

## RETAILING IN FRIENDSHIP HEIGHTS

This section discusses the overall character of retailing in Friendship Heights, highlighting the dominant retailing patterns, along with an analysis of the retailing mix and an examination of changes in the composition of retailers. A review of the retailing mix may reveal market opportunities, while changes in the retailing make-up show possible future directions of retailing in the area.

Also included in this section is a review of market conditions, including vacancies, rental rates, comments from area retailers and management, and a listing of proposed retail projects in the area.

### Overall Character

1. The change in character from a predominantly suburban residential community at the crossroads of Wisconsin and Western Avenues to a major retailing destination started in the 1950s.

The history of retailing as a major land use activity in Friendship Heights dates back to 1950, when Woodward and Lothrop opened one of its first suburban department stores at the intersection of Wisconsin and Western Avenues. About the same time, the Chevy Chase neighborhood-oriented center was completed, as was a second free-standing department store, Lord and Taylor. Saks Fifth Avenue came on line in 1964, followed by Neiman Marcus in 1977 with the completion of Mazza Gallerie. Both stores cater to the nearby, high-income residential communities.

Prime real estate along Wisconsin Avenue continues to attract retail development, along with office buildings that typically provide retail space on the ground floor. Chevy Chase Pavilion, a mixed-use project at the southeast corner of Wisconsin and Western Avenues, is the newest development in the area (1991) with a large retail component, plus an office tower and an Embassy Suites hotel.

While retailing in Friendship Heights appears to be doing well today, its continued success is not guaranteed. The retail industry continues to evolve as shopping patterns change. Many urban retailing locations are struggling, while others have already succumbed to competition, mostly from suburban locations. The area's current retailing success is a result of several positive factors: a quality urban environment, a prominent upscale retailing sector, a loyal, upscale consumer base from surrounding communities, and a pleasant and unique shopping experience. A weakening in any of these factors or the area's inability to adjust to market changes could result in the deterioration of the area's retailing sector.

2. Friendship Heights resembles the traditional boulevard-style shopping pattern found in urban settings while sharing many of the characteristics of a suburban mall.

From Jenifer Street to North Park Avenue, Wisconsin Avenue forms a nearly unbroken chain of street-fronting retail shops, restaurants and larger stores. The vacant Xerox site in the District of Columbia and the surface parking lot between Chevy Chase Center and Saks Fifth Avenue are the only major interruptions to the retail stores along Wisconsin Avenue. A proposal to develop the Xerox site with a major retail component is currently being evaluated. (See page 12). If the Xerox site is developed, the Chevy Chase Land Company site will remain the only undeveloped parcel on this section of Wisconsin Avenue. Major retail developments not directly fronting Wisconsin Avenue include Lord and Taylor and Jenifer Mall, behind Mazza Gallerie.

While retailing in Friendship Heights is urban in flavor, the automobile remains the major mode of travel for shoppers. Even with Metro's direct underground connections to the area's larger retail developments, shopping remains largely automobile dependent. As is the case for the suburban mall, parking plays an important function in the success of the area's retailing. Because the availability and ease of parking influence the decision on where to shop, additional development should not reduce the quality and convenience of parking. Other similarities between typical malls and Friendship Heights retail include department store anchors, smaller in-line stores, and a food court.

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*"Metro plays a greater role for employees; it does not generate many users of retail."*

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3. Known for its high-end clothing stores and boutiques, the area also offers value-retailing.

While the upscale stores like Gucci, Neiman Marcus, Saks Jandel and Saks Fifth Avenue brought prominence and retail focus to the area, in-roads are being made by the value-oriented retail chains. Recent discount retailers to the area include TJ Maxx and Filene's Basement. The sentiment among the high-end retail merchants over the introduction of discount retailers is mixed. Some feel it is a negative phenomenon, undermining the retail focus of the area; others feel it is inevitable and could be beneficial to the area.

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*"There's enough retail dollars out there for everyone," said one retailer. Also, "As moderate retailers move in, high-end will move out." And, "High-end retailing does not need as much mass as moderate retailers."*

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Other changes occurring in the area include the departure of family-owned businesses and their replacement by national retailers, such as the Gap and the Limited Group.

## **Retail Inventory, Vacancies and Rents in Friendship Heights**

1. During the spring of 1995, an inventory of retail tenants in the Friendship Heights study area in both Montgomery County and the District of Columbia revealed about 183 stores.

There are 47 apparel stores in the study area offering a range of prices and quality. Women's apparel and accessory retailers are well represented in Friendship Heights, with 29 different women's clothiers in the area. There are only three stores devoted solely to children's clothing. While restaurants, other entertainment retailers and food stores comprise a high percentage of stores in the area (nearly one in five retailers), most merchants felt the area was under-served. The arrival of Clyde's Restaurant is a sign that the market can support additional quality restaurants. ( See the APPENDIX for a detailed listing of retail shops in Friendship Heights.) The Chevy Chase Pavilion offers 13 restaurants and cafes (most in the food court), more than Mazza Gallerie and the stand-alone stores. Mazza offers 5 such retailers, while there are 12 stand-alone restaurants.

2. Home Furnishings and home entertainment retailers, a blossoming retail type in today's market, are more predominant in Mazza Gallerie than elsewhere in the Friendship Heights area.

Interviews with retail experts indicate that retailers specializing in home furnishings are doing well, partly because of their appeal to the moderate- to high-end market epitomized by Friendship Heights.

Additional home furnishing stores are believed to be supportable by the market area.

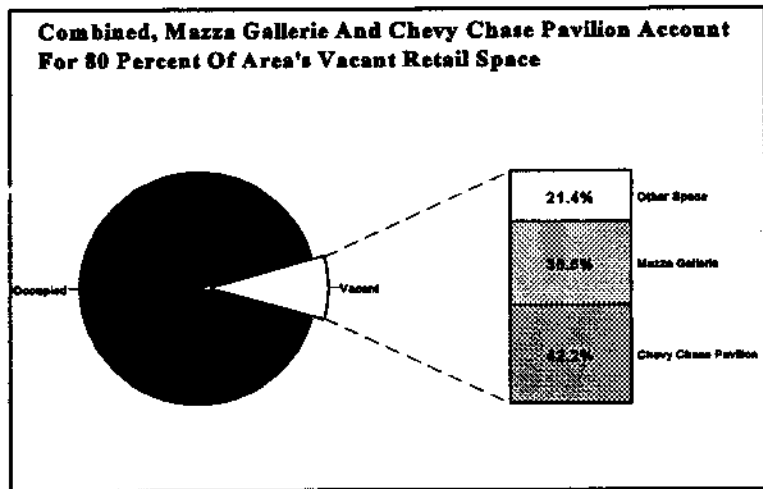
In all, there are 10 more tenants in Chevy Chase Pavilion and Mazza Gallerie, combined, than in free-standing stores in all of Friendship Heights.

3. In the summer of 1995, the area's retail space vacancy rate was 8.6 percent.

The area's low vacancy rate suggests a generally healthy retail market. The vacancies that do exist appear to be concentrated in two of the area's largest projects and in lesser quality retail space.

4. Two projects, the Chevy Chase Pavilion and Mazza Gallerie, account for almost 80 percent of the area's vacant space.

While the office and hotel components of the Pavilion have done exceptionally well, the retail portion has had difficulty in leasing space. The lack of a major anchor tenant, the project's completion coinciding with the real estate industry downturn, and a perceived parking problem, all contributed to the sub-par performance of the Chevy Chase Pavilion. The Pavilion, at the time of this inventory, had a considerable number of vacant spaces. After talking with management, we believe some of these vacancies are being purposely "saved" to combine with soon-to-be vacant stores to market a more attractive space to a higher profile tenant. The management expects the vacancy rate to drop, pending five new tenants locating within the center before the end of the year. The vacancy rate is anticipated to fall from its current 23 percent to a more respectable 15 percent. The recent purchase of the project by an international real estate investor, interested in the long term viability of the project, is also viewed as a positive sign.



The Mazza Gallerie vacancy rate is 14 percent. Again, the real estate market and parking are reasons given for the difficulty in leasing space. The Mazza Gallerie was offered on the open market at the beginning of the year. It is expected to be placed back on the market before the end of 1995, which makes its future less clear.

The remaining vacant space can be found in lesser quality space, mainly at the peripheries of the retailing area.

5. Tenants that have recently moved out of Friendship Heights vary from women's apparel and accessories, across the retail spectrum to travel agencies.

The study team found that 23 such retailers recently moved out of Friendship Heights, including

five women's apparel stores. A common explanation was the desire of the retailer to consolidate with another store in a different market (e.g. Georgetown and Tyson's Corner). Some retailers who left the Pavilion said the lack of an anchor store hurt their business and that was the reason they pulled out.

6. Asking rents in the Friendship Heights retail study area appear to fall between the low \$20's to \$50 per square foot.

The above rental rates do not include rental rates at the Mazza Gallerie or Chevy Chase Pavilion, where both managers were less inclined to divulge rental rates because they varied. Nevertheless, the rental rates do correspond with a strong market for retail space in the area. Several interviewees believe Tiffany's will move to a space currently occupied by an upscale tenant on Wisconsin Avenue, possibly paying upwards of \$70 per square foot.

### **Observations and Market Conditions**

1. The amount of retail space in the area is equivalent to a regional mall.

There are approximately 1.25 million square feet of retail space in Friendship Heights. Sixty-one percent of the space is in the District of Columbia; 39 percent is in Montgomery County. The four department stores (Saks Fifth Avenue, Woodward and Lothrop (now Hecht's), Lord and Taylor, and Neiman Marcus) account for the largest segment of space, totaling 540,000 square feet. For comparison purposes, Montgomery Mall offers four anchors: Hecht's, Sears, Nordstrom and Woodies (which might become a JC Penney) with a total of 1.6 million square feet. White Flint Mall, totaling nearly 1 million square feet, offers three anchors: Bloomingdales, Lord and Taylor and Borders. Besides the four department stores in Friendship Heights, the area also offers three retail centers:

- a) The Chevy Chase Pavilion is a mixed-use development, with three floors of retail, totaling 200,000 square feet. The retail emphasis is fashion apparel and specialty boutiques. The clientele orientation is moderate- to high-income households. The center contains a number of restaurants, including the popular Cheesecake Factory and a food court on the Metrorail level.
- b) The Mazza Gallerie, with 284,000 square feet of space, is considered an upscale center, anchored by Neiman Marcus. Additional upscale tenants include Charles Schwartz, Laura Ashley, Anne Taylor and Williams-Sonoma. The upscale nature of the center has been diluted over the years with the appearance of Filene's Basement, a discount men's and women's apparel retailer.
- c) The Chevy Chase Center contains 66,000 square feet of retail space. The retailing mix is predominantly neighborhood-serving retail, which includes a grocery, pharmacy, video store and cleaners.

The remaining retail space can be found in street front locations on the first floor of high-rise office or apartment buildings and in smaller one- to two-story buildings. This type of ground floor retail amounts to 320,000 square feet, or one-quarter of the area's retail space. While restaurants and clothing stores make up the greatest number of tenants, a wider mix of tenant types can be found in these locations. Some clustering of stores by theme does occur. For example, along the west side of Wisconsin Avenue in

Montgomery County, Saks Jandel, Gucci, and Brooks Brothers upscale stores directly abut each other.

2. Friendship Heights offers the top 20 most frequently found types of tenants in regional malls.

The average number of tenants in a regional mall is 63. Friendship Heights offers nearly three times as many retailers. Regional malls, on the average, offer four department stores. Friendship Heights also has four: Neiman Marcus, Saks Fifth Avenue, Woodward and Lothrop (now Hecht's) and Lord and Taylor. Given the high number of retail stores in the Friendship Heights study area relative to regional malls, it would seem that the Friendship Heights area is lacking in department stores. In fact, area retailers and management believe the area could use another department store. They believe that another anchor would attract customers into Friendship Heights and that other tenants would benefit from the addition of a major attraction. The attraction does not have to be a department store, but must have the drawing power of one. For example, an entertainment attraction would substitute for a department store.

3. Creating a unique identity, such as with entertainment and recreational facilities, is becoming a key ingredient in new retail development across the country.

There is a trend towards alternative entertainment offerings providing the drawing power retail developments demand. Differentiation is becoming a key to retail success. Many retail developments offer identical retail tenants. Friendship Heights is already different from this traditional retail medium, offering quality retailers in a different shopping environment—one that is not very prevalent in the market today. The attractive, tree-lined shopping promenade of Wisconsin Avenue, with unique tenants, does provide a different shopping experience from a shopping mall. Coupling this unique shopping experience with another powerful anchor attraction and the flexibility to adapt to new retailing trends will result in an evolving, vital and successful Friendship Heights retail area.

**Other Comments by Area Retailers and Management**

4. Recurrent comments by retailers and management include concerns over parking, the impact of additional development, upscale versus discount retailing and additional retailing opportunities.

Parking was the most ardent topic of interest among the retailers. Most considered that the parking supply was ample but fragmented and that improved coordination of parking among owners was needed. This effort could include additional signage to inform people of available parking currently under-used by customers. One manager suggested a public garage or government-sponsored parking district for the business area.

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*"Fairfax Square in Tysons Corner does better due to better parking and consolidation of complementary stores."*

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5. There is unanimity among retailers that additional development would strengthen the retail market.

All retailers interviewed agreed that additional office space would assist retailing in the area. Most feel additional retail space would complement the area's retailing and attract more shoppers. A common vision for Wisconsin Avenue is a corridor of retail shops lining both sides of the street from one end of Friendship Heights to the other. Some are concerned, however, that additional development could cause

more traffic congestion. Additional development would also need to address parking. If development were to occur on sites currently used for parking, safe, convenient, well-designed structured parking would need to be provided to replace the existing spaces and serve the new customers. If parking becomes difficult for shoppers, retail will suffer.

6. Entertainment and lifestyle-related retailing were viewed as opportunities for the area.

All but one or two interviewees believed that the area could support additional restaurants. The success of the Cheesecake Factory was a frequent testimonial to the demand for additional restaurants.

The resurgence of theater audiences provides impetus for the development of a movie theater—a frequent addition to many new retail developments. In areas like Friendship Heights, with a highly educated population and higher than average incomes, retailers focus on appealing to people's lifestyle interests. These include

bookstores, cafes and health clubs. Other gaps and deficiencies in the area were home furnishings stores and hard-line products like electronics and children's toys. Additional retail space that takes advantage of deficiencies in the market by appealing to a specialized niche could be supported by the market.

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*An office worker recounted, "... having to go to Bethesda to meet clients due to limited selection of restaurants in Friendship Heights."*

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7. Opinion among the upscale retailers regarding discount retailing in Friendship Heights is mixed.

One upscale retailer described Filene's and TJ Maxx moving into Friendship Heights as a possible death blow to upscale retailing in the area. Others felt that the introduction of discount retailing to the area would not hurt the market, but did not want the overall focus of area retailing to shift in that direction.

8. The urban character of the area should be preserved and promoted.

The cosmopolitan flavor of retailing should be preserved. Urban design elements should focus on defining Friendship Heights as a shopping district for people entering the area, with such features as coordinated signs. The pedestrian environment needs to be maintained and improved with safer circulation, particularly for pedestrians crossing Wisconsin Avenue.

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*"Friendship Heights is Washington's best kept secret. There is a need to market this retail area as the 'Rodeo Drive' of the region, offering a concentration in upscale fashion apparel and specialty boutiques."*

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### Proposed Projects

9. Under current zoning, there are three projects proposed in the Friendship Heights commercial area.

Two projects that contain a commercial component are currently proposed on the Montgomery County side. A 265,000-square foot office building along Western Avenue on the Woodward and Lothrop parcel has received site plan approval. The proposed office building, as shown in the site plan, is located

in the existing parking area. The existing department store would not be affected. More significant is the sale of the site to the May Company, resulting in the opening of a Hecht's department store in the existing building. Discussions with representatives of Woodies revealed aspirations to increase the square footage on the site beyond the site plan approval, allowing for the possible development of an urban mall.

The second project proposed is the Barlow Center, to be located along the north side of Willard Avenue. The Planning Board gave site plan approval in August, 1994. The project consists of two buildings on both sides of The Hills Plaza. The larger of the two buildings is proposed as a 236,000-square-foot office building with some ground floor retail. The second building is proposed as a two-story, 14,000 square-foot retail development, located on the east side of The Hills Plaza.

A third project is a mixed-use development in the District of Columbia on the vacant Xerox parcel located between The Chevy Chase Pavilion and The Chevy Chase Plaza. The development is approved for a building totaling over 450,000 square feet - 265,000 square feet of office space, 100,000 square feet of retail space, and 88 residential condominium units. The status of this project is less clear. The current owners have a contract to sell the site to a national retail developer. The prospective buyer is currently completing project feasibility analysis, which includes working with the District of Columbia to change the plans for the approved planned unit development. The new proposal is for 300,000 square feet of retail and 100 to 150 residential units. The retail development is being marketed to outlet-style retailers, ranging in size from 40,000 to 90,000 square feet. If the project were to go forward, it may preempt the development of a large retail project on the Woodward and Lothrop (Hecht's) site.