

# SOUTHEAST REAL ESTATE BUSINESS®

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## DEMAND FOR MID-ATLANTIC RETAIL STRIKES BACK

Mid-Atlantic retail leasing and developments have picked up due to stability in the regional economy.

By Julia Sanders

The Mid-Atlantic region — Virginia, Washington, D.C. and Maryland — has long benefitted from its central location on the East Coast. With the nation's capital in D.C., prominent private and public employers and several top universities, the region is awash in stable employment opportunities.

Eric Walter, president of Owings Mills, Maryland-based developer-owner Greenberg Gibbons, says the Mid-Atlantic has some of the most diverse employment opportunities, with a heavy concentration of jobs related to the federal government and military institutions such as the U.S. Cyber Command, Central Security Service, CIA and FBI.

Other companies recently creating a presence in the Mid-Atlantic have generated new jobs in the area. In September 2021, Amazon announced

it was opening several new delivery stations in Baltimore and Hanover, Maryland and a career center in Chesapeake, Virginia.

The e-commerce giant has created over 29,000 jobs in Maryland and more than 27,000 jobs in Virginia since 2010. The Seattle-based firm also selected Arlington, Virginia, as its second headquarters location and is currently building its HQ2 in the National Landing district, which is expected to house 25,000 jobs once fully operational.

So far in 2022, retail activity in the Mid-Atlantic has picked up speed in many areas of the Mid-Atlantic. Some non-essential retail tenant types were a little slower to resume activity and a few had to slow or stop their expansion plans during the COVID-19 pandemic, but are now in growth mode, according to sources



Wegmans is one of many grocers expanding in the region. The grocer will open soon at Roadside Development's City Ridge, a mixed-use redevelopment in Washington, D.C.

for this article.

Food options, especially fast-casual dining and grocery stores, continue to be notable players in the Mid-

Atlantic's retail industry, as well as health and wellness tenants.

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## ARCHITECTS DRAW THE SHORT STRAW

Design firms are busier than ever amid a shifting real estate landscape, all while dealing with staffing and supply chain challenges.

By John Nelson

If you know an architect, you may want to check in with them because chances are they're exhausted from having more work now than ever before, with no end in sight. That's because despite all the headwinds facing real estate design — namely supply chain disruptions and staffing woes — developers are in growth mode, and architects are needed as they are uniquely equipped to game plan for what users want and need.

The volume of work has not only accelerated for architects but they're also tasked with mapping out new requirements while maximizing flexibility, which is time-consuming and labor-intensive. The workload is getting so substantial that demand is exceeding the supply of architects in some instances.

"The backlog is so significant that we are having to contemplate turning away work, which drives us crazy,"

says Steve Goggans, principal and architect at SGA | NW, a GF design company. "We are trying to be most responsive to repeat clients, but we may find ourselves unable to produce and perform if we continue to take on work, so we are having to be a little more judicious than we ever have before."

Goggans says that SGA | NW's logjam is also caused by being specialists in multifamily design in the Caro-

linas, which is a hot property type in a growing region. Travis Vickers, CEO of Atlanta-based Vickers Design Group, says his firm doesn't handle multifamily projects at the moment but still finds itself with a full backlog.

"Everyone who I've had conversations with is constantly blown away by the sheer amount of work that everyone has," says Vickers.

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# DEMAND FOR MID-ATLANTIC RETAIL STRIKES BACK

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## Developments abound

After a rocky 2020, development and leasing momentum for retail assets have picked up over the past 12 months. Last year, a joint venture between Cedar Realty Trust, Asland Capital Partners and the Goldman Sachs Urban Investment Group announced the first phase of Northeast Heights, a \$600 million mixed-use office and retail development located in Washington, D.C.'s Ward 7 neighborhood. Construction on the project is slated for completion in late 2022 or early 2023.

Walter says Greenberg Gibbons is expected to start construction in the second quarter on Waldorf Station, a mixed-use project in Waldorf, Maryland, that is expected to deliver in 2024. The project will include 245,000 square feet of retail space, as well as residential and office space. The firm's other notable projects include the redevelopment of a former Sears into a mixed-use project called Hunt Valley Towne Centre, which recently welcomed a OneLife Fitness to the tenant lineup. And Reisterstown Shopping Center in Reisterstown, Maryland, is in its final stages of redevelopment with plans for grocer Lidl to open in the second quarter of this year.

Additionally, in January, Greenberg Gibbons announced two new tenants, Raising Cane's and Döner Brös, are coming to Towson Row, a 1.2 million-square-foot mixed-use development with more than 75,000 square feet of restaurant and retail space in Towson, Maryland. Walter expects these tenants to open this fall. Whole Foods Market also opened its new 59,119-square-foot store in Towson Row in January.

"Raising Cane's and Döner Brös were chosen as great fast-casual restaurant options that will benefit the community and customers of Towson: university students, local government office workers and many of the local neighborhoods. Döner Brös is a concept based in Baltimore that has done very well by Johns Hopkins University campus, and we pursued each other for this location due to the proximity to Towson University and the Whole Foods," says Walter.

Harbor East, a mixed-use neighborhood in Baltimore developed by Harbor East Management Group, has announced several new tenant openings including Harbor East Cinemas, a movie theater; Kneads, a café and bake shop; and Interior Define, a furniture brand.

In addition to ground-up construction, some retail developers have started considering more innovative ways to make space for new retailers, such as dividing existing boxes into smaller footprints.



Commas is a new food hall opening at Ellsworth Place, a 350,000-square-foot retail and entertainment center in Silver Spring, Maryland. DMV Empanada and Trini Vybez are two new vendors that have committed to join the food hall.

"We just have to be very creative and look at alternate uses for some of the existing space. The difficulty comes in trying to do ground-up development because you've got a lot of startup costs, whereas the other vacant buildings don't have that startup cost," says Joe Harding, president with Harding & Associates Inc.

One recent example of reimagining second generation space is at Vienna Shopping Center in Vienna, Virginia. McLean, Virginia-based developer-owner Rappaport redeveloped the 73,852-square-foot shopping center which was formerly anchored by grocer Magruder's. The center now has tenants such as Chopt, Taco Bamba, MOD Pizza, Innova and CAVA Mezze.

Some retail properties are being converted to non-retail uses. The complete redevelopment of Landmark Mall in Alexandria, Virginia, is slated to begin in the spring, with the first building expected to be delivered by 2025. In November, Inova Health System, a nonprofit healthcare provider in Northern Virginia, signed a 99-year ground lease at the site of the former 715,520-square-foot Landmark Mall.

Henry Fonvielle, president at Rappaport, says that a lot of the retail density coming to the Mid-Atlantic region takes the form of mixed-use properties. Developed by Rappaport and WC Smith, Skyland Town Center is a project that has been in the works for at least 20 years in Southeast D.C., with the first phase now completed. The project features apartments developed by WC Smith, as well as about 67,000 square feet of ground-floor retail space. The retail tenants at the walkable mixed-use project include Roaming Rooster, Starbucks Coffee, &pizza, CVS/pharmacy and Tropical Smoothie Café.

"Skyland Town Center is the first new retail development of that scale that area of the city has seen in probably 15 years," says Chad Shuskey, senior vice president of programs at the Washington, D.C. Economic Partnership (WDCEP), an organization that partners with public and private parties interested in development and business opportunities in the city.

One large project in the area not to be overlooked is Port Covington in Baltimore, a \$5.5 billion, waterfront mixed-use campus that is being developed in phases by master developer Weller Development. Rye Street Market, a mixed-use building within Port Covington, topped off last fall. The roughly 228,000-square-foot office and retail complex is expected to open by the end of the year.

## Grocers, eateries feast

The retail tenant types that are the most popular tenants with retail owners — grocers and dining concepts — have evolved since the start of the pandemic. Shuskey says he has noticed the shift of retailers being interested in areas outside the urban core. For example, he mentioned Skyland Town Center's second phase includes the addition of Lidl, a European-based grocery chain.

"It's interesting that Lidl's first store in the District will be in the Hillcrest area in southeast D.C., east of the Anacostia River. It's a big win for the city. It proves that there is a market that a lot of other retailers have passed over, at least historically," says Shuskey.

Jessica Bruner, managing director for Edens, which owns and has developed a number of properties in the Mid-Atlantic, especially around the D.C. metro area, also says that the area's suburbs are strong for retailers. Edens has continued its work on Mo-

saic, a mixed-use project in the D.C. suburb of Fairfax, Virginia, that the company launched in 2004 and continues to enhance through leasing.

Edens is also finishing up the redevelopment of Cabin John Village in Potomac, Maryland, which the company acquired in 2018 when it was known as Cabin John Shopping Center and Mall. The company has redeveloped the center, adding greenspace to create a village-like effect. It has also added townhome units and new retail space. The project will be complete in late 2022 or early 2023, says Bruner.

"Cabin John Village is a unique opportunity to be the center of the community," says Bruner. "We upgraded some of the food options right away, adding tenants like Colada Shop, Sisters Thai, Boulangerie Christophe and Chopt. We also opened what was, at the time, the first Shake Shack in Montgomery County."

"The market has very secure suburban customers who are educated and have disposable incomes," she says. "They want to spend their money on dining and going out, and there's a consistency level of spending in this market that rivals any other place in the country."

Edens is also in the early stages of redevelopment planning for its Burtonsville Crossing shopping center in Montgomery County, Maryland. The redevelopment aims to bring more community and local oriented retailers, as Edens has done at Cabin John Village and Mosaic, to Eastern Montgomery County, says Bruner.

With many people still working from home — as opposed to traveling to city centers to work — shopping patterns have changed in the area. Fonvielle notes that fast-casual restaurants have grown a lot — in sales

and presence — in the suburban parts of the Mid-Atlantic.

“Lots of ethnic cuisines are really driving occupancy in Washington, D.C., and the area has the highest rents and occupancy right now, even after COVID-19, than we’ve ever had. It’s an amazing dichotomy of COVID-19 really affecting people’s daily lives and driving things to suburbia,” says Fonvielle.

Andrew Fallon, the executive managing director of SRS Real Estate Partners, says he has also seen how the pandemic has shaped the focus of investors on more suburban retail. At the end of 2021, SRS arranged the \$27 million sale of a single-tenant Whole Foods Market in Alexandria.

“We’ve seen a significant shift of capital and focus by investors to neighborhood-oriented and convenience-based properties,” says Fallon. “This shift has really benefited suburban areas, while urban centers are still in the process of reopening for business.”

After shuttering or operating at limited capacities in 2020, restaurants are bouncing back in a big way. Food halls are another way new food concepts are reaching consumers. Commas is a food hall that will join Ellsworth Place in Silver Spring, Maryland. Two restaurants at the food hall have just been signed, including DMV Empanada and Trini Vybez. Trey Culpepper, vice president at GBT Realty Corp., says there has been a high demand and high leasing interest for tenants at Commas.

“Commas is going to be a food hall with 13 to 14 merchant stalls where patrons can come and sample bites from all types of ethnic backgrounds,” says Culpepper. “We’re partnering with Cana Development for this project. They’ve launched several extremely successful food halls throughout the D.C. metro area and across the United States. Cana goes into markets and finds local operators that have gathered a strong clientele base.”

Bruner says Edens also continues to see a lot of activity around its Union Market District, which is heavily tenanted by food-based operators. The project, located in Northeast Washington, is anchored by a central 35-merchant food hall — Union Market — with surrounding buildings that house supporting businesses. Edens will end up developing around 400,000 square feet of space at Union Market, says Bruner, while the overall district consists of 8 million square feet of commercial space. New retailers and restaurants signed include Stephen Starr’s Pastis, Herman Miller, Framebridge, Scotch & Soda and Somewhere Sneakers.

John Henry King, the economic development director for the City of Bowie in Maryland, says that there has been renewed interest in recent months for consumers to dine out.

“With mask and meeting restrictions



Skyland Town Center’s second phase includes the addition of Lidl, a German grocery chain. Rappaport and WC Smith are co-developing the project in Southeast D.C.

relaxing, our chain restaurants are seeing a return of dine-in customers,” says King.

Grocery-anchored properties continue to be the strongest performing retail category in the Mid-Atlantic when it comes to investment sales. At SRS, the firm brokered more grocery-anchored multi-tenant center deals in 2021 through its Institutional Property Group (IPG) practice than ever before, according to Fallon. As well, cities and suburban communities are focused on new grocery stores to serve their populations.

“One of our major focuses is on the food industry, whether that be restaurants or grocery stores and specifically in those underserved areas,” says Shuskey of the WDCEP. “We’re talking with grocery stores all the time and trying to identify those sites that would be a good fit.”

Giant Food recently opened new locations in the D.C. area, including a 59,982-square-foot store in Manassas, Virginia, and a 42,834-square-foot store in Fort Washington, Maryland, last year.

One major addition to the District of Columbia is Wegmans, which will open a new 84,000-square-foot store at Roadside Development’s City Ridge, a \$640 million mixed-use redevelopment of the former Fannie Mae headquarters on Wisconsin Avenue that includes 250,000 square feet of commercial space and 750 residential units. The store is set to open this summer. Additionally, restaurant chain Cava is moving its corporate office headquarters to City Ridge.

Jeff Edelstein, partner at Roadside Development, says his team has been counting down the days to open City Ridge.

“We are looking forward to revealing to the world what we’ve been working on,” says Edelstein. “Finally getting Wegmans into the District is an awesome achievement. The creativity to put this 85,000-square-foot box in this urban village re-use project has been fascinating. It is really the first, urban walkable store for Wegmans. The convenience is great for the local neighborhood, but the location will

also serve all of D.C.”

City Ridge will also include other tenants like Equinox, KinderCare, Bank of America and a host of restaurants including King Street Oyster Bar and Tatte Bakery, as well as others that Roadside will announce closer to the project’s opening.

## Leasing momentum

Velocity of retail leasing has picked up in recent months at many Mid-Atlantic properties.

Armada Hoffer Properties, developer of Town Center at Virginia Beach, is seeing strong leasing velocity at the mixed-use project. Legal Sea Foods, Bath & Body Works, Nando’s Chicken, Madewell and Cinnaholic Bakery are among the new retail tenants that will join the property. With these new additions, the property’s 545,000 square feet of retail space is now 97 percent leased.

“The concept for Town Center at Virginia Beach has always been to be the Number 1 destination in terms of retailers, office space and apartments, and that will continue to be,” says Craig Ramiro, vice president of business development at Armada Hoffer. “We have continued to grow the footprint of Town Center over the years, expanding the development over time. We’re always looking for ways to find that right mix of retail tenants.”

Gerald Divaris, chairman and CEO of Virginia Beach-based Divaris Real Estate, and his team represented Armada Hoffer in the recent tenant additions at Town Center at Virginia Beach. He says that another category that he’s seen take more retail space is healthcare tenants. The firm represented Fresenius Kidney Care, which signed a lease for a 9,542-square-foot space at The Horizons development in Pasadena, Maryland. Divaris also says his firm has been working closely with The Joint, a national chiropractic unit.

“The Joint opened six properties these past 12 months in the Mid-Atlantic region: in Virginia Beach, Norfolk and Richmond markets,” says Divaris.

Many retail owners report that

a wide range of retailers are coming back to market, from fitness and health and wellness to fashion. In January this year, GBT Realty added shoe retailer DSW to Ellsworth Place, a 350,000-square-foot retail and entertainment center in Silver Spring, Maryland. Opening in the second quarter, the shoe store will open in a 17,500-square-foot space at the mixed-use development.

“We really feel that DSW is a good addition to the tenant lineup that we have in place at Ellsworth Place. Ellsworth is an extremely unique retail asset that gives larger format retail tenants the opportunity to be in a thriving urban setting such as Silver Spring,” says Culpepper.

## Post-pandemic 'normal'

After two years of COVID-19 affecting retailers across the country, many retailers and retail developers are more hopeful for the future. Divaris says that the Mid-Atlantic’s retail customers never went away, even throughout the worst of the pandemic.

“We were not as impacted as many other parts of the country from the point of view that the customer was fearful of being in a communal environment,” he says. “People just tolerated it to put on a mask and behaved responsibly, but they continue to shop. We didn’t get the angst that you saw in New York City or Los Angeles,” says Divaris.

David Ward, president of H&R Retail, which leases over 20 million square feet of retail space and represents over 100 retailers, concurs that the Mid-Atlantic area was resilient throughout the pandemic.

“Our biggest takeaway was in recognizing the resilience of our industry and where we expected greater vacancy rates, particularly in the box segment, that did not come to fruition,” says Ward.

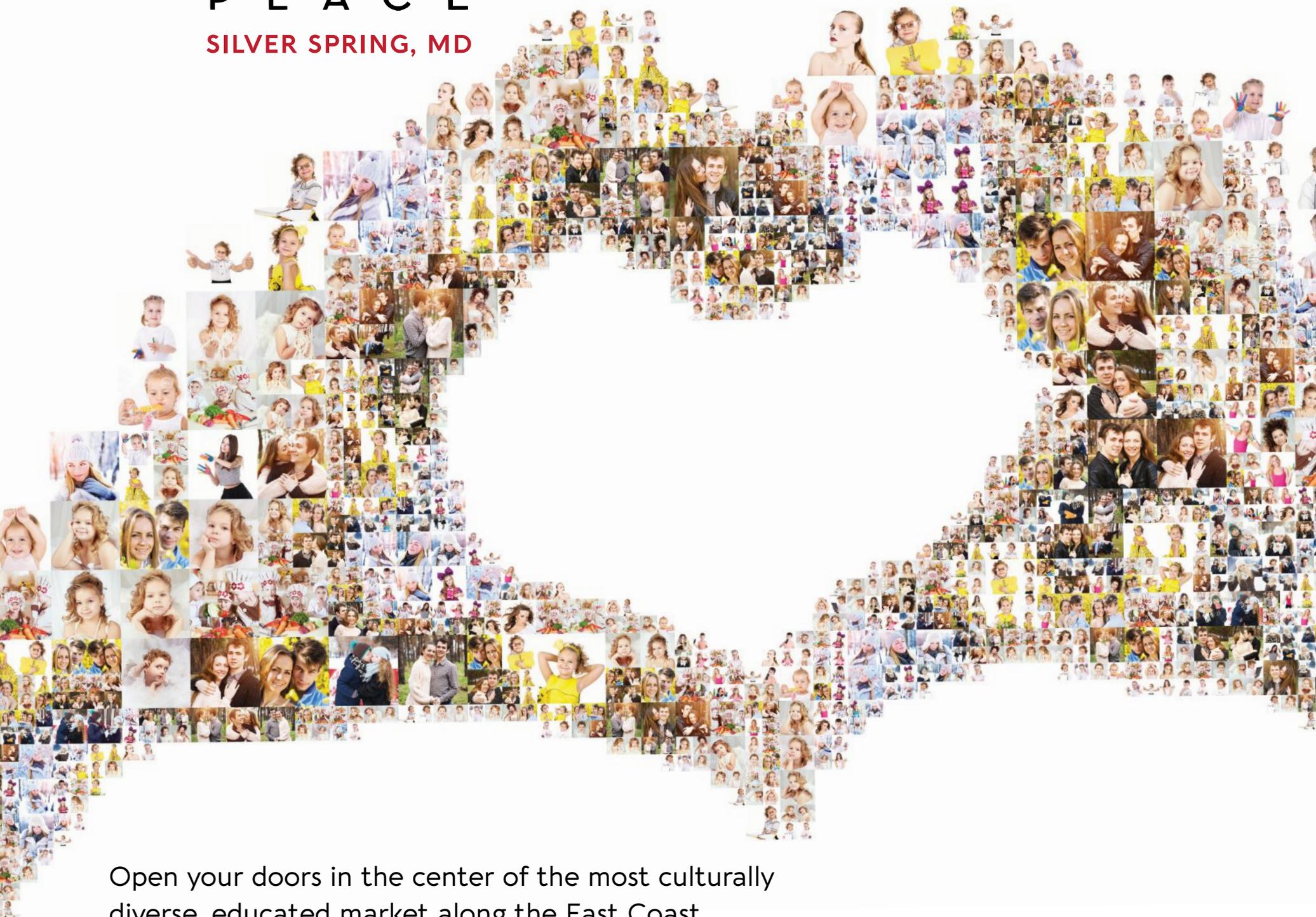
Because of the increased retail sales in-store, many investors are eyeing the Mid-Atlantic and seeking to expand into the area via acquisitions. Fallon says that the SRS Mid-Atlantic office has brokered more than 125 Dollar General stores sales over the past two years. The firm also listed and sold over 100 other net-lease retail assets, including Wawa, 7-Eleven, Starbucks, Chick-fil-A and Walgreens.

“Many of our clients want to be owners in the Mid-Atlantic due to the overall stability and growth of the region. As a result, most of our regional listings result in a bid process due to the level of demand from the investment community,” says Fallon. “The scarcity (of retail assets) enhances underlying real estate values, and the strong consumer base allows retailers to operate successfully, which should result in long-term tenancy and rent growth.” ■

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