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MEMORANDUM

To: Mary Fitch, AIA
From: Lewis Bolan
Re: Pennsylvania Avenue SE - Retail Potential
Date: July 12, 2002 - Revised October 10, 2002

Introduction

The purpose of this memorandum is to summarize work undertaken by Bolan Smart Associates concerning the development potential of that section of Pennsylvania Avenue SE, just east of the Anacostia River. Specifically, our intent has been to determine the amount and type of additional retail space that we believe can be absorbed successfully in this area within the near-term - that is to say over the next couple of years.

In our judgment, the area has a number of strengths and a number of weaknesses. The former must be maximized and the latter dealt with in order to achieve the kind of absorption discussed in this report.

Strengths

1. A stable primary trade area population. Within the immediate half-mile trade area the 2001 estimated population is 7,327 persons, living in 3,332 households. The median household income is \$43,406, and the estimated per capita income is \$24,478. The median age of the population is 39 years, slightly above national averages and indicative of a mature population. Thirty seven percent of residents live in owner occupied dwellings, 63 percent in rental accommodations.
2. A sizable secondary trade area. In the area extending another half mile from the primary trade area, which we define as the secondary trade area, there are additional 16,837 persons in 5,960 households, with household characteristics very similar to that found in the primary trade area.
3. High traffic volumes. Average daily traffic on Pennsylvania Avenue SE, southeast of Minnesota Avenue was 52,600 in 2000. These substantial traffic volumes can be viewed as both a plus and a minus from a retail development standpoint. The traffic generates a large number of potential shoppers at the same time it discourages pedestrian movement back and forth across Pennsylvania Avenue, making the development of a pedestrian oriented and pedestrian friendly retail environment difficult, if not impossible, to achieve.

Weaknesses

1. A competitive area shopping environment. Residents of this portion of SE Washington are not without alternative shopping opportunities within a few miles of the site. In particular, Skyland and the adjacent Marketplace are less than two miles from the area, offering a wide array of convenience stores, food stores, shopper goods and related services, grouped together along with plentiful free parking. There is a second concentration of retail stores at Minnesota Avenue and Benning Road, which also offers a range of shopping opportunities. Slightly further away, Hechinger Mall at Benning Road and H Street NE offers more than 400,000 square feet of shopping, including the region's largest Safeway store. Closer in Pennsylvania Avenue SE, between 2nd and 11th Streets, provides a major concentration of specialty retail shopping, boutiques and a wide range of restaurants at various price points. Finally, shopping alternatives also provide strong drawing power into adjoining Prince George's County. In short, there is formidable competition for all but the most immediate primary trade area patrons.

2. A difficult retail environment. Nationally and regionally, we are significantly over stored, with well over 20 square feet of retail space per person, an all time high. Granted, much of this space is in the suburbs. Nonetheless, in today's tough economic climate it is difficult to finance new retail development, to lease retail space, or for retailers large or small to secure needed financing to enable them to proceed. Things are particularly difficult for what are called "non credit" retailers, that is smaller non-chain retailers without an extensive operating history, solid financial underpinnings, and a topnotch credit rating.

Market Potential

A careful review of the demographics and the area together with a review of the competitive situation suggests that there is potential for retail space along this section of Pennsylvania Avenue SE.

Our findings suggest that the area could have the potential for supporting nearly 12,000 square feet of restaurant space, plus an additional 27,800 square feet of convenience and shopper goods space.

Attached to this memorandum are two tables summarizing our calculations as to the amount and type of space that may be warranted. Table 1 summarizes the sources of patronage that may be achievable for restaurant space. The combination of primary and secondary trade area population, daytime employees in the area, and the transient population driving along Pennsylvania Avenue, SE, suggest the potential for 11,860 square feet of restaurant space. This will most likely take the form of 3 to 5 popularly priced restaurants. It could, for example, include both eat in and take out restaurants. Locally owned restaurants, rather than national chains, would perhaps be easier to entice given their more flexible location standards.

Table 2 summarizes additional kinds of non-restaurant retailers who may be able to operate successfully. In total, our analysis suggests that there is demand for some 27,800 square feet of space. Examples of stores that should be interested in the area would include a drug store, convenience food store, shoe store, video store, hardware store, jewelry or clothing store.

Taken together, these projections suggests the area can support 3 to 4 popularly priced restaurants, both eat in and take out, plus some 10 to 12 smaller stores such as a drug store, smaller convenience grocery store, hardware store, shoe store, clothing store and/or video store, as possible examples.

Conditions Necessary to Achieve Success

In these challenging economic times, success will not come automatically. It will require a great deal of hard work, a number of major concessions, and very likely substantial public incentives if retail development is to be realized in this area. Among the most important issues to be recognized and dealt with are the following:

1. **Critical Mass** - Rehabilitation or new construction of only a few small buildings will have little chance of success. Whatever is to be done must be done on large enough scale to overcome the negative perceptions that exist concerning this area. At a very minimum, we believe that no less than 12,000 square feet of new - or newly rehabilitated space - should be delivered at one time.
2. **Location** - There is more development potential on the south side of Pennsylvania Avenue than on the northbound side. The outbound traveler offers more retail potential than the inbound traveler. In other words, few people shop on the way to work; many more shop on their way home from work.
3. **Parking** - There must be ample parking and it must be secure and visible. Parking behind a store is not as desirable. We would recommend a minimum of 3 to 4 parking spaces per thousand square feet of retail space. There is very limited pedestrian traffic in this area, and the likelihood of developing such is remote. The overwhelming majority of shoppers will come by car, and their needs must be met if the retail development is to succeed. Good signage is also highly important.

4. **Linkage** - It will be difficult and impossible to create a flow of shoppers from one side of Pennsylvania Avenue to the other given the width of the street, the wide median strip and the heavy vehicular traffic. In our judgment there is not enough potential for both sides of the street to be developed for retail purposes. We suggest consideration be given to residential development for the north side of Pennsylvania Avenue.
5. **Aggressive Pricing** - Southeast Washington is a highly price sensitive market. Leasing will need to be at very competitive rates and terms. Very likely, subsidies - possibly substantial ones - will be necessary to offset the high costs associated either with new construction or substantial rehabilitation.
6. **Extensive Marketing** - It is unrealistic to think that tenants will appear as if by magic. Concentrated and extensive marketing programs, employing all available tools, will be essential to securing the kinds of tenants desired by the community.

In summary, the numbers suggest a fair amount of retail potential. Bridging the gap between retail potential on the one hand and successful implementation of that potential will require the concerted efforts of a knowledgeable and committed team.