WASHINGTON AREA ECONOMY SNAPSHOT

• Job growth: 57,000 new jobs during the 12 months ending May 2015.
• Unemployment rate: 4.7% at May 2015, fourth lowest among major metro areas.
• Average household income: $120,456 in 2015, 61.3% higher than the U.S. average.

WASHINGTON AREA RETAIL MARKET SNAPSHOT

• Retail employment is growing: 6,300 retail jobs were added during the 12 months ending May 2015 on a net basis.
• Vacancy rates for neighborhood and community shopping centers in Northern Virginia and Suburban Maryland are 5.7% and 8.3%, respectively, down 20 basis points since 2nd quarter 2014 in Northern Virginia and down 60 basis points in Suburban Maryland.
• Neighborhood and community shopping center effective rents rose by 2.9% in Northern Virginia since 2nd quarter 2014, to $25.44/SF. In Suburban Maryland, effective rents in the same types of centers rose by 1.8%, to $23.05/SF.
ECONOMY AND OUTLOOK

The Washington metro area has emerged relatively intact from several years of weak economic performance and is again showing signs of growth. After adding just 18,900 jobs during 2014, the region posted a net gain of 61,600 jobs over the 12 months ending April 2015, representing its largest 12-month employment increase in more than four years. In May, the region posted a net gain of 57,000 jobs over the previous 12 months. The resumption of growth in the Washington region is related to the fact that both Federal employment and procurement are again on the rise after several years of reductions.

Most economic indicators for the Washington area are positive. The regional unemployment rate as of May 2015 was 4.7%, well below the national average of 5.6%. The region’s S&P/Case-Shiller home price index increased by 1.3% in 2014. State and local government budgets are again increasing, leading to a gain of more than 6,400 jobs in this sector between May 2014 and May 2015. One area of concern is the region’s average wage, which is down substantially from its 2010 peak. This figure is likely to increase again, though, as growth has resumed in the metro area’s Professional/Business Services sector, which has by far the highest average wage among the region’s top employment sectors.

The Washington metro area surpassed the 6.0 million resident mark as of 2014 and ranks seventh in population among the nation’s metro areas. With 3.1 million payroll jobs, the Washington metro area ranks as the fifth largest job market, behind only New York, the LA Basin, Chicago, and Dallas/Ft. Worth. Job growth in 2015 has been robust so far, running well above the 20-year annual average of 41,700, and we expect the trend to continue through the rest of the year and beyond.

The Retail sector gained 6,300 jobs on a net basis in the Washington metro area during the 12 months ending May 2015, an increase of 2.3%. This compares to a national gain of 2.0% over the same period.

RETAIL PAYROLL JOBS

Washington Metro Area

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RETAIL EMPLOYMENT</th>
<th>CHANGE</th>
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<tbody>
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<td>2006</td>
<td>270,200</td>
<td>(400)</td>
</tr>
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<td>2007</td>
<td>270,400</td>
<td>(600)</td>
</tr>
<tr>
<td>2008</td>
<td>265,500</td>
<td>(13,700)</td>
</tr>
<tr>
<td>2009</td>
<td>251,600</td>
<td>(7,300)</td>
</tr>
<tr>
<td>2010</td>
<td>254,800</td>
<td>6,900</td>
</tr>
<tr>
<td>2011</td>
<td>259,900</td>
<td>4,600</td>
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<tr>
<td>2012</td>
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<td>400</td>
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<tr>
<td>2013</td>
<td>266,000</td>
<td>4,600</td>
</tr>
<tr>
<td>2014</td>
<td>268,800</td>
<td>3,500</td>
</tr>
<tr>
<td>2015*</td>
<td>276,400</td>
<td>6,300</td>
</tr>
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*Employment total at September 2014; change reflects the 12 month period ending May 2015.
The average household income in the Washington metro area grew by 49% from 2000 to 2015, compared to just 32% nationally, and it currently exceeds the national average by 61%. By 2020, the Washington metro area's average household income is projected to rise 12%, compared to a rise of 14% nationally. The elevated household incomes in the Washington area yield greater discretionary spending and support demand for retail goods and space.

### PAYROLL JOB GROWTH

**Washington Metro Area**

We estimate that an annual average of 47,300 payroll jobs will be added to the Washington metro area economy during the five-year period from 2015 to 2019. Private sector firms will be the cornerstone of employment growth in the period ahead. In each month since December 2014, employment growth has exceeded 40,000 jobs per annum on a trailing 12 month basis, peaking at 61,600 jobs in April 2015. We expect this gradual strengthening of employment growth to continue in 2015 and 2016. The Federal government should shed fewer jobs, Professional and Business Services will likely experience steady improvement, and Retail Trade and Leisure/Hospitality will continue to record strong job growth. Of note, the Retail and Hospitality sectors create lower-wage jobs and leave many workers underemployed, but they are a strong source of jobs, nonetheless.

The Bloomberg/University of Michigan index of consumer sentiment reached a five-month high of 96.1 in June 2015. That reading represents a year-over-year increase of 16.5% from the June 2014 level of 82.5. Surveys of Consumers Chief Economist Richard Curtin described the first half of 2015 as “the largest and most sustained increase in economic optimism since 2004.”

### AVERAGE HOUSEHOLD INCOME

<table>
<thead>
<tr>
<th>JURISDICTION</th>
<th>2000 (ACTUAL)</th>
<th>2015 (ACTUAL)</th>
<th>2020 (PROJ.)</th>
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<tbody>
<tr>
<td>Washington Metro Area</td>
<td>$80,600</td>
<td>$120,456</td>
<td>$135,285</td>
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<tr>
<td>U.S.</td>
<td>$56,600</td>
<td>$74,699</td>
<td>$84,910</td>
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We estimate that an annual average of 47,300 payroll jobs will be added to the Washington metro area economy during the five-year period from 2015 to 2019. Private sector firms will be the cornerstone of employment growth in the period ahead. In each month since December 2014, employment growth has exceeded 40,000 jobs per annum on a trailing 12 month basis, peaking at 61,600 jobs in April 2015. We expect this gradual strengthening of employment growth to continue in 2015 and 2016. The Federal government should shed fewer jobs, Professional and Business Services will likely experience steady improvement, and Retail Trade and Leisure/Hospitality will continue to record strong job growth. Of note, the Retail and Hospitality sectors create lower-wage jobs and leave many workers underemployed, but they are a strong source of jobs, nonetheless.

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### RETAIL MARKET CONDITIONS

The inventory of existing neighborhood and community shopping centers totaled 73.3 million SF in the Washington metro’s suburbs as of 2nd quarter 2015. Northern Virginia has 39.8 million SF of space in these centers, and Suburban Maryland has 33.5 million SF. On a per capita basis, Northern Virginia leads the way at 17.1 SF per capita in its neighborhood and community centers. Suburban Maryland has 15.4 SF per capita in the same types of centers. For the Washington metro area as a whole, residents enjoy 16.3 SF per capita of neighborhood/community shopping center space.
There is 1.4 million SF of shopping center space under construction across all shopping center types in Northern Virginia and 1.3 million SF under construction in Suburban Maryland. Northern Virginia also has 4.4 million SF of planned space – defined as space within centers where plans are drafted, permits and financing have been applied for, and ground breaking is all that remains to take place. Northern Virginia’s planned space is more than twice Suburban Maryland’s 2.1 million SF. However, the amount of proposed space, where no permits or financing have been applied for, is highest in Suburban Maryland – 6.6 million SF as of Q2 2015 – outpacing Northern Virginia’s 3.7 million SF.

Vacancy rates in neighborhood and community centers remain elevated relative to their pre-recession averages across the metro area, although they have been declining slowly since 2012. Vacancy rates for Northern Virginia and Suburban Maryland at 2nd quarter 2015 are 5.7% and 8.2%, respectively, down 20 basis points in Northern Virginia and down 40 basis points in Suburban Maryland since the 2nd quarter of 2014.

Within Northern Virginia, neighborhood/community center vacancy rates at 2nd quarter 2015 are lowest in the Suburban Fairfax County submarket, at 4.2%, and highest in Prince William County, at 7.5%. In Suburban Maryland, shopping center vacancy rates are lowest in the Gaithersburg/Rockville/Germantown submarket, at 7.0%, and highest in South Prince George’s County, at 12.6%. Neighborhood/community center vacancy rates in Northern Virginia and Suburban Maryland began to separate during the recession of 2008-2009, and while both have declined slightly in recent years, the separation between the two remains pronounced.

Effective rents in neighborhood and community centers have been climbing slowly since 2010, and they continued to do so in the 2nd quarter of 2015. For the 12-month period ending 2nd quarter 2015, effective rents rose 2.9% in Northern Virginia and 1.8% in Suburban Maryland. Average effective rents are highest in Northern Virginia, at $25.44 per SF. In Suburban Maryland, average effective rents are $23.05 per SF.
NEW DEVELOPMENT

There are 12 notable grocery-anchored shopping centers, totaling 1.3 million SF, under construction in the metro area at July 2015, and many more are in the planning stages.

- Wegmans announced in June that it plans to open an 80,000 SF urban-format store in Tysons Corner by 2019. The store will be on the ground floor of either an apartment or office building on Capital One’s expanding corporate headquarters in McLean. Wegmans has urban-style locations in both Rochester and Boston. Wegmans also signed a lease in January to open a more typical (roughly 120,000 SF) store in Chantilly.

- Whole Foods will open its first Loudoun County location at Regency Centers’ Belmont Chase development in late July 2015. The 40,000 SF anchor signed a lease in 2014 and will share the center with winery/restaurant Cooper’s Hawk, Habit Burger, Cava Mezza Grill, and Petco Unleashed, among others.

NOTABLE GROCERY-ANCHORED SHOPPING CENTERS UNDER CONSTRUCTION
Washington Metro Area | July 2015

<table>
<thead>
<tr>
<th>SHOPPING CENTER</th>
<th>JURISDICTION</th>
<th>RBA (SF)</th>
<th>ANCHOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skyland Town Center</td>
<td>District</td>
<td>342,000</td>
<td>Walmart</td>
</tr>
<tr>
<td>Regency Center Rt. 28</td>
<td>Fairfax</td>
<td>180,000</td>
<td>Wegmans</td>
</tr>
<tr>
<td>University Mall</td>
<td>Fairfax</td>
<td>140,000</td>
<td>Giant</td>
</tr>
<tr>
<td>Fort Totten Square</td>
<td>District</td>
<td>130,000</td>
<td>Walmart</td>
</tr>
<tr>
<td>Dunn Loring Metro</td>
<td>Fairfax</td>
<td>125,000</td>
<td>Harris Teeter</td>
</tr>
<tr>
<td>Belmont Chase</td>
<td>Loudoun</td>
<td>90,000</td>
<td>Whole Foods</td>
</tr>
<tr>
<td>The Galvan at Twinbrook</td>
<td>Montgomery</td>
<td>90,000</td>
<td>Safeway</td>
</tr>
<tr>
<td>Apollo H Street</td>
<td>District</td>
<td>75,000</td>
<td>Whole Foods</td>
</tr>
<tr>
<td>301 West Broad</td>
<td>Falls Church</td>
<td>60,000</td>
<td>Harris Teeter</td>
</tr>
<tr>
<td>8300 Wisconsin</td>
<td>Bethesda</td>
<td>50,000</td>
<td>Harris Teeter</td>
</tr>
<tr>
<td>800 New Jersey Ave. SE</td>
<td>District</td>
<td>35,000</td>
<td>Whole Foods</td>
</tr>
<tr>
<td>Verde Pointe</td>
<td>Arlington</td>
<td>15,000</td>
<td>MOM’s Organic Market</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,332,000</strong></td>
<td></td>
</tr>
</tbody>
</table>


There are additional grocery-anchored shopping centers in the planning stages that are not included in the adjacent table, some of which may deliver by 2016-17. However, given the long-term demand for retail goods in the Washington metro area, projects will deliver before and after that window.
SECOND QUARTER 2015 SPOTLIGHT ON LEASE TERMS

Second quarter 2015 marks the second annual release of Delta Associates’ Spotlight on Lease Terms. This section explores facts and trends related to the average length of lease terms, tenant improvement allowances, and free rent periods in shopping centers across the Washington metro area. All of the following lease term data applies to neighborhood/community centers.

The average lease term for neighborhood and community centers – inclusive of both anchor and nonanchor space and weighted by total submarket rentable building area – is slightly longer in Northern Virginia than in Suburban Maryland. Lease terms in Northern Virginia average 8.7 years, whereas in Suburban Maryland they average 8.1 years. Average lease terms have lengthened substantially in both Northern Virginia and Suburban Maryland since 2nd quarter 2014, when they averaged just 5.5 years in both substate areas. In fact, no submarket at 2nd quarter 2015 has an average lease term shorter than the metro area’s longest average lease term at 2nd quarter 2014, when Arlington/Alexandria led all submarkets with a 7.1 year average lease term.

The average lease length for anchor space is highest in Northern Virginia, where tenants agree to an average 11.9 year lease, up from 6.9 years at 2nd quarter 2014. In Suburban Maryland, anchor tenants agree to an average 11.4 year lease, up from 7.6 years at 2nd quarter 2014. Leases for nonanchor space are longest in Northern Virginia, at an average of 5.5 years. Conditions for nonanchor space favor tenants a bit more in Suburban Maryland, where the average length of nonanchor leases is just 4.9 years. Nonanchor leases averaged 4.1 and 3.6 years in Northern Virginia and Suburban Maryland, respectively, at 2nd quarter 2014.

Anchor leases most favor owners in the Suburban Fairfax County submarket, where tenants are agreeing to an average of a 12.5-year lease. Frederick County currently has the shortest average lease term for anchor space, at 5.0 years.

Average tenant improvement allowances at 2nd quarter 2015 are lowest in Northern Virginia, at an average of $14.39/SF (up 5.1% since 2nd quarter 2014). In Suburban Maryland, average TIs are $16.61/SF (up 8.4% since 2nd quarter 2014). Among submarkets across the region, Bethesda/Silver Spring has by far the highest average tenant improvement allowances, at $27.30/SF and $28.50/SF for anchor and nonanchor space, respectively. Average TIs are lowest in the Southeast Fairfax County submarket, at $10.77/SF and $13.40/SF for anchor and nonanchor space, respectively. Southeast Fairfax County also boasts the lowest shopping center vacancy rate for the metro area.
Free rent periods at 2nd quarter 2015 average 5.2 months in Northern Virginia (down 1.9% from 2nd quarter 2014) and 4.1 months in Suburban Maryland (unchanged since 2nd quarter 2014). Conditions favor tenants most in the Arlington/Alexandria submarket, where tenants receive an average of 7.1 and 6.7 months of free rent for anchor and nonanchor space, respectively. Lease terms for anchor space favor landlords most in the Southeast Fairfax County submarket, where free rent averages just 2.3 months. For nonanchor space, lease terms most favor landlords in the Gaithersburg/Rockville/Germantown submarket, where free rent averages 1.7 months.

As was the case a year ago, the Southeast Fairfax County submarket is performing best out of the 10 submarkets in the adjacent charts in terms of landlord favorability. Southeast Fairfax County’s average free rent ranks 2nd among all submarkets in terms of landlord favorability, its lease terms rank 4th, and its tenant improvement costs rank 2nd. This submarket has benefitted from the influx of consumers to the Fort Belvoir area following the Department of Defense’s recent Base Realignment and Closure (BRAC) initiative. The Arlington/Alexandria submarket has the most favorable conditions for tenants. Its rankings among the 10 submarkets in terms of landlord favorability for average lease length, tenant improvement allowances, and free rent are 10th, 10th, and 9th, respectively.

INVESTMENT SALES

There were two notable investment sales of grocery-anchored shopping centers during the 2nd quarter of 2015. In May, ECHO Realty purchased the Harris Teeter-anchored Purcellville Gateway for $38.6 million ($435/SF) from Roadside Development. In April, Lighthouse Real Estate Ventures purchased the Giant-anchored Goshen Crossing for $19.5 million ($244/SF) from Ceruzzi Properties. Investment sales of grocery-anchored shopping centers for the first half of 2015 totaled $483 million ($285/SF) compared to $323 million ($353/SF) in all of 2014.

THE BOTTOM LINE

After job growth that was well below historical norms throughout much of last year, the Washington metro area economy appears to have turned a corner in the last few months. The most recent jobs report revealed that the Washington area added 61,600 jobs during the 12-month period ending April 2015 – the strongest in the region for more than four years – and followed that with a healthy May. Unemployment remains low for a major metropolitan area and 110 basis points below the national rate of 5.4% as of May 2015. The number of retail jobs increased by 6,300 positions over the 12 months ending in May and is projected to grow by another 10,000 jobs by 2018. Also, the Retail and Hospitality sectors still have room for growth. Although these sectors consist of lower-wage jobs, we expect that they will continue to add workers, which benefits the overall regional economy.
However, we expect job growth in the metro area to remain tempered for an expansion cycle – in the range of 40,000 to 50,000 jobs per annum from 2015 through 2018. This is sufficient to support a healthy commercial real estate industry but below the levels experienced in most recent expansion cycles.

Like the rest of the regional economy, the retail real estate market in the Washington metro area is showing consistent, if modest, improvement. At neighborhood/community shopping centers, the decline in vacancy rates continues, while shopping center rents have been rising steadily since 2010. Lease terms have lengthened dramatically since a year ago and free rent periods have shortened, though tenant improvement allowances climbed in both Suburban Maryland and Northern Virginia. Tenants seeking space are interested in newer, Class A space, and the rise of the District as a destination for living, working, and shopping represents a unique opportunity for retailers in the region. We predict that the trend toward mixed-use projects in core submarkets with a more urban feel will continue for the foreseeable future, although recent plans for new – and renovations of old – centers in the outer suburbs indicate that developers expect lifestyle centers with a sense of place to thrive throughout the region.

As of 1st quarter 2015, the Washington metro area’s economy had yet to experience the sustained surge of above-average job growth that typically follows a recession. Now, at 2nd quarter 2015, the region is a few months of strong job growth similar to April and May from cementing itself as a region undergoing expansion. Unemployment remains low, household incomes are on the rise, and federal procurement is back. Retail real estate in the region avoided disaster during the recession and lackluster recovery, which is remarkable considering the dual pressures of slow job growth and booming online merchandising. Now that the demand side of the retail sales equation has improved, we expect improvements in retail real estate to be forthcoming.
DELTA ASSOCIATES

Delta Associates is a firm of experienced professionals offering consulting, valuation, and data services to the commercial real estate industry for 35 years. The firm’s practice is organized in four related areas:

1. **Valuation** of partial interests in commercial real estate assets.
2. **Consulting**, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
3. **Litigation support**, including dispute resolution, from forensic fact-finding to mediation and expert witness services. Damages, material adverse change, and contract disputes are specialties.
4. **Subscription data** for selected metro regions for office, industrial, retail, condominium, and apartment markets.

For more information on Delta Associates, please visit [DeltaAssociates.com](http://DeltaAssociates.com).

Delta’s Retail Practice Team includes: David Parham, Editor and Senior Vice President; Luke Gelber, Associate.

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RAPPAPORT

For 30 years, Rappaport has provided Washington, D.C., Maryland and Virginia with professional real estate services centered exclusively on the retail segment. Founded by Gary D. Rappaport, CRX/CMD/CSM/CLS/CDP, Rappaport provides the following services for some of the area’s most prominent landlords, retailers, asset managers, commercial real estate companies and financial institutions:

- Property Management
- Landlord & Tenant Representation
- Construction Management
- Institutional JV’s
- Marketing
- Consulting & Receivership Services
- Development

Mr. Rappaport is a past Chairman and Trustee of the International Council of Shopping Centers (ICSC). He is the author of “Investing in Retail Properties,” which explains how to structure real estate partnerships for sharing capital appreciation and cash flow. The information contained in the book is the basis for classes he teaches for ICSC’s University of Shopping Centers and Interactive Learning Series and as a guest instructor at Johns Hopkins, Georgetown, American and George Mason universities.

Led by President Henry Fonvielle, the Rappaport leasing team of Steve Carboni, Bill Dickinson, Michael Howard, Melissa Webb, Susan Bourgeois, Will Collins, Kristin Perry, Pat O’Meara, Jim Farrell, Michael Kang, Jason Yanushonis, Lindsey Barden, Alex Shiel and Chris Pamboukian includes the region’s top experts in the retail industry.

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<tr>
<th>PROPERTY MANAGEMENT, CONSULTING &amp; RECEIVERSHIP:</th>
<th>CONSTRUCTION MANAGEMENT &amp; DEVELOPMENT:</th>
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<td>Executive V.P. Dev.</td>
<td>President</td>
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