DOWNTOWN SILVER SPRING & ADJACENT COMMUNITIES MARKET ANALYSIS

Partners for Economic Solutions
February 25, 2020
PRIMARY TRADE AREA DEMOGRAPHICS

- Office, retail, arts, entertainment, hotels and urban living
- Major regional hub
- 20,000+ workers
- Serving 60,000 residents
- $90,000 median household income
ETHNICALLY AND ECONOMICALLY DIVERSE POPULATION

Households by Income, 2019

- $200,000+
- $150,000 to $199,999
- $100,000 to $149,999
- $75,000 to $99,999
- $50,000 to $74,999
- $35,000 to $49,999
- $25,000 to $34,999
- $15,000 to $24,999
- $0 to $14,999

Silver Spring PTA Montgomery County

<table>
<thead>
<tr>
<th>Income Range</th>
<th>PTA</th>
<th>Montgomery County</th>
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<tbody>
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Silver Spring PTA Montgomery County
SUBAREAS

- Ellsworth District retail
- Georgia Avenue/Fenton Village small businesses
- Metro Center office
- West of the Railroad NOAA and retail
- North Silver Spring housing and United Therapeutics
RETAIL MARKET

• 1.03 million SF occupied retail space

Neighborhood Goods & Services

Food & Beverage

General, Apparel, Furniture, Other
WELL-BALANCED RETAIL MIX

Chain vs. Independent Operations

<table>
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<th>Chain</th>
<th>Independent</th>
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<tbody>
<tr>
<td>NG&amp;S</td>
<td>100,000</td>
</tr>
<tr>
<td>GAFO</td>
<td>300,000</td>
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<td>F&amp;B</td>
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Destination vs Local-Serving Retailers

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<th>Local-Serving</th>
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Chains: 33% of stores 64% of space

Destination: 23% of stores 47% of space
RETAIL IS FOCUSED IN ELLSWORTH DISTRICT

- Ellsworth District
  - 56% of all retail
  - 90% of all GAFO space
- Georgia Avenue/Fenton Village
  - 24% of all retail
- West of the Railroad
  - 11% of all retail
VACANCIES ARE ALSO FOCUSED IN ELLSWORTH DISTRICT

- 143,000 SF vacant space
- 11.0% vacancy rate
- 62% in Ellsworth District
- New retail spaces in Fenton Village not yet filled
- Metro Center spaces suffer from limited foot traffic

Vacant Retail Space by Subarea

- Ellsworth 62%
- Metro 12%
- Georgia Ave/Fenton Village 13%
- Silver Spring 4%
- North 9%
- West of the Railroad 9%
METRO CENTER VACANCIES ARE PROBLEMATIC

- 21.9% vacancy rate
- Spaces suffer from limited foot traffic
- Some spaces lack visibility from the street
SEVERAL CLOSURES
NEW STORES AND RESTAURANTS

• Spice Street Indian Restaurant
• &Pizza
• Dog Haus Biergarten
• XOA Lifestyle
• Don Pollo
• Koite Grill
• Sweeteria Dessert Café
• Sweet Sweet Kitchen
• Lifestyles Nail Bar
• MOM’s Organic Market
MULTIPLE ARTS & ENTERTAINMENT VENUES

• American Film Institute
• The Fillmore
• Regal Majestic Theater & IMAX
• Black Box Theater
• Civic Building/Veterans Plaza
• Montgomery College Cultural Arts Center
UNCAPTURED ENTERTAINMENT SPIN-OFF

- Limited late-night food & drink offerings
- Mid-week shows
- Distance between entertainment venues and restaurants
- Cutbacks in late-night Metro service
ONGOING ISSUES

• Post-pandemic recovery
• E-commerce competition
• Late-night restaurants/bars impacting new residential
• Purple Line construction
• Loss of small stores suited to start-up businesses
IMPACT OF THE HOMELESS POPULATION

• Pandemic’s impact on incomes and housing
• Larger homeless population
• Exacerbated by the closure of public buildings
• Increased street presence
• Some with mental health issues
• Public urination and defecation
• Need for additional outreach services and social workers
• Public restrooms
SERVICE/INDUSTRIAL USES MAY BE SQUEEZED OUT

- Fenton Village
  - 14 auto service businesses
  - 74 employees
- On-street parking is integral to their operations
- Metropolitan Branch will remove 10 parking spaces on Selim Road
- Need alternative parking and protection from residential encroachment
OFFICE MARKET

- 6.75 million SF total space
- 1.15 million SF vacant space
- 17.0% vacancy rate
- 22.5% multi-tenant vacancy rate
- $32/SF Class A average rent
  - $44 in Bethesda
  - $40 in Tysons
- Uncertain future
REGIONAL OFFICE DEMAND LAGGED

- Square feet per employee down 10% to 15%
- Federal initiatives reduced private space leasing
- Base Realignment and Closure Act relocated Defense operations

Washington Metro Area Net Office Absorption

Space Absorbed in Millions of Square Feet

<table>
<thead>
<tr>
<th>Year</th>
<th>Space Absorbed</th>
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<tbody>
<tr>
<td>2005</td>
<td>(2)</td>
</tr>
<tr>
<td>2007</td>
<td>(4)</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
</tr>
<tr>
<td>2011</td>
<td>4</td>
</tr>
<tr>
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<tr>
<td>2017</td>
<td>4</td>
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OFFICE DEVELOPMENT SLOWED

• Much less development after Great Recession
• Buildings already under construction boosted vacancies
• Regional vacancies rose from 5.7% in 2001 to 12.8% in 2009 and remained high

Washington Metro Area New Office Deliveries

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<thead>
<tr>
<th>Year</th>
<th>New Space in Millions of Square Feet</th>
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<tbody>
<tr>
<td>2006</td>
<td>12</td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
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<tr>
<td>2010</td>
<td>8</td>
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<tr>
<td>2012</td>
<td>6</td>
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<td>4</td>
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<td>3</td>
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</tr>
<tr>
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DOWNTOWN OUT-PERFORMED OTHER MARKETS

- Little speculative construction after 2000
- Mixed-use vibrancy
- Competitive rents
- Discovery
  - Major force until mid 2010s
  - Relocated HQ to NYC
  - Vacated building in 2017

Office Vacancy Rates

- Downtown
- Montgomery County
- Close-In Region
OFFICE DEVELOPED IN WAVES

• 1960s and 1970s largely north of Colesville Road
• 1980s focused on Metro
• 2000s and 2010s primarily Discovery and United Therapeutics
HIGH VACANCIES IN A FEW MAJOR BUILDINGS

• Inventa Towers still backfilling Discovery space
• Major buildings from 1970s and 1980s
• Guardian Building converting to housing
MAJOR CHALLENGES AHEAD

- COVID-19 impacts
- Uncertain market response
- Conversions to residential use
- Competitive rents not enough

- Could take 10+ years to reach 9% vacancies
- Downtown needs focused marketing and management
- Need for incentives, recruitment