a highly competitive regional environment. Faced with more moderate incomes and densities than other areas of the region, the place-based criteria above become the most important factors that the County can influence. Identifying and focusing on the top locations with multimodal transportation options, walkable, urban development patterns, and the most potential to attract Millennials will be critical to the County's retail success.
- On the flip side, cheap existing retail space is a unique asset for Prince George's County that other locations within the region do not possess in the same quantities. In the right locations, these spaces allow for new businesses to gain market traction while keeping the business's fixed costs low – a necessary recipe for start-ups to succeed. A good example of this dynamic is Hyattsville. Other locations where this might be successful will be explored in the case studies.

Economic Assessment and Current Land Use

Prince George's County is forecasted to grow by 28,000 new households and 20,500 new jobs by 2025. This is a moderate growth level consistent with historical trends in the County and the broader Metropolitan Statistical Area (MSA). Household and employment growth drive new retail demand, and positive growth fundamentals are imperative to retail success.

Chapter 2: Competitive Analyses, Estimation of Market

- Countywide retail market fundamentals are strong in terms of vacancy, absorption, and deliveries. This holds true for the overall retail market and within individual shopping center categories (malls, power centers, etc.). Furthermore, Prince George's vacancy, absorption, and deliveries trend similarly to the Baltimore and Washington, D.C., retail markets. Prince George's County's overall asking rental rate is currently \$19.55 triple-net, which is a slight discount to the Washington, D.C., MSA at 10 percent but about 5 percent higher than the Baltimore MSA rental rate.
- Retail absorption in the County has been positive since 2006 (with the exception of 2008). Since 2006, seven large, regional shopping centers have come online and absorption has remained positive for both regional-serving and neighborhood-serving centers. Positive absorption in the face of significant deliveries can be a sign of a space-constrained retail market in some instances. However, on the basis of our retail inventory, we hypothesize that the County maintains positive absorption as tenants in older centers choose to move to the new centers, and decreasing rents in older centers provides an opportunity for non-credit tenants (i.e., local and family businesses, start-ups) to operate within the market.
- As newer and larger shopping centers recruit tenants away from older centers, value-oriented tenants and non-credit tenants are able to "move up the food chain" into space that was not purpose-built for their user or tenant type to occupy. Examples of this include a Target filling the anchor space of a super-regional mall such as at Beltway Plaza Mall or a fitness center anchoring a community center such as at Great Eastern Plaza. While this is not a trend isolated to Prince George's County, the prevalence of lower-quality anchor tenants is having a significant detrimental effect on the ability to maintain quality tenants at older shopping centers. The implications of this are twofold:
 - First, tenants that like to co-locate with certain anchors choose to move, and second, consumers experience a gap in retail offerings and are forced to shop somewhere else. The additional space leasing at deflated rates causes a cyclical effect of shopping centers filling with tenants at a lower tier than they should be supporting.
 - Second, as anchor tenants and credit worthy tenants move out, it becomes increasingly hard to rejuvenate that center as it generates less revenue for the property owner that might potentially be reinvested into physical improvements. In a market with plentiful new shopping center options that give tenants choices in where to locate, the physical quality of space impacts a shopping center's competitiveness for quality tenants.

Spending Power, Competitive Analysis, and Supportable Retail

- Retail sales in Prince George's County have totaled \$7.2 billion annually in 2012 and in 2013, including an estimate of non-taxable grocery sales.
 - RCLCO estimates retail demand for \$8.6 billion from households, employees, visitors, and outside traffic in Prince George's County. This leaves a \$1.4 billion gap in spending that is going elsewhere – approximately 20 percent of the County's 2013 retail sales.
 - For comparison, Montgomery County estimated their 2011 retail leakage as \$3.5 billion relative to annual retail sales of \$14.8 billion. This leakage represents 24 percent of Montgomery County's 2011 retail sales.²²

²² Montgomery County Snapshots: Council Districts by the Numbers. Montgomery County Planning Department. May 2012.

Chapter 2: Competitive Analyses, Estimation of Market

- Though there is a leakage in retail spending, Prince George's County presently has more retail inventory than demand for space. In part because of the low physical quality of that retail space, the existing retail inventory in its current condition will face an uphill battle to attract the high quality tenants that would capture this retail leakage within the County.
 - Prince George's County has demand for approximately 22.3 million square feet of retail space excluding automobile sales and gasoline. This translates into 25 square feet per person.
 - Only including shopping centers above 25,000 square feet, Prince George's County has 24.7 million square feet of retail space, or 28 square feet per person.
 - While the difference between retail demand and retail supply is not always a sign of an unhealthy market, this imbalance does indicate market weakness and a tenant quality and mix that does not fulfill consumer preferences.
- Though retail space is well-occupied, tenants are not providing the type and quality of retail that keeps household spending within the County and encourages employees to eat or shop near their place of employment. Households and employees leaving the County to shop leads to the above conditions of retail expenditures leaking out of the County despite plentiful and occupied retail square footage.
- Examining regional trade areas within the County highlights local retail demand and supply imbalances and helps to diagnose which areas of the County are healthy, and which might be struggling. A discussion of the trade area divisions and a map are located in Figure 3.8 (page 14).
- RCLCO examined the supply of retail in each trade area, as well as retail demand as driven by household income and the trade areas share of County households. RCLCO found that trade areas with households spending more than the County average (\$24,491²³) includes: Laurel, Bowie, Marlboro-Westphalia, Southwest, and Southeast. Trade areas with households spending less than the County average include: College Park, Langley Park-Hyattsville, Cheverly-New Carrollton, Central Inside I-495, and Branch Avenue.
- Due in part to high household density and/or strong spending levels, Bowie, Branch Avenue, and Southwest are expected to be able to support the highest amounts of retail both now and in the coming years according to our statistical demand model distribution.
- Overall, every trade area can support additional high- and mid-quality tenant offerings. However, when looking at the aggregate retail supply in each trade area, most markets are oversupplied when compared to consumer demand. Each trade area has a gap in tenant offerings that can be capitalized upon to retain consumer spending.
- The North regional trade area has demand for 7.6 million square feet of retail (21 square feet per person) and existing high- and mid-quality tenanted shopping center space of 4.2 million square feet (11 square feet per person).
 - This trade area has below average household retail spending of \$20,500, and above average household density, representing 40 percent of the County's households but only 20 percent of its total land area. With easy access to major

²³ Total average retail spending per household in the county is \$24,491 excluding expenditures at automobile dealers, gasoline stations, used and miscellaneous store retailers – categories that would not be appropriate for shopping centers.

Chapter 2: Competitive Analyses, Estimation of Market

retail in Montgomery, Howard, and Anne Arundel Counties via I-495 and I-95, the North trade area likely has the most fluid retail dynamics of any trade area, with consumers able to travel easily in and out of the County to shop at their desired retail location.

- The Central Inside I-495 regional trade area has demand for 2.2 million square feet of retail, and currently has 3.7 million square feet of inventory, only 22 percent of which is occupied by high- or mid-quality tenants.
 - This trade area has the lowest average retail spending of \$17,900 per household and the highest household density, containing 13 percent of the County's households and five percent of the total land area. It should be a target for case study analysis to address excess or obsolete space and/or how to attract tenants to an underserved market.
- The Central Outside I-495 regional trade area has demand for 6.4 million square feet of retail (35 square feet per person), and existing high- and mid-quality centers totaling 5.2 million square feet of space (29 square feet per person).
 - This trade area has the highest average retail spending of any trade area at \$32,300 per household and comprises 21 percent of the County's households. It has the most mid- and high-quality retail in the County per person and likely attracts consumers from other trade areas as well as locations outside the County that lack this quality of retailer. A question to be explored in the high-end retail analysis is whether this concentration of higher-quality retailers suggests an opportunity to move farther up market or if these retailers have located in this trade area for other reasons such as new retail space.
- The Southwest regional trade area has demand for 5.2 million square feet of retail (28 square feet per person) and existing high-and mid-quality supply of 2.4 million square feet (13 square feet per person).
 - This trade area has average retail spending nearly identical to the overall County average of \$24,700 per household and contains 22 percent of County households. It contains National Harbor and Tanger Outlets, two of the County's newest and highest quality retail areas that serve a broad market audience in the County as well as the broader Washington-Baltimore region and area visitors.
- The Southeast regional trade area has retail demand for 911,000 square feet (33 square feet per person) and currently supply of 580,000 square feet (21 square feet per person).
 - This trade area has above average retail spending of \$31,200 per household yet the lowest household density in the County. At 9,000 households, it contains only 3 percent of the County's households yet represents 24 percent of the County's land area. Most of the retail in Southeast is relatively new and well-tenanted, though many of these consumers likely also shop at retail centers in Charles County which are closer to their homes than many of the other retail locations in other trade areas.

While this deliverable explores current market conditions, the next phase of work will lay out strategies to pinpoint and act upon these gaps.

Chapter 2: Competitive Analyses, Estimation of Market

Competitive Advantages

The Washington-Baltimore region has a competitive advantage of being one of the most prosperous areas in the nation with a spending power, household and employment density, and economic base that attracts retailers to the region and helps them succeed. While many other regions offer similar economic and spending potential, this region is particularly attractive for the types of retail centers driving new development today. In part, this is because lifestyle centers and “main street” retail require not only locations with strong economic and demographic fundamentals, but also the higher-density land use patterns and mixed-use places that support these new destination retailers who drive revenue based on experience as much as they do from product.

New retail centers built in the region since 2010 have chosen urban and urbanizing locations with strong access and multimodal transportation that are supportive of pedestrian-friendly retail and lifestyle center environments, such as Merrifield, White Flint, and City Center. An example of this in Prince George’s County is the Arts District in Hyattsville.

Prince George’s County benefits from the region’s advantages in attracting retail and commercial interest while also facing challenges to win retailers in a highly competitive regional environment. With more moderate incomes and densities than other areas of the region, place-based criteria such as Metrorail stations, strong interstate access, high population density, and walkable environments will become the most important factors that the County can sell to potential retailers and retail developers. Identifying and focusing on the top locations that meet these criteria and offer the most economic and spending potential will be critical to the County’s retail success.

On the flip side, cheap existing retail space is a unique asset for Prince George’s County that other locations within the region do not possess in the same quantities. In the right locations, these spaces allow for new businesses to gain market traction while keeping the business’s fixed costs low – a necessary recipe for start-ups to succeed. However, the “right location” will not only offer cheap retail space but also have strong economic and growth fundamentals that suggest underlying market potential. A good example of this dynamic in Prince George’s County is Hyattsville. Other locations where this might be successful will be explored in the case studies.

Economic Assessment and Current Land Use

Economic and Demographic Trends

As a basis for understanding current and future retail demand, RCLCO evaluated the future trajectory of household and employment growth in Prince George’s County, as two of the significant factors that contribute to overall spending patterns, and thus, retail demand. We analyzed historical trends and projections from a number of sources, resulting in a hypothesis of household growth and employment variables that were utilized in the retail demand model. Though sources vary in their methodologies and expectations of growth, RCLCO came to the conclusion that both households and employment will grow in the County over the next ten years, albeit at a low to moderate pace. The following section describes how RCLCO evaluated applicable sources and ultimately drew conclusions about the trajectory of growth.

Attracting incrementally more households and more employees to Prince George’s County will increase retail sales, as most local spending occurs close to home or place of employment.

Chapter 2: Competitive Analyses, Estimation of Market

Furthermore, local retail spending, and ultimately demand for new and higher-quality shopping environs, is closely linked to the broader economy, local growth trends, and the development of other land uses in a format that supports nearby retail. Establishing appropriate projections of household and employment growth are critical to accurately understanding and analyzing future retail demand as the success of retail is closely tied to the spending power of households and employees within the County.

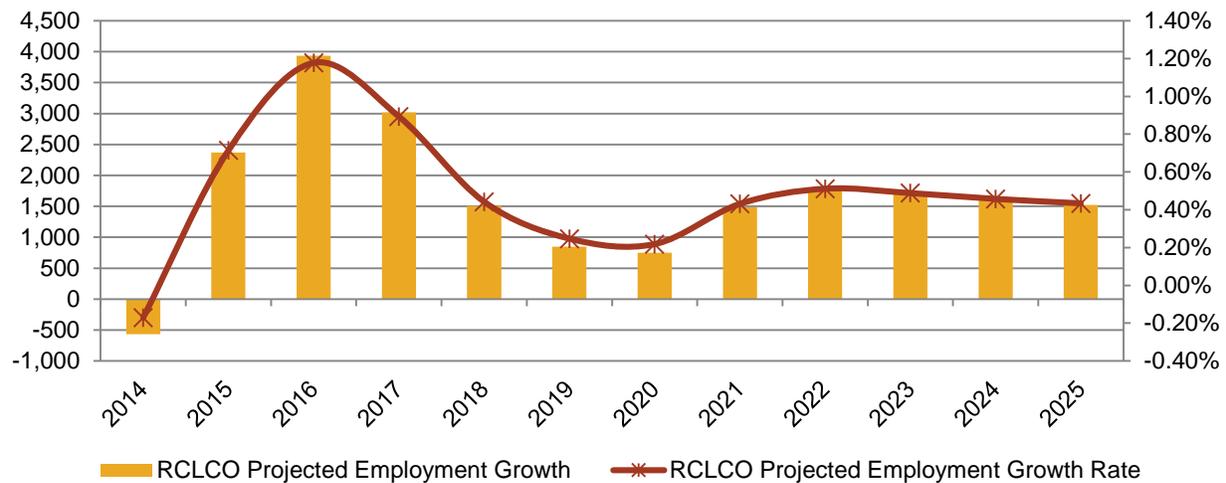
Employment Growth

RCLCO estimates that employment growth of full-time jobs will be positive over the next ten years and will grow by a total of 20,500 jobs, resulting in total employment of 352,000 in Prince George's County by 2025. While employment growth in Prince George's County was consistently positive from 2000 until the Great Recession in 2008, the annual growth rate of approximately 1.0 percent lagged the region as a whole, which grew at 1.4 percent annually over the same period. Following a loss of 16,000 jobs from 2008 to 2011, Prince George's County began recovering jobs in 2012. Growth rates since 2012 have been compressed, creating only 5,600 jobs from 2012 to 2014, and as of 2014 still 3.2 percent (10,600 jobs) behind total employment at the height of the economy in 2007.

Projected Employment and Growth Rates

Figure 4.1

Prince George's County

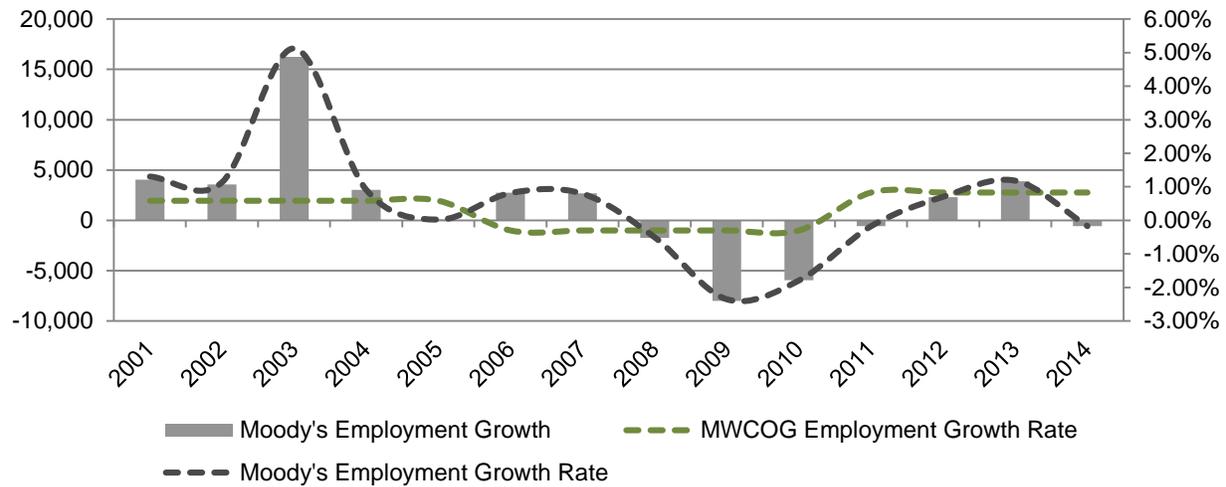


Chapter 2: Competitive Analyses, Estimation of Market

Historical Employment and Growth Rates

Figure 4.2

Prince George's County



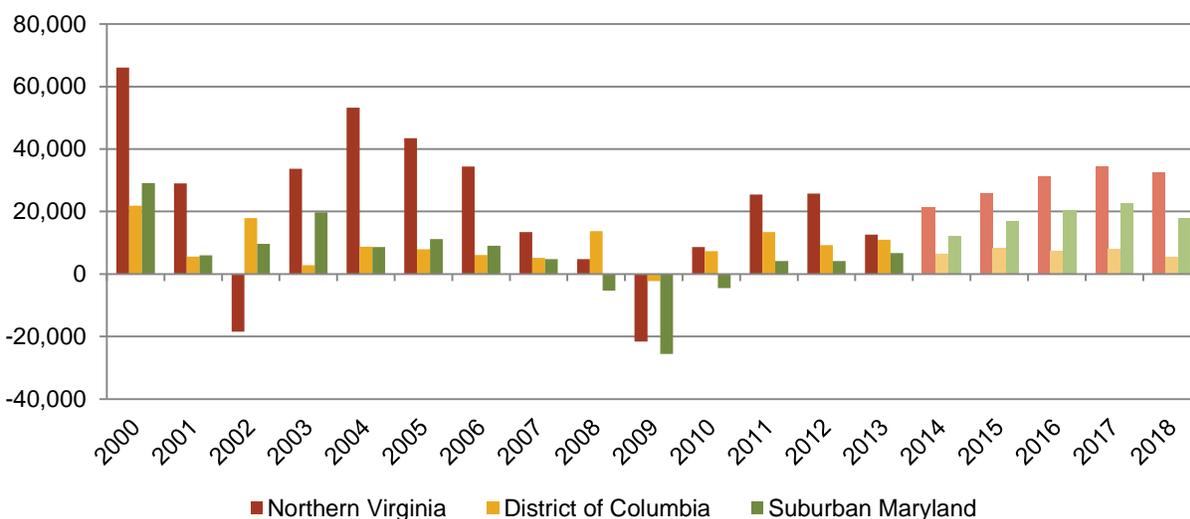
While the region experienced an early recovery from the downturn relative to the nation, recent employment and Gross Metro Product (GMP) growth has slowed significantly, leading to uncertainty about the future of the regional economy in an era of more moderate government spending. Suburban Maryland employment growth in particular has lagged other parts of the Washington Metro Area.²⁴ Based on varying employment projections for the County from both local and national sources, RCLCO expects Prince George's County to sustain positive job growth, albeit at a moderate rate, over the next ten years. Economic development efforts to recruit large companies or federal agencies to relocate to Prince George's County from elsewhere in the region may result in significantly higher employment growth in certain year(s) that is not reliably forecastable for the purposes of this retail analysis. Attracting new major professional/office employers to Prince George's County would have the greatest impact to the County's retail environment if it results in employees choosing to both work and live in the County.

²⁴ Suburban Maryland is defined by the GMU Center for Regional Analysis as Frederick County, Montgomery County, and Prince George's County.

Chapter 2: Competitive Analyses, Estimation of Market

Regional Annual Employment Growth

Figure 4.3 Northern Virginia, District of Columbia, and Suburban Maryland



Source: GMU Center for Regional Analysis; October 2014

RCLCO created a consensus employment growth projection for Prince George's County, shown in Figure 4.1 (page 27), by analyzing historical and projected growth from four sources: Moody's Analytics, Metropolitan Washington Council of Governments (MWCOC), the Bureau of Labor Statistics (BLS), and Woods and Poole. All of these sources calculate and count employment in a different manor, reaching a variety of total employment and growth numbers. RCLCO reconciled these differences by considering employment growth rates and applying a basis of full-time equivalent jobs, excluding agriculture. The source methodologies and tracking vary as such:

- Moody's Analytics counts total, non-agricultural full-time equivalent jobs on a seasonally adjusted basis. They derive historical numbers from the Bureau of Labor Statistics, and projections include economic cycle considerations.
- MWCOC and BLS both count full-time equivalent and primary jobs on a place of employment basis.
- Woods and Poole includes proprietary employment and measures establishment-based employment as opposed to location-based employment, thus creating a significantly higher number of jobs than other sources.

RCLCO derived our employment projection based on a blend of Moody's and MWCOC's employment counts and projections. As RCLCO believes full-time jobs are most relevant to our study, we use a base of Moody's historical jobs, as only full-time jobs are counted in their data. Our employment projections average Moody's and MWCOC's projected growth rates for numerous reasons. Moody's takes into account the impact of economic cycles and projects another moderate downturn starting in 2018—a consideration that is important when discussing bringing new retail on-line. However, Moody's is projecting negative rates of growth from 2018 and beyond, which we do not necessarily believe to be accurate as the County works to attract new businesses, the County continues to improve quality of life, and the Washington-Baltimore region continues to grow. MWCOC forecasts employment growth based on a historical growth rate and does not account for an economic cycle or for potential trends that change the trajectory of job growth. Moving forward, MWCOC consistently projects a growth rate over 1.0

Chapter 2: Competitive Analyses, Estimation of Market

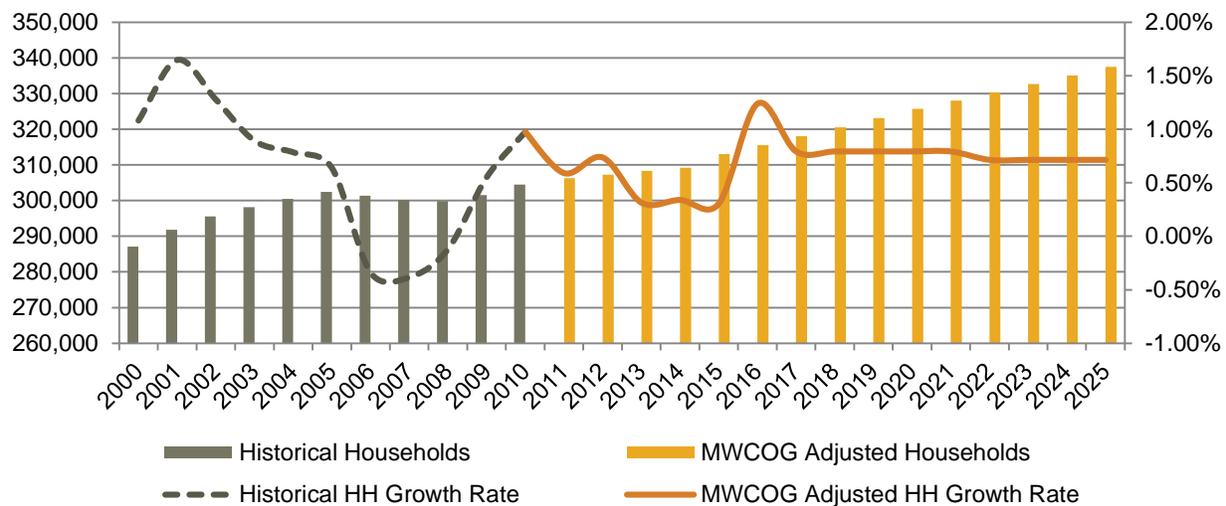
percent, which we believe to be bullish in the context of depressed MSA employment growth from 2010 to 2013 and historical patterns suggesting that an economic cycle will result in a moderate downturn sometime within the next decade. By averaging Moody's and MWCOG's projected growth rates, RCLCO's consensus employment growth projection accounts for the economic cycle and a positive rate of growth that falls between Moody's growth rate and MWCOG's growth rate. RCLCO's ten year projections result in a compound average annual growth rate of 0.24 percent, which is below historical growth of 0.54 percent from 2000 to 2014, as Prince George's County continues to recover jobs lost during the Great Recession, and the region slowly regains overall economic strength.

Household Growth

RCLCO estimates that the household growth seen following the recession will continue over the next ten years, growing at a rate similar to the years following 2010, with total growth of 28,000 households resulting in total household base of 337,500 in Prince George's County by 2025. Prince George's County experienced household growth of approximately 1,800 households annually between 2000 and 2010. Immediately prior to and during the Great Recession, Prince George's County lost approximately 2,500 households in a three-year period, but gained back that loss by 2010. From 2010 to 2014 estimates of households have included minimal, but positive growth, with average annual growth of 1,100 households as estimated by Moody's and Esri.

Historical and Projected Households and Growth Rates
Figure 4.4

Prince George's County



In order to determine appropriate household growth projections through 2025, RCLCO evaluated projections made by Moody's, Esri, Woods and Poole, and MWCOG. All sources have a similar base year of 2010, and all but MWCOG annually estimate past years following 2010 and update projections accordingly. MWCOG projects households every five years from the base year of 2010 and though they release an update annually, they do not adjust projections based on the realistic estimates of years between 2010 and 2014. Therefore, we have adjusted MWCOG's growth rate projections to run off of the base year of 2014 as estimated by Moody's, and applied MWCOG's growth rate projections through 2025 to this base number.

Chapter 2: Competitive Analyses, Estimation of Market

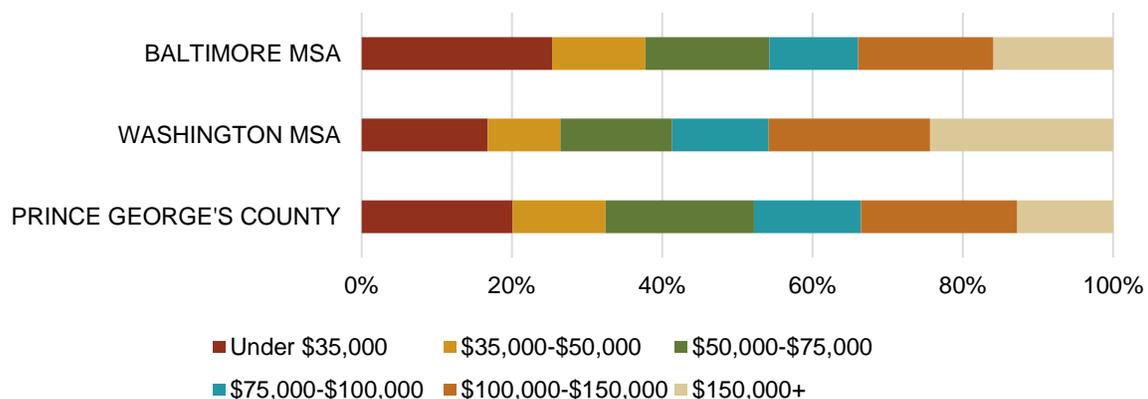
Regional Household Comparison

Beyond general household and employment growth, additional detail on the make-up of workers and households in Prince George's County will aid in understanding the type of retail consumers need and want and what they can support. While median household income in Prince George's County (\$71,000) is well above the national median, it is still below the Washington, D.C., MSA median income of \$90,000. However, 55 percent of Prince George's County residents have incomes between \$50,000 and \$150,000 – allowing citizens sufficient spending power and disposable income as compared nationally, but less wealthy than its constant comparison of the Washington, D.C., MSA. The households that the County truly lacks are those at the top of the income bracket, making \$150,000 or more, which comprises 24 percent of MSA households, but only 13 percent of Prince George's County households.

Relative to the Washington and Baltimore regions, the demographics of Prince George's County represent a blend of the two markets' affluence.

Comparison of Households by Income Bracket

Figure 4.5 Baltimore, MD MSA; Washington, DC MSA; Prince George's County



The Baltimore MSA, which includes neighboring counties such as Anne Arundel and Howard, has a median income of \$66,000 with a more similar distribution of household incomes to Prince George's County. Anne Arundel County has a particularly successful regional-serving retail market, and looking to Anne Arundel's success may be a more realistic and achievable benchmark than a comparison to the most affluent counties of the Washington, D.C., MSA retail market. For purposes of this study, we have generally included a comparison to both regions and the relevant counties.

Current Land Use and Retail Fundamentals

The fundamentals of the retail market in Prince George's County are relatively healthy, with low vacancy and net absorption keeping pace with new deliveries in the County. Prince George's County currently has 26.5 million square feet of retail space located in 241 shopping centers, and an additional 4.8 million square feet of space in free standing buildings. About 65 percent of the shopping center space is considered local neighborhood serving (community, neighborhood, and strip centers), and 34 percent of shopping center space attracts a larger trade area in the form of a super-regional or regional mall, a power center, or a lifestyle center.

Chapter 2: Competitive Analyses, Estimation of Market

Considering all center types, the County has absorbed an average of 200,000 square feet annually since 2006, with only one year of negative net absorption in 2008. Over the same time period, deliveries have averaged almost 300,000 square feet of space per year. Overall, the market absorbed 1.9 million square feet of space, delivered 2.6 million square feet of space, and demolished 200,000 square feet of space, resulting in an occupancy just one percentage point lower in 2014 than in 2006, at 95 percent—a strong occupancy rate.

The last five years have seen particularly strong absorption in large, regionally drawing retail particularly with the deliveries of major centers such as Vista Gardens, Brandywine Crossing, Woodmore Towne Centre, the Tanger Outlets, and the Towne Centre at Laurel. Regional centers have absorbed 1.6 million square feet of space since 2006 with 1.9 million square feet of deliveries between the properties listed above. While it may be anticipated that performance at older regional retail centers might weaken with the amount of deliveries seen over the last ten years in Prince George's County, this has not been the case according to the data (see Figure 4.6 (page 33)). Even upon delivery of significant new space, absorption within regional centers has remained positive.

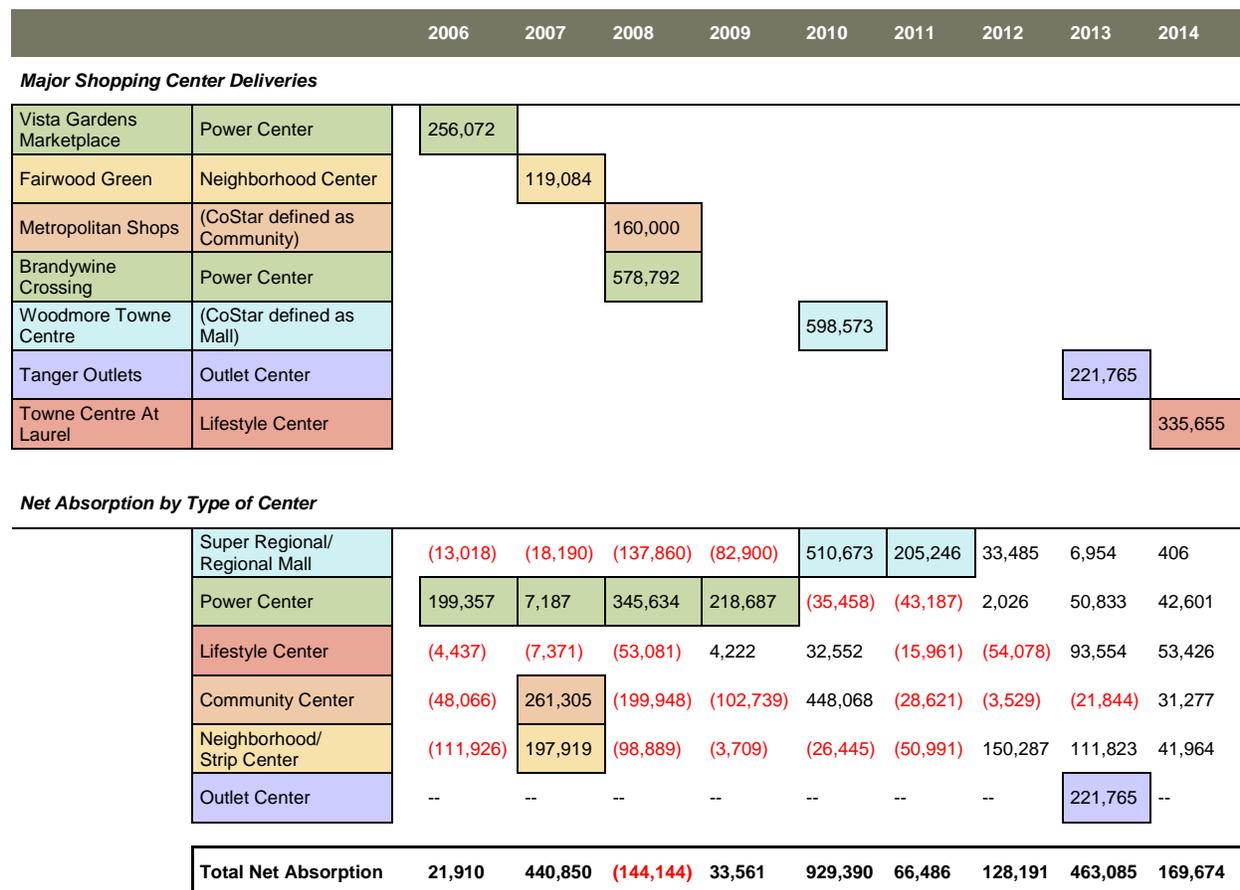
After completing the retail inventory, RCLCO observed that though space in older centers is absorbed, the quality of tenants decreases, as desirable retail moves to a new location, leaving a lower rental rate and entry point for non-credit tenants.²⁵ This allows retailers to “move up the food chain” as tenants that usually occupy community centers can move to power centers or malls, leaving strip and neighborhood retail to move into community center space. Therefore, while the Prince George's County market demonstrates moderately strong market performance on a macro-level, the underlying market fundamentals are ultimately much weaker. New shopping centers have not motivated new retailers to enter the Prince George's County market and the overall tenant quality continues to decline as a result of lower quality or non-credit tenants backfilling vacancies at older centers. These conditions have cyclically degraded retail quality throughout the County and have limited the entrance of new higher quality retail tenants into the market.

²⁵ Non-credit tenants are those without the size and financial strength to receive an investment grade by a major credit rating agency and are viewed as a higher risk lease as they will likely have fewer resources to pay the rent in a market slump. Credit tenants are typically national or large regional retailers with strong access to capital.

Chapter 2: Competitive Analyses, Estimation of Market

Major Shopping Center Opening and Absorption Pace
Figure 4.6

Prince George's County, MD



Colors in the charts above correspond based on type of center that was delivered or space that was absorbed, e.g., power centers are shaded in green, and looking at the deliveries in the top chart in 2006 and 2008, it is evident that net absorption in power centers was positive throughout this time period, indicated that older power centers that may have lost tenants to a newer center were filled by a tenant from another type of center, potentially community or neighborhood as evidenced by the negative net absorption.

Prince George's County is "over-retailed" in terms of total retail space per person at 28 square feet per person (or 81 square feet per household) considering shopping centers above 25,000 square feet, though the County is not drastically over the national average of 23 square feet per person. Prince George's ratio is relatively in line with other counties in the Washington-Baltimore region. However, when considering retail spending, as seen in the next section, this retail square footage is not achieving its maximum sales potential for the County, as there is retail leakage of household spending to areas outside the County in nearly all expenditure categories.

Chapter 2: Competitive Analyses, Estimation of Market

County Comparison of Square Feet of Retail per Person

Figure 4.7

Washington-Baltimore MSA

Shopping Centers Over 25,000 SF						
	Prince George's County	Montgomery County	Anne Arundel County	Howard County	Fairfax County	Washington-Baltimore MSA
Total Retail SF	24,772,079	25,435,471	18,976,767	7,814,712	32,384,186	229,126,049
Occupied SF	23,366,320	24,484,231	18,058,084	7,598,716	31,460,319	217,308,367
Occupancy Rate	94.3%	96.3%	95.2%	97.2%	97.1%	94.8%
Population (2013)	871,533	1,003,571	554,262	301,881	1,112,266	8,634,007
Square Feet of Retail per Person	28	25	34	26	29	27
Sales Tax Revenue (FY 2013)	\$337M	\$384M	\$291M	\$138M	N/A	N/A
Total Sales Generated	\$5.6B	\$6.4B	\$4.8B	\$2.3B	N/A	N/A
Total Including Estimate of Non-Taxed Grocery Sales	\$7.2B	\$8.2B	\$6.2B	\$3.2B	N/A	N/A
Total Sales Generated per SF of Retail	\$309	\$335	\$346	\$421	N/A	N/A

Retail Spending in the County

Retail spending in Prince George's County has been about \$7.2 billion annually (including a grocery spending estimate as groceries are not taxed in the state of Maryland) according to the Comptroller of Maryland. This spending results in an average retail sales per square foot of \$309. After our inclusion of grocery spending, the Comptroller's office reports a spending distribution of 28 percent of sales on food and beverage, 21 percent on general merchandise, 14 percent on hard and soft goods, 12 percent on miscellaneous retail, and 22 percent on grocery spending.

Spending Power, Competitive Analysis, and Supportable Retail

RCLCO completed a statistical demand analysis to determine the amount of retail that Prince George's County should be able to support based on households, workers, visitors, and additional outside consumers including pass-through traffic. The following will describe the methodology and the sources of demand, followed by conclusions and synthesis to the current state of retail space in Prince George's County, and the trade areas established by RCLCO.

RCLCO estimates that Prince George's County has the capacity to support 22.3 million square feet of retail today in a rational and healthy retail market. Most of this retail demand is for grocery stores, drug stores, general merchandise, and department stores (50 percent of demand). By 2020, RCLCO estimates that Prince George's County can support 24.1 million square feet of retail space, an additional 1.8 million square feet over the next five years. This growth is primarily attributable to new households moving to the County, continued growth in visitation, and net new employment growth in the County.

Chapter 2: Competitive Analyses, Estimation of Market

The fact that the statistical demand is lower than existing square feet today is neither rare nor concerning, as in reality, the market does not always function according to assumptions of sales per square foot thresholds that are considered healthy. Retail can often survive on lower operating assumptions than grounded in the model. The statistical demand rather provides indicators as to the state of the retail market. While the County could operate effectively without the additional existing retail, this additional retail is not necessarily placing a drag on the retail market fundamentals today. However, excess supply and moderate leakage does indicate that the county is missing critical retail supply within certain geographical or categorical markets.

Sources of Demand and Spending per Group

The statistical demand model takes into account three primary sources of retail demand – households, employees, and visitors – as well as secondary sources such as pass-through traffic and consumers from neighboring counties. An overview of how each of these segments interacts, the assumptions, and the summary demand numbers are detailed below.

Households:

- Prince George's County has 309,238 households in 2014 that spend an average of \$34,024 per household annually, including all expenses. Excluding automobile and gasoline purchases, average household spending is \$22,810.
- While the majority of this spending occurs near the home two considerations have to be made for spending away from home. First, we assume that about ten percent of spending may occur while the household is traveling, online, students away from home, or other reasons that spending is not captured within Prince George's County. The second consideration is for households with workers employed outside of Prince George's County. Our analysis has found that approximately 20 percent of household spending occurs near work, and therefore this 20 percent needs to be netted out of household spending for this segment of households.
- Households that live and work in Prince George's County spend an average of \$24,491 annually (excluding automobile and gasoline purchases), while households that work elsewhere spend an average of \$22,150 in the County. Approximately 28.2 percent of households residing in the County are also employed within the County.

Employees:

- Conversely to households that work outside of the County, approximately 59 percent of the Prince George's County workforce commutes into the County for work daily.²⁶ This comprises 195,000 workers whose work-place spending is captured in the County.
- Worker spending is estimated on a national basis for office workers only, with the average office worker estimated to spend \$3,886 annually on food and beverage, soft goods, hard goods, and services. Office workers comprise 20 percent of the workforce nationally, an assumption we also applied to the workforce that commutes into the County.
- As estimates for non-office worker spending are not available, we estimated that non-office workers spend approximately 50 percent less than office workers, based on research of average white collar and blue collar salaries and average household spending by income resulting in average spending of \$1,943 for non-office workers.

Visitors:

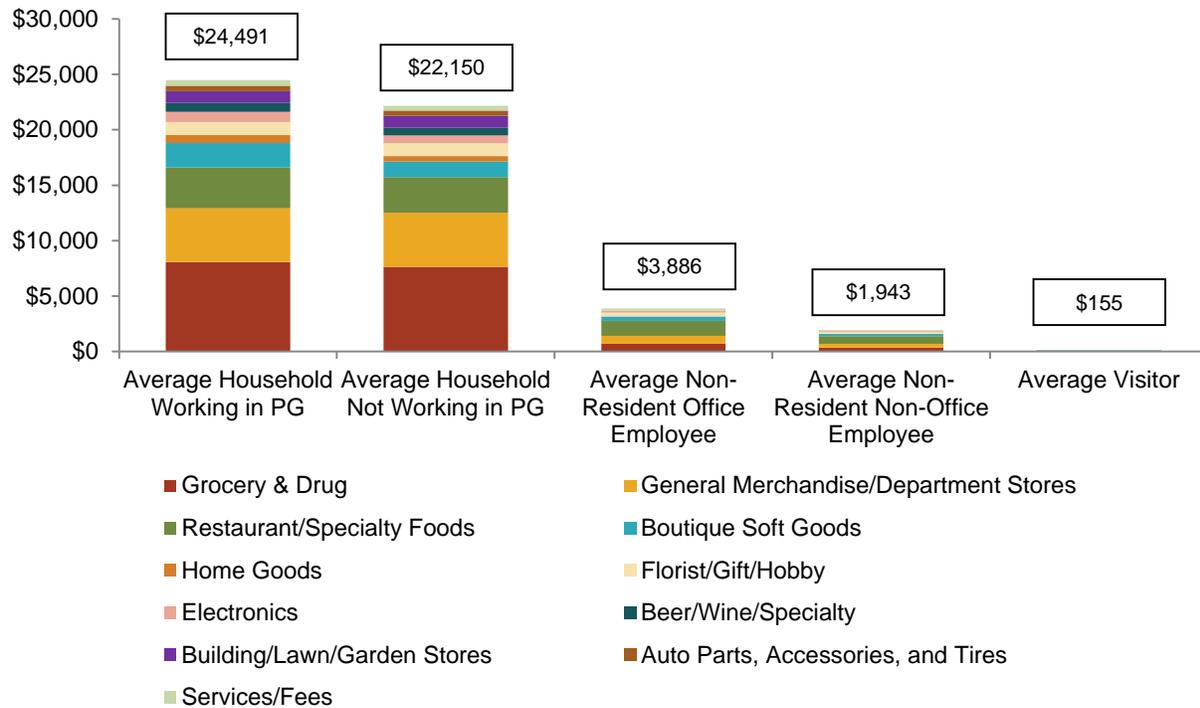
²⁶ U.S. Census Bureau, Center for Economic Studies LODES/On the Map data. 2011.

Chapter 2: Competitive Analyses, Estimation of Market

- RCLCO estimates that Prince George's County receives approximately 6.2 million visitors annually according to Tourism Economics' Economic Impact of Tourism in Maryland 2013 report.
- Each visitor to Prince George's County spends an average of \$371 while in the County as calculated by sales tax receipts. Each visitor spends approximately \$155 on restaurants and retail, which is the spending relevant to the retail analysis.

Average Spending per Household, Employee, and Visitor
Figure 4.8

Prince George's County, MD



Outside Capture of Pass-through Traffic and Neighboring Counties:

- While it is difficult to determine exactly how much consumer spending is derived from pass-through traffic and consumers from neighboring counties, we estimate that these consumers contribute an additional ten percent of total retail expenditures. This accounts for additional expenditures of about \$781 million.
- The ten percent outside capture is derived from our market understanding of both Prince George's County and national and regional retail dynamics from previous retail work.
- Additionally, as seen in the map below, we analyzed the County in light of the region and believe that market dynamics work in a somewhat fluid manner dependent on the specific market. It is important to understand that these dynamics will not exist in perpetuity – population and job growth, new retail centers, and changes to transportation and access patterns all impact how and where consumers choose to shop. Consumers outside of Prince George's County households, residents, and visitors are an unreliable long-term source of retail expenditures for the county in comparison to local households and employees who will always find it most convenient to shop near their homes and workplaces.
- The area immediately surrounding Prince George's County on both sides of the border is a very fluid area – residents that live and work in these areas likely shop on both sides of

Chapter 2: Competitive Analyses, Estimation of Market

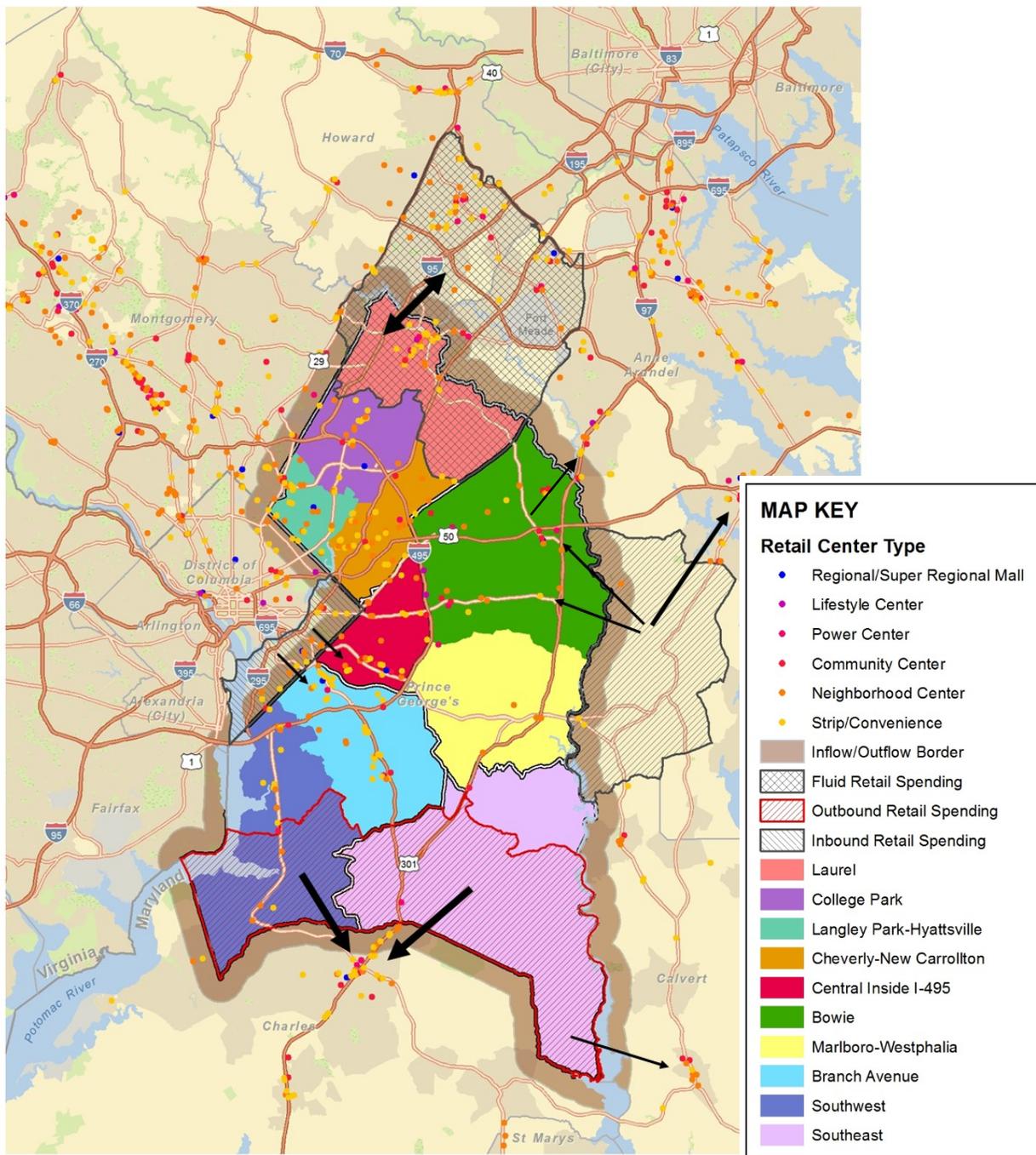
the border dependent on their needs. With the exception of nearby strong retail centers such as Waugh Chapel that may create a more one-directional flow of consumers, this natural fluidity will always occur. This dynamic also likely occurs with a net inflow of customers from D.C. and Montgomery County to specific destination retailers such as IKEA.

- Laurel has strong regional and local retail as well as connectivity to Anne Arundel and Howard Counties. Consumers in this market area are likely more fluid in their geographic spending patterns between the market areas dependent on their wants, needs, and commute patterns.
- Consumers in Southeastern Anne Arundel County do not have sufficient retail offerings and are likely coming into the Bowie market to shop, as well as spending money in the Annapolis area.
- Similarly, consumers in Southeast D.C. have fewer retail offerings, particularly regional retail offerings, and likely go into the Branch Avenue and Central I-495 Market to shop.
- Prince George's County residents in the most southern parts of the County have very limited retail options within County boundaries. These residents more than likely do most of their shopping in Charles County where there is a plethora of retail.
- Lastly, certain retail centers and retail types have very large regional draws that count as destination retail. This would include IKEA, National Harbor, and the Tanger Outlets, which draws from all over the Washington, D.C., and Baltimore areas.
- Due to the retail environment in Montgomery County, the District of Columbia, and Suburban Virginia, we do not estimate that Prince George's County receives much in the way of additional retail expenditures from consumers in these markets except for key destination retailers with relatively few locations in the Washington-Baltimore region, such as the ones listed above.

Chapter 2: Competitive Analyses, Estimation of Market

Retail Leakage Inflow and Outflow
Figure 4.9

Prince George's County, MD



Demand by Consumer Source

After determining how much each household, worker, or visitor will spend annually, the average spending numbers are applied to current and projected growth for each source of demand to determine total retail spending within the County. A sale per square foot threshold is then

Chapter 2: Competitive Analyses, Estimation of Market

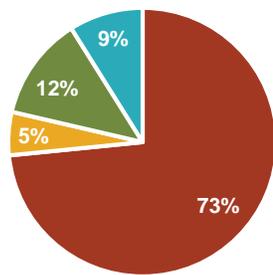
applied to translate retail expenditures into supportable retail square footage. The sales per square foot threshold (an average of \$380 over all categories excluding automobile dealers and gasoline sales) is established by the International Council of Shopping Centers, and is a measure of an establishment's necessary sales volume in order to maintain a viable business. This threshold is a national number, and results in demand that is economically viable, though it does not mean that a business in Prince George's County cannot survive below this threshold – in fact, they easily can when existing space is readily and cheaply available.

Excluding automobile dealers and gasoline, it is estimated that Prince George's County can support 22.3 million square feet of retail in 2014 and will be able to support an additional 1.8 million square feet of retail by 2020. The majority of this retail square footage demand is attributable to households (72 percent), while 5 percent is attributable to non-resident employees, 12 percent is attributable to visitors; and 10 percent is attributable to outside spenders. The 22.3 million square feet of market supportable demand results in 25 square feet of retail per person – just above the national average of 23 square feet of retail per person, and indicates a healthier level than the 28 square feet per person that Prince George's County currently has.

Retail Demand by Consumer Market
Figure 4.10

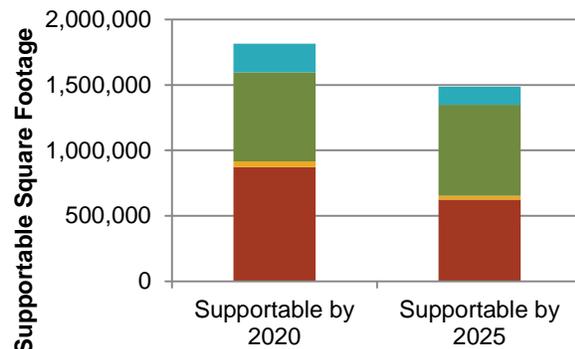
Prince George's County, MD

Distribution of Demand by Consumer Market, 2014



- Households
- Non-Resident Employees
- Visitors
- Outside Capture

Net New Retail Square Footage Growth, 2015-2020 and 2021-2025



- Outside Capture
- Visitors
- Non-Resident Employees
- Households

Retail Demand by Trade Areas

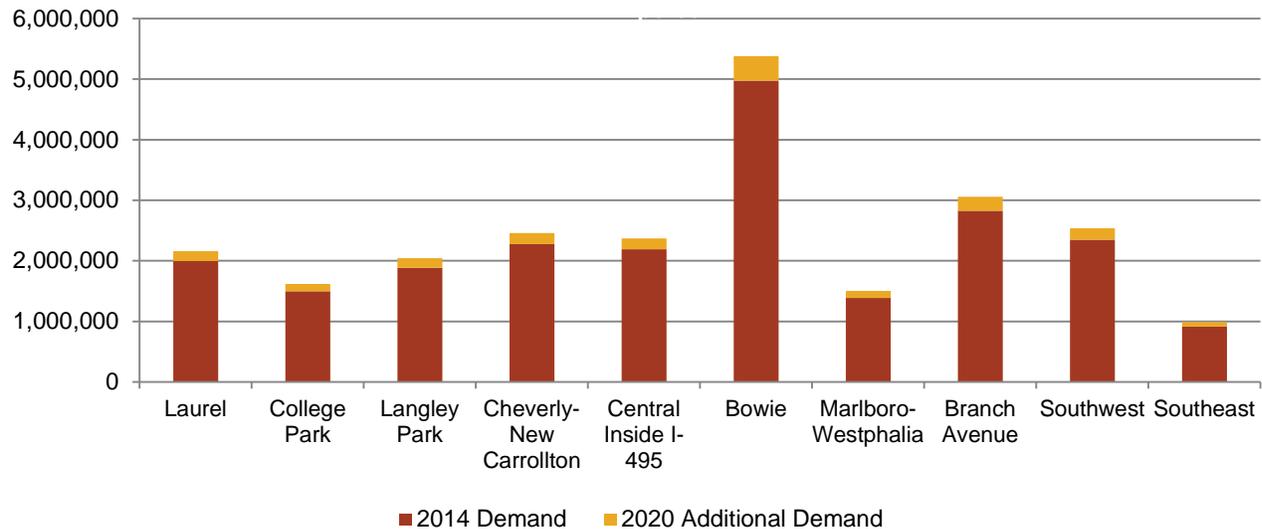
RCLCO divided Prince George's County into trade areas in order to evaluate retail offerings, and supply and demand balance, on a smaller; neighborhood scale. Trade area boundaries were determined by patterns of transportation, ease of access, geographical barriers, and number and type of shopping centers within each trade area. While the ten small market areas effectively attest to demand for community and neighborhood retail, regional retail is better analyzed in the five larger market areas of the North, Central Inside I-495, Central Outside I-495, Southwest, and Southeast. The following chart is a precursory glimpse of the distribution of County retail demand among the trade areas that will be explored in more detail in Task 5:

Chapter 2: Competitive Analyses, Estimation of Market

Retail Marketability Analysis, and a discussion of the methodology and analysis of demand and supply in the trade areas follows.

Retail Demand Square Footage by Trade Area
Figure 4.11

Prince George's County, MD



Methodology

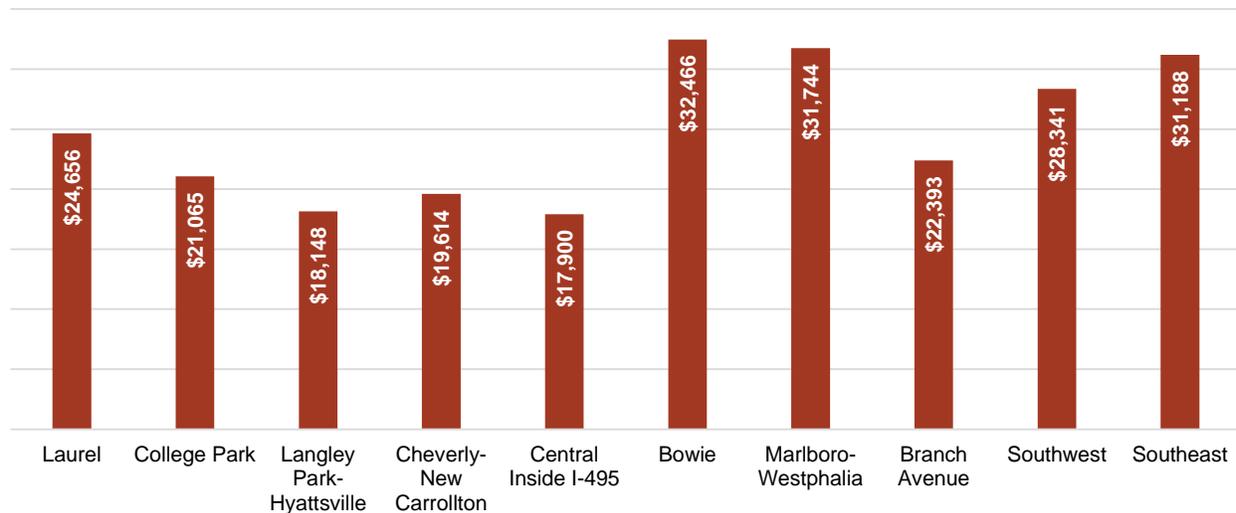
County-wide demand was distributed to trade areas by two metrics. The first metric takes into account that households in specific trade areas spend different amounts depending on available retail, affluence, and disposable income, resulting in a variance in demand per trade area, as can be seen in Figure 4.11 (page 40). We then calculated a spending ratio that compared average household spending per trade area to the overall average county spending, weighted by households per trade area. (Please note: due to methodological reasons, the average spending per household at the County level used in the retail demand and the weighted average spending calculated from the trade areas varies slightly; the weighted average spending derived from the trade areas is used only to fully distribute retail demand, and is not used to determine demand). The second metric we used to distribute demand is each trade area's capture of the County's total households in order to properly understand the impact of number of households on square footage demand.

Chapter 2: Competitive Analyses, Estimation of Market

Average Spending per Household by Trade Area

Figure 4.12

Prince George's County, MD



While the trade areas provide an efficient way to understand community retail distribution and the appropriateness of recommendations surrounding certain nodes, it should be recognized that in reality the trade areas are very fluid with households often moving between and spending money throughout. The trade areas are used as indicators to highlight existing regional retail centers, areas with minimal or insufficient retail, and potentially over or under retail areas. While the demand distribution does correlate to supportable square footage numbers based on “best practices” of retail development, the type and amount of supportable retail depends on the location and proximity of household and job nodes, where other retail clusters are located, and broader land use and transportation patterns. To simply build in a trade area with a gap or demolish in an area that appears to have too much retail is an over-simplification of the challenges and opportunities of the retail market.

Analysis of Supply and Demand within Trade Areas

The most comprehensive way of understanding how trade areas serve Prince George's County consumers is to compare the demand within each regional trade area to the total retail supply and supply of high-quality retail (based on tenants). Figure 4.12 (page 41) shows this comparison on a retail square feet per person basis.²⁷ Looking at demand and supply on a per person basis better displays an over- or under-supply of retail space on a level playing field. We looked only at high- and mid-quality retail tenants in order to eliminate shopping centers that may not be contributing appropriately to a healthy retail market or do not respond to the needs and wants of customers.

Overall, the County has demand for 25 square feet of retail per person. Currently, total retail supply (of all qualities) within the County is 20 square feet per person. However, when looking at only high- and mid-quality retail, the County only has a supply of 15 square feet per person, indicating that there is not enough quality retail to meet consumers demands. Almost every

²⁷ “High- and mid-quality retail” refers to quality of tenants in the center as defined our retail inventory analysis. This includes national, regional, and local tenants. “High-quality” examples would include Whole Foods, MOM's Organic, Nordstrom, Cava, Busboys and Poets. “Mid-quality” examples would include Giant, Macy's, Potbelly's, and Chipotle.

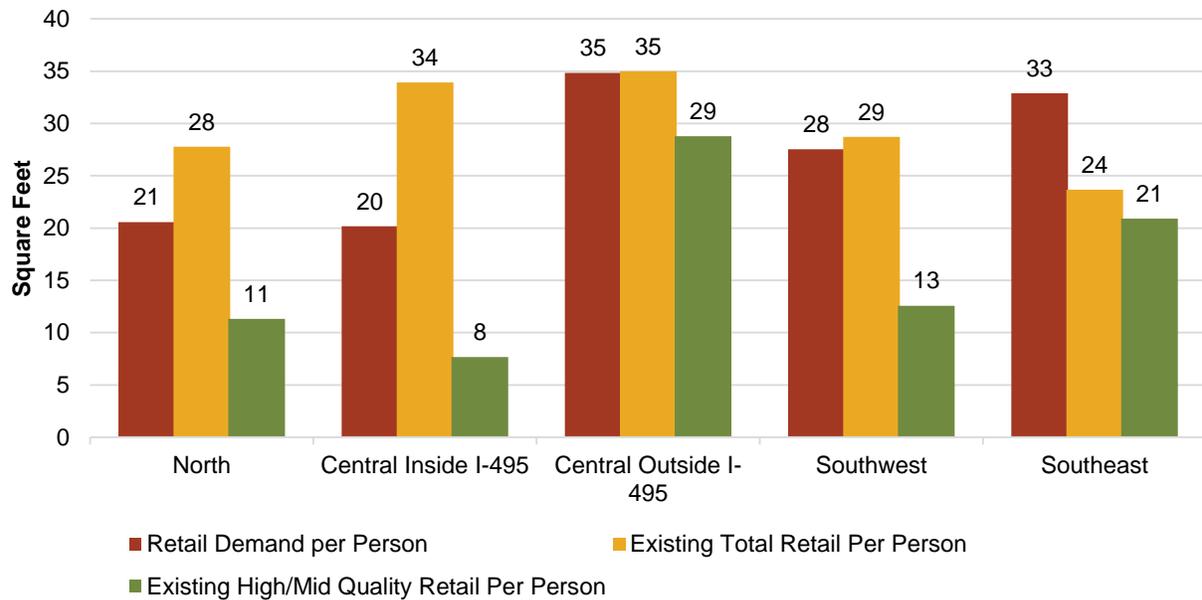
Chapter 2: Competitive Analyses, Estimation of Market

regional trade area with the exception of the Southeast and Southwest trade areas, follow the County pattern on various orders of magnitude. When looking at the nuances of supply and demand in each submarket, the fluidity of shopping centers and consumers needs to be kept in mind. Submarkets that have a high concentration of regional centers (Central Outside I-495 Market) are not necessarily oversupplied but serve shoppers from the whole County as well as outside the County.

Retail Demand and Supply per Person by Regional Trade Area

Figure 4.13

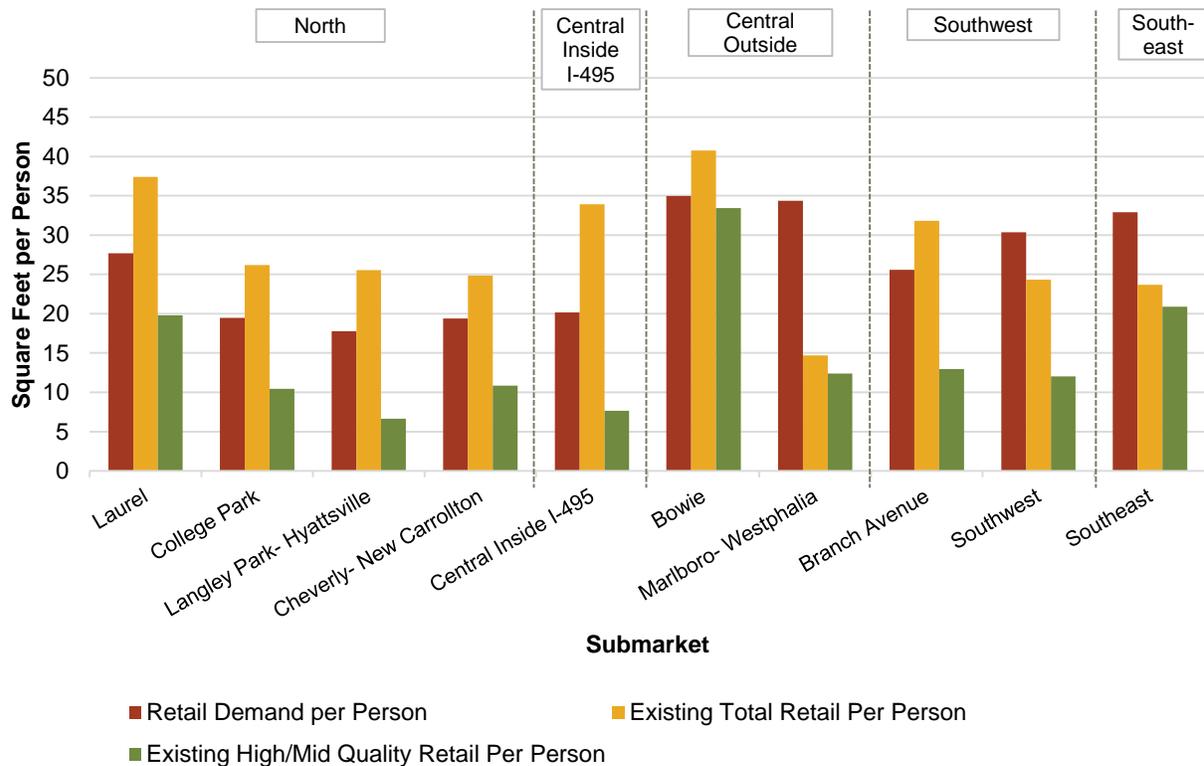
Prince George's County, MD



Chapter 2: Competitive Analyses, Estimation of Market

Retail Demand and Supply per Person by Local Trade Area
Figure 4.14

Prince George's County, MD



The main takeaways for each regional trade area are discussed below and shown in Figures 4.13 (page 42) and 4.14 (page 43) above:

- The North market has demand for 7.6 million square feet of retail (21 square feet per person) and existing high- and mid-quality tenant centers of 4.2 million square feet (11 square feet per person).
 - Laurel provides the bulk of this high-performing tenant retail, and is a healthy retail market that draws consumers from beyond County borders and within the County to its regional retail offerings.
 - The College Park area is beginning to see the introduction of higher quality retail, particularly near the campus on Route 1. College Park also has some of the best examples of mixed-use and walkable development in Prince George's County. The College Park market has the consumer demand to support additional retail space, and new projects featuring ground floor retail are beginning to capitalize on this opportunity.
 - Langley Park-Hyattsville has a significant amount of retail at 2.6 million square feet of existing space, however, only about a quarter of it is high- or mid-quality tenant centers. This area has a high-concentration of cheaper retail space and non-credit tenants; however, as one of the densest and busiest trade areas observed in our analysis, this may represent a market opportunity for main street retail.
 - The Cheverly-New Carrollton market has demand for 2.2 million square feet of retail and currently has a supply of 2.9 million square feet, including 1.3 million

Chapter 2: Competitive Analyses, Estimation of Market

square feet of high- and mid-quality retail. Similar to the College Park market, the Cheverly-New Carrollton market has recently seen the successful introduction of new centers with higher-end tenants in a walkable environment, particularly the Hyattsville Arts District, and likely holds further opportunity for high-quality retail with the Metro line.

- The Central Inside I-495 market has demand for 2.2 million square feet of retail, and currently has 3.7 million square feet of inventory, only 22 percent of which is high- or mid-quality. This market is a dense market that serves a dense area of people, but low incomes prevent high- and mid-quality tenants from entering this market. When introducing new retail, this market area should ensure affordable but quality retail is sufficient to meet basic needs such as services, grocery, and pharmacy among other categories.
- The Central Outside market has demand for 6.4 million square feet of retail (35 square feet per person), and existing high- and mid-quality centers totaling 5.2 million square feet of space (29 square feet per person). This market has the highest demand, and the lowest delta between demand and supply. High incomes and strong accessibility with I-495 and Highway 301 make this market attractive to high-quality tenants. Additionally, this market in particular has a strong regional draw.
 - Bowie has strong retail demand and supply, with the two almost in balance. This is attributable to high incomes leading to high consumer spending, and higher density than other markets outside of I-495.
 - The Marlboro-Westphalia market has the beginnings of a strong retail program and a very strong short-term retail demand. As the area continues to build-out and gain density retail can thrive here as the area has some of the highest incomes in the County, but struggles to attract new retail due to low density.
- The Southwest market has demand for 5.2 million square feet of retail (28 square feet per person) and existing high- and mid-quality supply of 2.4 million square feet (13 square feet per person). The market is comprised of about 44 percent high- and mid-quality retail.
 - The Branch Avenue submarket has density, but has a lower average income than the Southwest submarket. However, Branch Avenue has the demand to support mid quality retail tenants.
 - The Southwest submarket (along with the Southeast) is one of the most rural submarkets. However, incomes in this submarket are strong, and high-and mid-quality regional retail will begin to thrive here as household development continues. This submarket also has National Harbor and the National Harbor Outlets, which provide a regional draw, as well as the beginnings of high-quality retail in this submarket.
- The Southeast market has retail demand for 911,000 square feet (33 square feet per person) and a currently supply of 580,000 square feet (21 square feet per person). The Southeast market is the lowest density market in Prince George's County making retailers particularly hard to attract, despite very strong incomes. The retail concentration just south of the County border in Charles County creates an additional barrier to retail development in this submarket.

Comparing retail demand only to “high-quality” existing retail begs the question of what happens with the lesser quality retail – should it remain? Though this question will be answered more

Chapter 2: Competitive Analyses, Estimation of Market

fully in the next stage of the analysis for individual centers, the overarching answer is that if the retail is performing well and serving a market niche, it is necessary and in demand by the market. Oftentimes, this retail performs well despite its condition, though it often has reduced sales per square foot ratio than our demand model accounts for, thus the significant gap between supply and demand. While some of this lower quality retail space with non-credit tenants contributes to the retail challenges in Prince George's County today, these centers have little impact on the ability of new or high-quality retail centers that are well-positioned to attract higher quality retail tenants.

The future tasks of this study will closely evaluate centers within these trade areas to identify underperforming centers that may be candidates for repurposing or redeveloping, the quantity, type, and ideal locations to attract higher quality or luxury retail, and how the County can improve its overall retail outlook and performance in the coming years. However, retail and tenant strategies alone cannot fully address these issues and a successful action and marketing plan will likely require a coordinated approach with regard to the future of land use, transportation, economic, and political trends.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Goals and Objectives

- Retail Consumer Make-up by Trade Area
- Comparison of Consumer Psychographics to the Washington-Baltimore region
- Initial Opportunities by Trade Area

Key Findings

- The County's primary retail consumer is its local households, with visitors and employees residing outside of the County estimated to contribute 12 percent and 5 percent of total retail expenditures in 2014, respectively.
 - Projected growth in retail demand from 2015-2025 is expected to be more dependent on non-residents, with 42 percent of the incremental increase in demand from 2015-2025 attributable to increasing visitation/tourism.
- Looking at the consumer make-up of nearby counties, the extreme affluence of the region is readily apparent. Some nearby suburban counties have over half of their households with a retail spending index 50 percent above the national average. Prince George's County only has eight percent of its households at this affluence level.
 - Relative to the region, the County lacks the affluence to support true luxury retail; however, the top 30-40 percent of County consumers is likely underserved by the retail options available today.
 - While the County is not an isolated entity, retailers locate near where they expect a majority of their customers to come from. Location dynamics for high end and luxury retailers and retail development in the Washington-Baltimore area will be explored in more detail in following phases of work.
- While Prince George's County demographics and consumer patterns also support high-quality retail comparable to what exists in other areas of the region, the County is in competition with other locations in the region to attract specific retailers. Most of these retailers tend to locate in the same centers based on co-tenancy requirements, so it's challenging to attract one retailer alone – a center may need to attract ten or more to be viable.
 - On the flip side, this also makes it very hard to fill singular vacancies in a retail center and once one major tenant leaves, the entire tenant base may slip. Eventually, this results in the programmatic obsolescence visible in many retail centers today.
- Consumer segments within Prince George's County regional trade areas suggest that a different character of retail may be necessary to maximize each area's potential:
 - The North trade area is relatively young and urban, with a clear preference for walkable neighborhoods with multimodal access, but with more moderate spending power than the Central or South trade area. These consumers will be better served in smaller-scale centers in closer proximity to household base and transportation, with a focus on household needs (grocery, drug, and convenience), mid-priced food and dining options, and entertainment venues like bars, art venues, and movie theaters. Many of these can be accommodated in older buildings and existing communities.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

- The Central Outside I-495 trade area provides the strongest opportunity for high-end retail to serve Prince George's County residents, which could be achieved by improving the quality of tenancing at existing retail centers.
- The Southeast trade area, outside I-495, also has strong household spending power but represents a relatively small market in comparison to the central trade area.
- The Southwest trade area has strong household spending power but represents a relatively small market compared to the Central Outside I-495 trade area. High-end retail in this location will need to be located where visitors/tourists, employees, and pass-through traffic can provide significant support for retailers. The Central Inside I-495 trade area has a population with significantly less spending power than other trade areas. Many retail centers have begun filling space with non-retail tenants such as churches, tax and insurance service providers, and doctor/dentist offices. However, the tenancing is poor and the best opportunity is to identify service gaps for basic household needs like grocery and pharmacy.

Retail Consumer Segmentation

Beyond the economic and demographic make-up of households, psychographics can help identify and define the characteristics of households that further differentiate their lifestyle, behavior, and beliefs/values. In this analysis, RCLCO utilized Esri's Tapestry Segmentation which integrates consumer traits identified in consumer survey data with residential characteristics gathered from U.S. Census to understand the "who" and "where" of consumer behavior.²⁸ ESRI identifies 67 tapestry segments with unique housing, shopping, and lifestyle characteristics across the nation. Based on the average of each segment's household budget index for the food, apparel and services, and entertainment/recreation categories RCLCO grouped and organized the primary tapestry segments present in the Washington-Baltimore region into seven consumer tiers with similar spending habits.

Additional descriptive information on Esri's tapestry segments and their national methodology that is applicable across metro areas, counties, and even down to the zip code level can be found in Appendix C.

Household Consumer Tiers

The **first tier** of consumers represents the region and nation's most affluent consumers, with an average retail spending index of 196-235 (an index of 100 would represent the average consumer spending nationwide). These are the nation's wealthiest consumers with the most purchasing power and an average net worth over 1.5 million dollars. In the Washington-Baltimore region, these consumers comprise 11 percent of the region's households and contain the "Top Tier" and "Professional Pride" tapestry segments. These consumers primarily live in locations not easily accessible to Prince George's County, especially compared to other retail destinations in the region, and would need to be given a compelling reason to travel further to shop in the County over locations such as Tysons Corner or Friendship Heights.

²⁸ ESRI; Tapestry Segmentation: Methodology; August 2014.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

The **second tier** of consumers represents a well-educated and discerning customer with an average retail spending index of 154-167. These households span a variety of housing types and locations, with many more young households compared to first tier households, and are best characterized as a lifestyle consumer. In the Washington-Baltimore region, these consumers comprise 21 percent of the region's households and contain the "Laptops and Lattes," "Urban Chic," "Boomburbs," "Savvy Suburbanites," and "Exurbanites" tapestry segments.

The **third tier** of consumers represents the bulk of upper-middle-class households, with an average retail spending index of 122-128. These households are predominantly located in newer single-family housing in suburban neighborhoods and are willing to spend more for brand names and the latest technology. In the Washington-Baltimore region, these consumers comprise 22 percent of the region's households and contain the "Pacific Heights," "Pleasantville," "Soccer Moms," and "Enterprising Professionals" tapestry segments.

The **fourth tier** of consumers represents cost-conscious mature families and empty nesters, as well as young households just starting their careers, with an average retail spending index of 98-112. Many of these households live in close-in suburbs or urban neighborhoods, with many of the younger households choosing to rent apartments in urban locations accessible to Metro. In the Washington-Baltimore region, these consumers comprise 13 percent of the region's households and contain the "Golden Years," "In Style," "Comfortable Empty Nesters," "City Lights," "Home Improvement," and "Metro Renters" tapestry segments.

The **fifth tier** of consumers represents trendy, status-conscious young singles, couples, and families just starting out, with an average retail spending index of 80-96. Most are renting apartments in downtown or urban neighborhoods, while some have moved to close-in suburbs. In the Washington-Baltimore region, these consumers comprise 11 percent of the region's households and contain the "Up and Coming Families," "Trendsetters," "Urban Villages," "Emerald City," "Parks and Rec," and "Bright Young Professionals" tapestry segments.

The **sixth tier** of consumers represents a very young and diverse market that is hard-working but cost-conscious, including new immigrants and military households, with an average retail spending index of 69-73. These households may have long commutes and are renting older apartments or small single-family homes. In the Washington-Baltimore region, these consumers comprise four percent of the region's households and contain the "American Dreamers," "International Marketplace," "City Strivers," and "Military Proximity" tapestry segments.

The **seventh tier** of consumers represents a market with very little disposable income, either attributable to a fixed income (social security) or low wages, with an average retail spending index of 51-68. These households are cost-conscious and put off major purchases, in favor of more immediate needs or having fun in the short term. In the Washington-Baltimore region, these consumers comprise ten percent of the region's households and contain the "Old and Newcomers," "Front Porches," "Family Foundations," "The Elders," "Young and Restless," "College Towns," "Metro Fusion," and "Newest Residents" tapestry segments.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Description of Consumer Segments

Figure 5.1

Washington-Baltimore Region

National Demographics			Household Budget Index			
Consumer Segment	Description	Median Income	Average	Food	Apparel & Services	Entertainment & Recreation
First Tier	Affluent and Cultural	\$145,649	215	228	163	256
Second Tier	Well-Educated Lifestyle Spender	\$100,269	159	173	121	185
Third Tier	Upper-Middle Class, Brand Name Conscious	\$80,740	125	136	94	145
Fourth Tier	Cost-Conscious but Well Off	\$59,134	104	115	79	118
Fifth Tier	Young, Trendy, and Status Conscious	\$53,514	89	99	68	100
Sixth Tier	Young, Diverse, Hardworking	\$42,114	72	82	57	77
Seventh Tier	Short-Term Spenders	\$36,240	61	69	47	67

For additional detail on the tapestry segments that make up each consumer tier, please see Appendix C.

Regional Distribution

Compared to the broader Washington-Baltimore region and comparable suburban counties (Fairfax, Montgomery, Howard, and Anne Arundel), Prince George's County represents a diverse mix of the consumer segments present in the broader region. Thirty-five tapestry segments make up 92 percent of the region's households; in Prince George's County, 32 of those tapestry segments are present with 15 segments that each represents at least 2 percent of total households. Montgomery County is similarly diverse, while Howard, Anne Arundel, and Fairfax County households are concentrated in just a handful of tapestry segments. Diversity of consumers translates to a wide variety of shopping environments and retail tenants that may be supportable in each location, whereas counties with a population more concentrated in just a few tapestry segments could be expected to have a more uniform retail environment.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Share of Households by Consumer Spending Tier

Figure 5.2

Washington-Baltimore Region and Select Counties

Consumer Tier	Washington-Baltimore Region	Prince George's County	Montgomery County	Howard County	Anne Arundel County	Fairfax County
First	11%	3%	22%	33%	9%	27%
Second	21%	8%	20%	21%	24%	19%
Third	22%	31%	27%	32%	32%	33%
Fourth	13%	11%	14%	8%	9%	12%
Fifth	11%	13%	6%	5%	13%	2%
Sixth	4%	9%	2%	0.5%	7%	4%
Seventh	10%	22%	7%	0.5%	6%	3%

Note: Segments shown above represent 91 percent of total households in the region and 97-100 percent of households in the selected counties.

Location Comparison

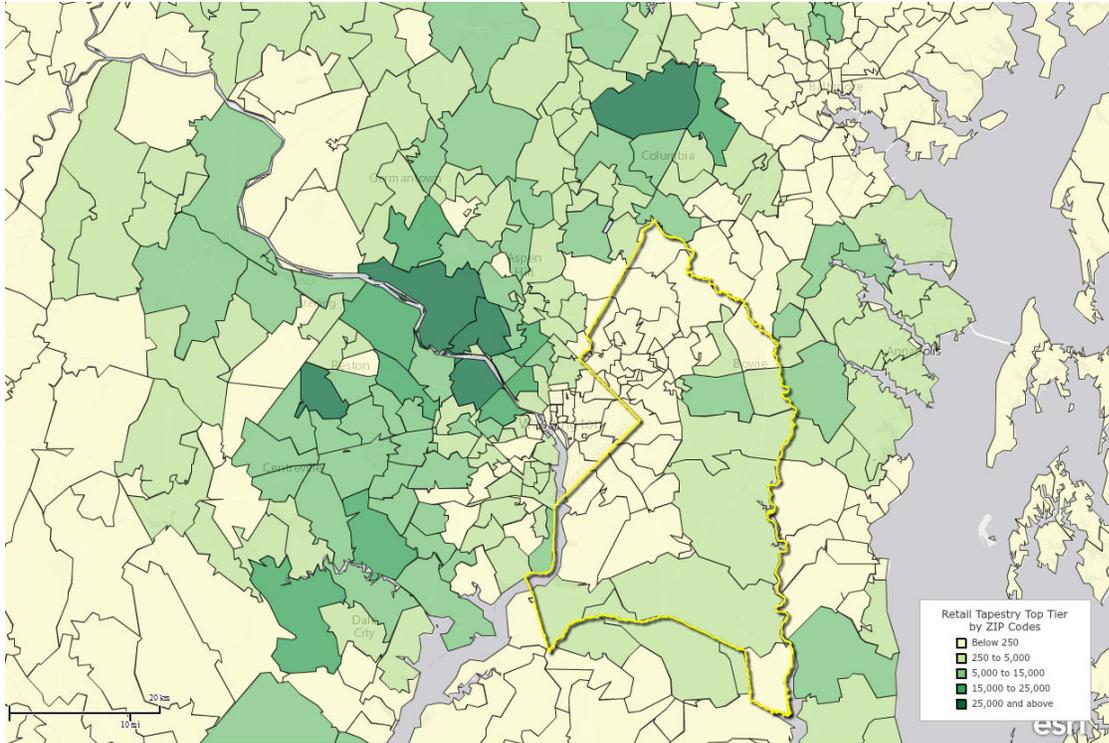
The region's top consumer group (first and second tiers), approximately 11 percent of Prince George's County households, but 32 percent of regional households, lives in the region's "Favored Quarter," along the Potomac River between the Dulles Toll road and I-270. Secondary concentrations of these households in the region are located in:

- Semi-rural areas of Prince George's County near Bowie or Upper Marlboro.
- Washington D.C.
- Along Metro lines and other major transportation routes in Alexandria and in Arlington, Fairfax, and Montgomery Counties.
- Loudoun and Prince William Counties.
- Anne Arundel County near Annapolis and the Chesapeake Bay.
- Columbia, MD.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of First Consumer Tier by Zip Code
Figure 5.3

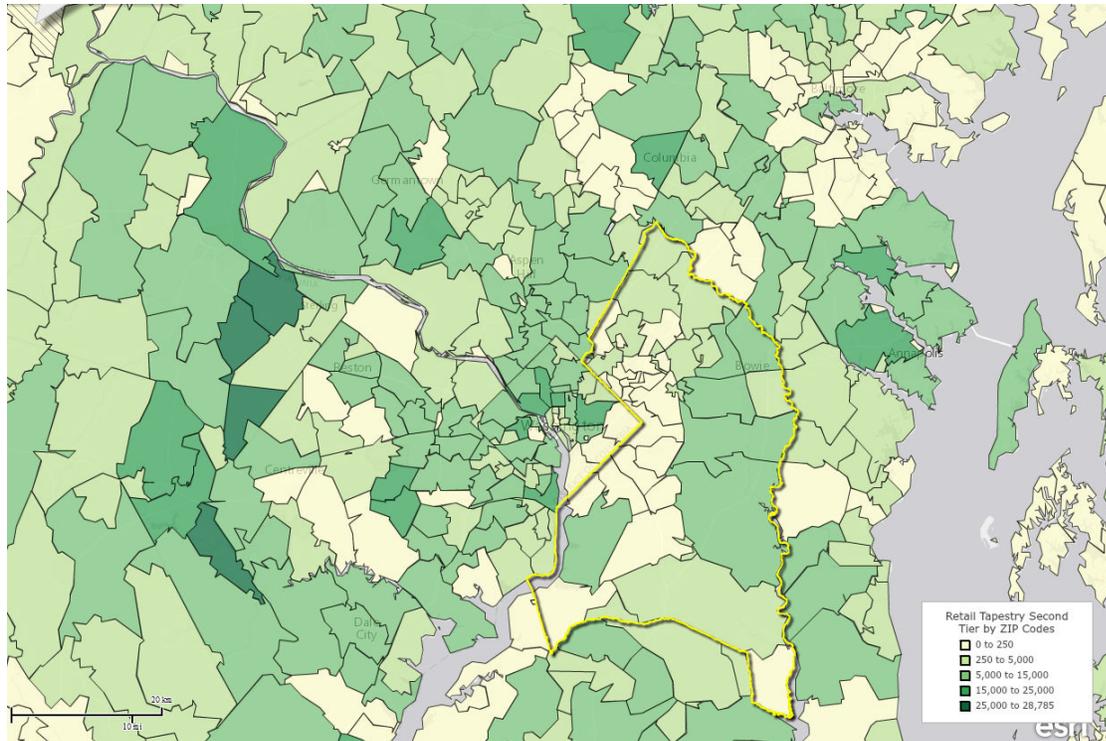
Washington-Baltimore Region



Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Second Consumer Tier by Zip Code
Figure 5.4

Washington-Baltimore Region



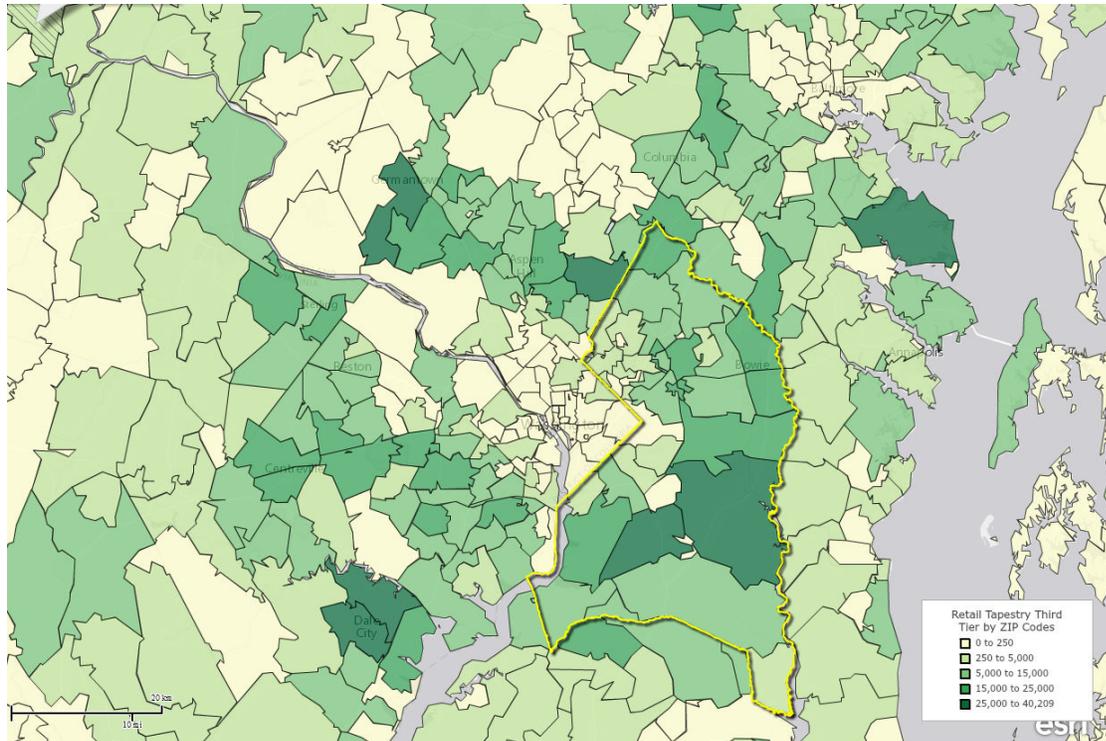
The region's second consumer group (third and fourth tiers), which represents the County's most substantial concentration of affluent consumers (30 percent of County households), is primarily comprised of affluent, suburban households—including both families and empty nesters—living in single-family neighborhoods with strong access to regional transportation routes. The highest concentration of these households is primarily located outside I-495:

- Just outside I-495 in Montgomery and Prince George's Counties.
- Fairfax County extending out I-66.
- Along I-395 in Fairfax County and I-95 in Prince William County.
- Howard and Anne Arundel Counties along the Route 29, I-95, B-W Pkwy, and Highway 50 Corridors.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Third Consumer Tier by Zip Code
Figure 5.5

Washington-Baltimore Region



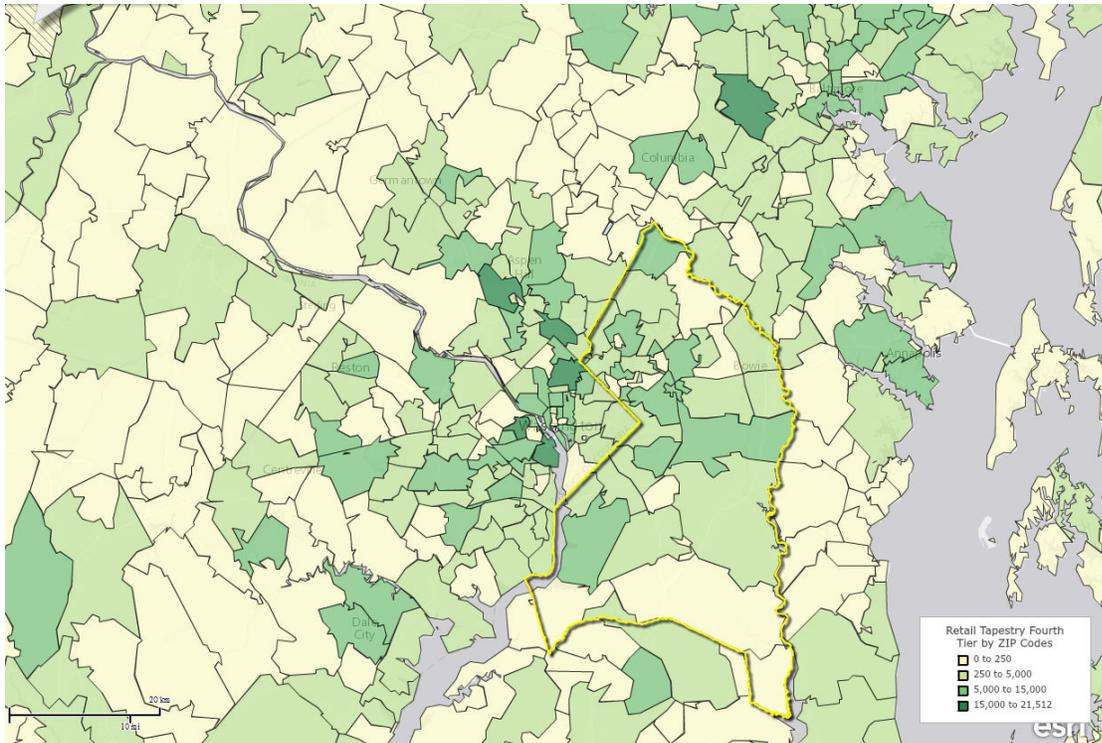
The region's third consumer group (fourth and fifth tier), approximately 24 percent of County households, is primarily comprised of relatively young households that range from singles and couples just starting their professional careers to young families. In other areas of the region, this consumer group also includes more mature empty nester households, but this segment is not particularly prevalent in Prince George's County. These consumers demonstrate a clear preference for urban neighborhoods and close-in suburbs and live in a variety of housing types from single-family to small multi-unit buildings and high-density apartments, with the unifying characteristic that many are renters. The highest concentration of these households is primarily:

- Revitalizing urban areas near downtown (Brookland, Tacoma, and Petworth).
- Urbanizing suburbs with Metro access (White Flint, Silver Spring, Hyattsville, Vienna/Dunn Loring).
- Established neighborhoods with strong metro access that still offer relatively affordable older rental apartments (Crystal City, Ballston, southern Arlington/Alexandria).
- Walkable towns in northern Prince George's County such as Laurel and Hyattsville).

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Fourth Consumer Tier by Zip Code
Figure 5.6

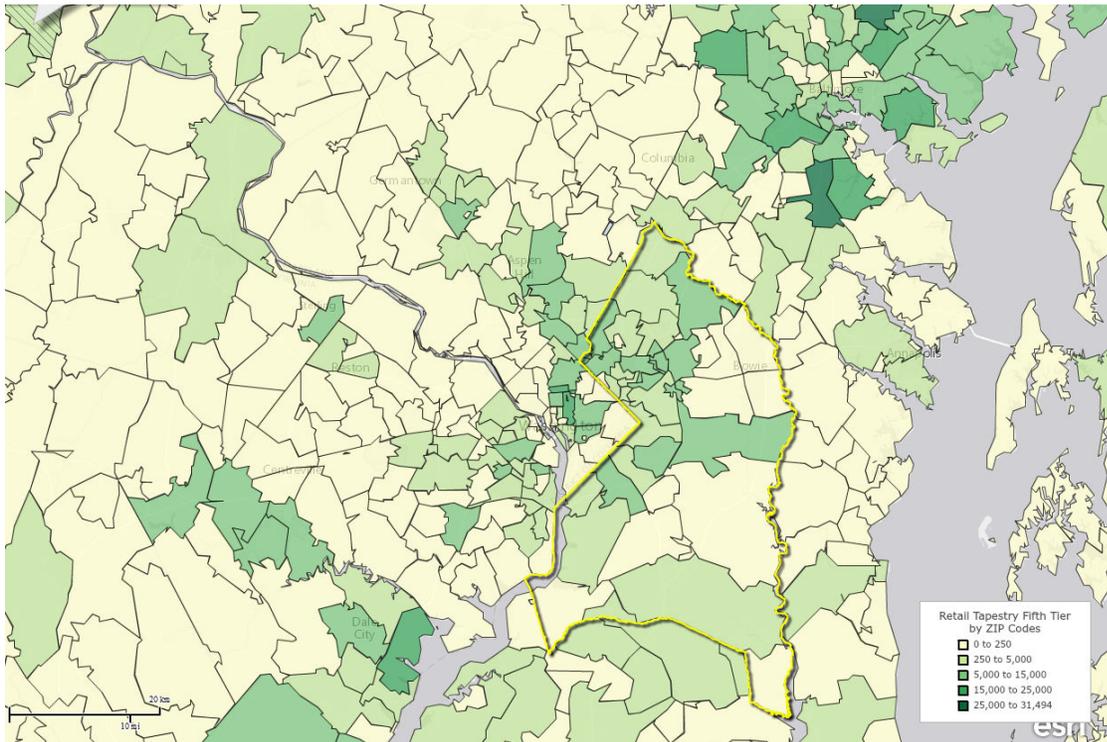
Washington-Baltimore Region



Map of Fifth Consumer Tier by Zip Code
Figure 5.7

Washington-Baltimore Region

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas



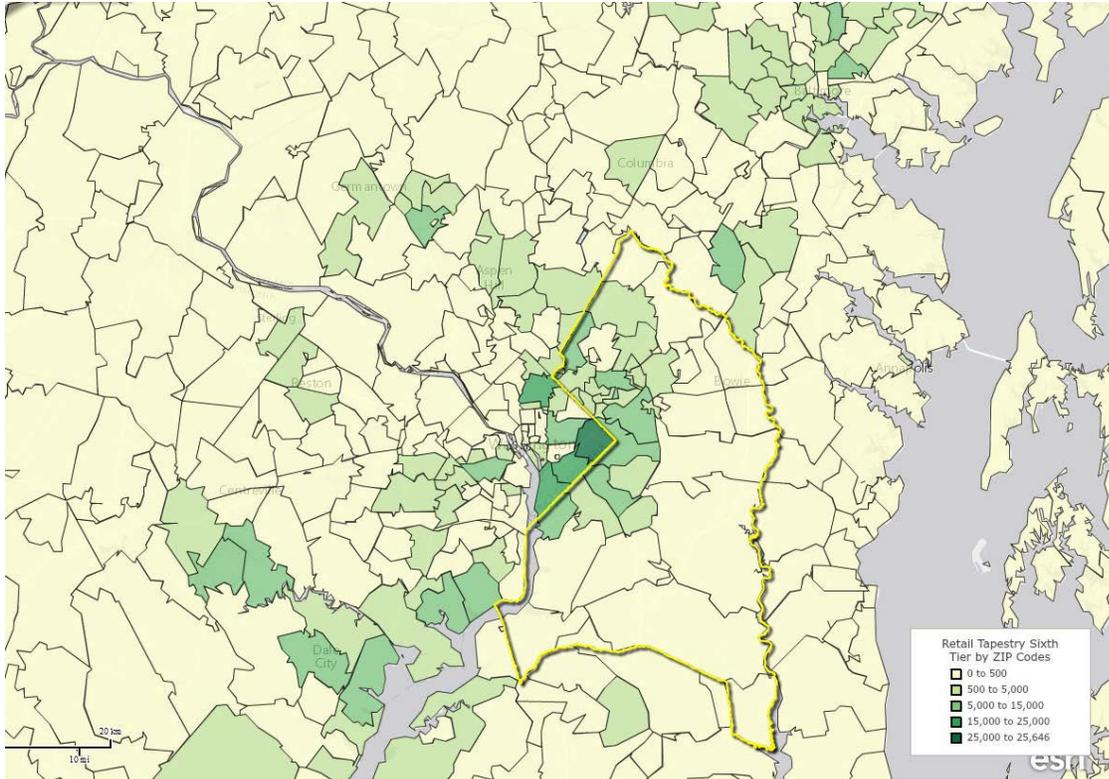
The region's fourth consumer group (sixth and seventh tier), approximately 31 percent of County households, is the most diverse group psychographically though on average very young, but all with similar economic constraints on their spending potential. These households primarily live in older suburbs and urban neighborhoods. The highest concentration of these households is primarily:

- Inside I-495 in Prince George's County.
- Older single-family neighborhoods in eastern Montgomery and Northern Prince George's Counties, especially near the University of Maryland.
- Southeast (SE) and Northeast (NE) D.C.
- Suburbs with an international or immigrant community, like Springfield, Woodbridge, Centreville, Rockville, and Germantown.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Sixth Consumer Tier by Zip Code
Figure 5.8

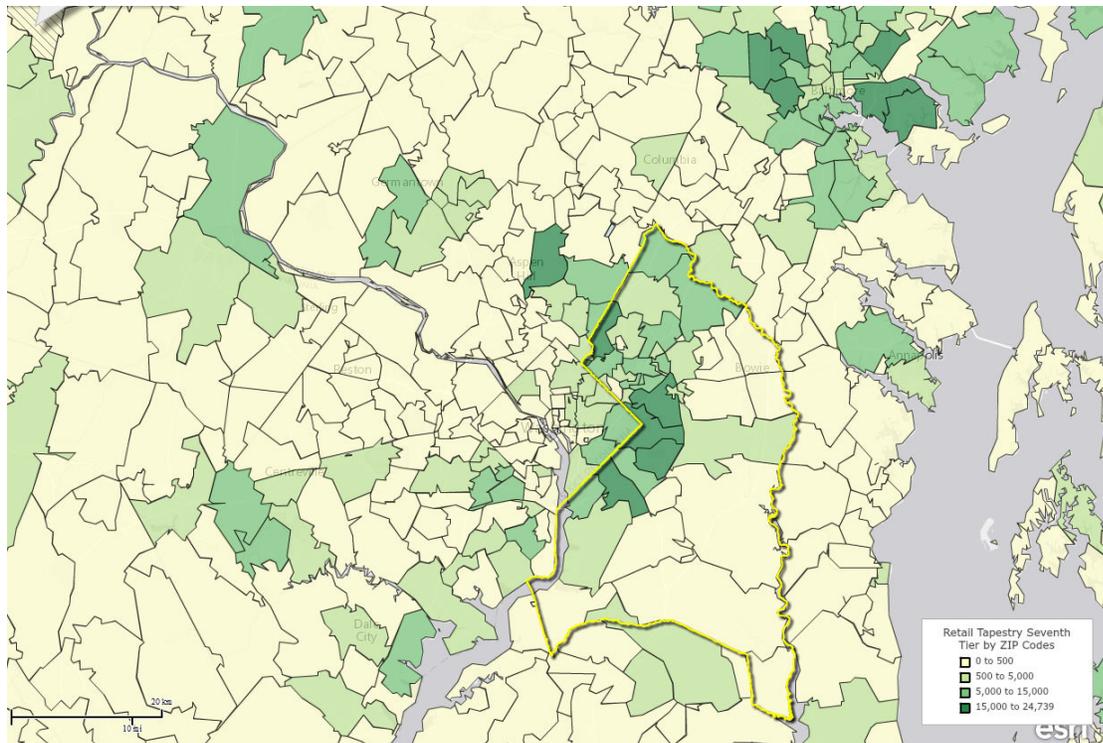
Washington-Baltimore Region



Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Seventh Consumer Tier by Zip Code
Figure 5.9

Washington-Baltimore Region



Employee Consumer Segment

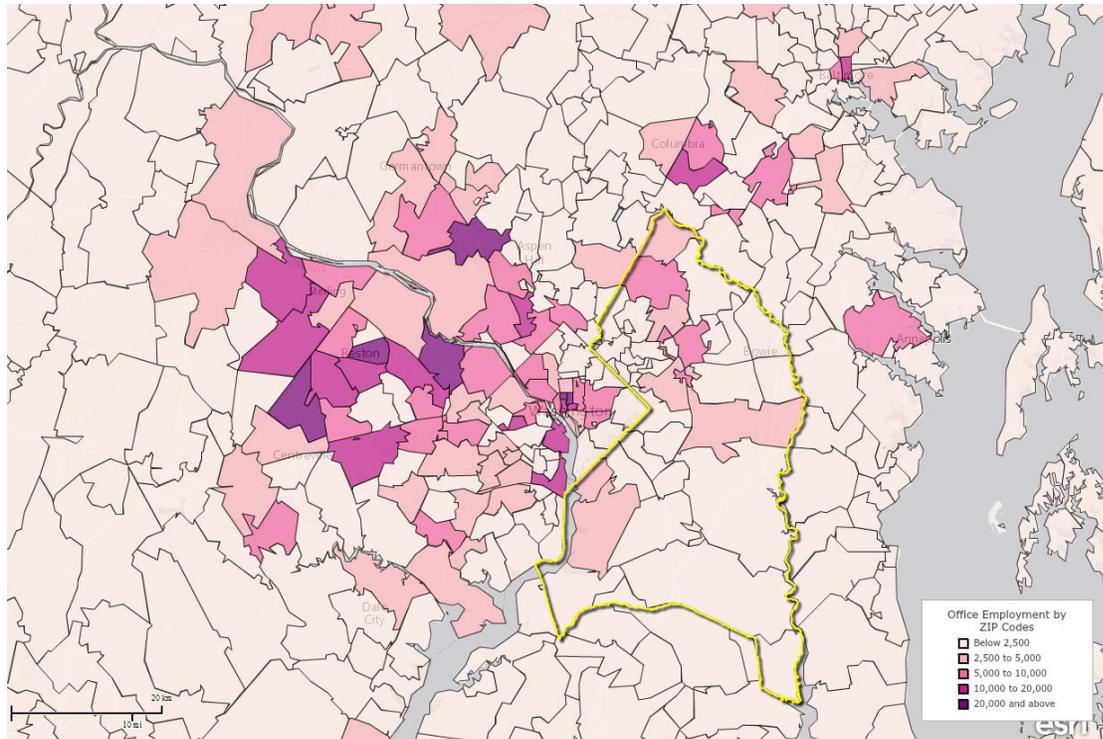
In addition to households, employee spending drives approximately 12 percent of the County's retail demand potential today and plays an important role in creating a more vibrant retail environment during the day. This includes both employees commuting into the County and those who both live and work here. Office employment in particular has a higher retail spending potential than general service or trade employees based on its overall higher incomes, more regular schedule, and use of restaurants especially as a business amenity where meetings may take place over lunch. Nearby retail, restaurants, and other conveniences/services also play a role in the desirability for office tenants to locate their businesses in particular areas. However, office employees are challenging consumers to serve in lower-density locations where they would be the primary or only driver of retail revenues, as their potential retail expenditures for each type of retail may not produce enough revenues for a substantial set of retail businesses to thrive. Locations in the Washington-Baltimore region that currently have employee-driven retail include high-density office districts such as Downtown Washington D.C.

In Prince George's County, office employees are primarily located in the north trade area, along major transportation routes such as I-495 and I-95, as well as near the University of Maryland. There is also a budding employment center in National Harbor.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Map of Office Employees by Zip Code
Figure 5.10

Washington-Baltimore Region



Note: Office employment as shown on this map is defined based on industry code and includes NAICS 51, 52, 54, and 55.

Source: Esri

Visitor Consumer Segment

Tourist and visitor spending contributes 12 percent of the County's retail demand today and has the potential to drive a significantly larger share of net new retail spending in the County over the next ten years. These visitors may include conference/business visitors (primarily to conference/convention locations), leisure traveler/tourist (multiday trips), event-driven traffic (daytrip or overnight), and regional destination visitors (Tysons Corner, National Harbor, City Center). Tourists and visitors can be strong contributors to retail and restaurant success as most travelers are expecting to spend money and eat out while on the road. Pass-through traffic and consumers from other areas of the region likely comprise an additional ten percent of retail potential.

In Prince George's County, these visitors likely include both event-driven tourism to places like FedEx Field and general out-of-area visitation to destinations such as National Harbor. Visitor destinations are located throughout the County, with the University of Maryland (UMD), FedEx Field, and National Harbor likely the primary draws. Today, event-driven tourists have no compelling options for retail, restaurant, or entertainment options near UMD or Fed Ex Field and their spending potential is likely under-realized due to the inferior options available.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County’s Local and Regional Trade Areas

Retail Opportunity

Each regional trade area in Prince George’s County also manifests a diversity of consumer segmentation.

Share of Households by Consumer Spending Tier

Figure 5.11

Regional Trade Areas in Prince George’s County

Consumer Tier	Washington - Baltimore Region	Prince George's County	North Trade Area	Central Inside I-495	Central Outside I-495	Southwest	Southeast
First	11%	3%	-	-	7%	2%	15%
Second	21%	8%	4%	-	22%	7%	10%
Third	22%	31%	20%	4%	55%	40%	50%
Fourth	13%	11%	13%	9%	10%	12%	5%
Fifth	11%	13%	19%	16%	4%	9%	11%
Sixth	4%	9%	11%	15%	1%	10%	0%
Seventh	10%	22%	27%	50%	-	20%	-
Total Consumers	3.24%	308,000	123,000	40,000	65,000	69,000	9,000

Note: Segments shown above represent 91 percent of total households in the region, 97 percent of households in the County, and 91-99 percent of households in the regional trade areas.

Areas with the County’s top consumer segment are likely best served by newer suburban retail—lifestyle centers, town centers, high-end grocery anchored retail—with strong access, visibility, and plentiful parking.

Areas with the County’s second consumer segment are likely best served in more urban/walkable formats, in locations with Metro or Bus access, and well-connected to nearby neighborhoods. These consumers spell success for main street retail and smaller-scale centers that provide household needs (grocery, drug, and convenience), mid-priced food and dining options, and offer entertainment venues like bars, art venues, and movie theaters. When older buildings are available for renovation, these can be good live-work opportunities for entrepreneurs or “makers”; smaller but obsolete industrial buildings might be appealing for creative users like design studios, furniture makers, breweries, or users with a customer-facing component but that are not traditional credit retail tenants. However, these tenants will need low-cost space both for their bottom line and to keep end prices affordable for their target consumer.

Areas with the County’s third consumer segment can be best served by improving the tenanting of existing retail centers already located in their neighborhoods and identifying service gaps (grocery, household, etc.) that could entice new retailers to enter the market. Retail centers in these areas likely have seen many tenants through their lifespan and may currently serve niche populations such as an immigrant populations that demand non-traditional tenants and unique services. Some centers likely have obsolete retail spaces that will need to be repurposed or redeveloped, as the total retail space is in excess of what the market demands.

Chapter 3: Market Segment Psychographic and Demographic Profiles of The County's Local and Regional Trade Areas

Areas with a significant concentration of office employees can be best served with restaurant, convenience, and service retail within five to ten minutes from their office. In higher-density locations, the expectation is for retail to be walkable as capturing expenditures of workers is dependent on the availability and convenience of retail offerings. However, office worker spending alone often does not generate enough revenue to support thriving, diverse retail offerings but instead extends the daytime hours so that many businesses can generate revenues.

Areas with significant visitors offer opportunities for restaurant and convenience retail. For locations with overnight visitors, such as for conferences or weekend trips, there may be an opportunity for destination retail offering soft goods and other unique items that become a significant component of the visitor's experience.

Critical Assumptions and General Limiting Conditions

Critical Assumptions

Our conclusions are based on analysis of the information available from our sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic/economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers.
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

Critical Assumptions and General Limiting Conditions

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. RCLCO's contract with M-NCPPC will serve as written consent for M-NCPPC to make available the final study to the general public and for M-NCPPC's sole use of all materials for purposes related to this study. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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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 C. 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 S. Sobel, Principal, Director of Public Strategies, Project Director
Erin Talkington, Vice President, Project Manager
Margaret Liddon, Senior Associate
Ethan Tabakin, 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 V. Piret, Ph.D., Director

Office and Publications Services, Publication and Graphic Design
Susan Kelley, Administrative Manager
Ralph Barrett, Clerk Supervisor
Michael Register, Publications Specialist

Countywide Planning Division
Brenda Spears-Travis, Principal Administrative Assistant

THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

WWW.PGPLANNING.ORG

