

DOWNTOWNDC ECONOMY UPDATE

SUMMER 2020



The 800 block of H Street NW was empty at rush hour in late July 2020.

OVERVIEW

The coronavirus (COVID-19) pandemic continues to have a catastrophic impact on the DowntownDC and DC economies. The data for April-July 2020 for the DowntownDC and DC economies, clearly shows the impact.



ONLY 5% OF OFFICE WORKERS WERE WORKING FROM THEIR OFFICE IN JULY 2020

In July 2020, 95% of DowntownDC's office workers had been working virtually for over four months. DowntownDC's vibrant, public-facing businesses were especially hard hit. Hotels, restaurants, and retail opened in varying degrees during April-July 2020, but all suffered from very low demand. The National Museum of Women in the Arts opened on August 1, 2020, but the other seven DowntownDC museums remain closed. Capital One Arena, the Walter E. Washington Convention Center, theaters, performance venues and institutions of higher education are adhering to public health guidance and remain closed. Housing was the strongest DowntownDC sector in 2Q 2020.

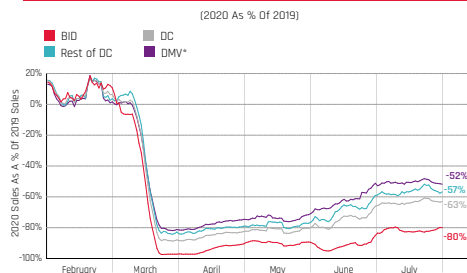
DowntownDC's economic activity at the end of July 2020 was estimated at 12% of the July 2019 level. *Find a full analysis of DowntownDC economic activity at the end of this report.*



HOTEL REVENUE IN JUNE 2020 WAS 6% OF JUNE 2019 REVENUE

However one measures economic activity in DowntownDC for April-July 2020, it was very low compared to pre-health emergency levels. So, was there any good news?

Regional Restaurant Sales



Source: MarginEdge

*DC, Northern Virginia and Suburban Maryland.

Yes, there was:

Substantial Federal financial support: the \$600 per week supplemental unemployment insurance and the Federal Paycheck Protection Program were very helpful to many DowntownDC employees and businesses.

In addition to Federal support, DC government, under the leadership of Mayor Muriel Bowser and the DC City Council, provided support in the form of sales and hotel property tax deferment, declaring construction an essential business, offering a \$33 million microgrant program, easing regulations on license and permit renewals and encouraging restaurants to open additional outdoor seating in parklets or "streeteries".

The pandemic's impact on overall employment has been relatively low, though the hospitality and leisure sector has borne 67% of the city's job losses.

What's next?

It is very likely that DowntownDC will continue at a low level of economic activity for the next few months—until the office worker, the business traveler, the out-of-town tourist, the conventioner, the sports fan, the museum-goer, the theatre lover and the live music fan and other entertainment patrons return.



DAYTIME POPULATION DROPPED FROM 225,000 IN FEB TO 22,000 IN JULY - DOWN 90%.

EMPLOYMENT

DC's June 2020 employment was 740,300, representing a decrease of 58,600 from June 2019, or a decline of 7.3%. This is a better performance than both the rest of the region (an 8.2% decline) and the nation (a 12.1% decline). A total of 67% of the city's job losses, or 39,400 jobs, were in the hospitality and leisure sector: 29,300 in Food Services and Drinking Places, 5,900 in Accommodations and 4,200 in Arts, Entertainment and Recreation.

DC hit an all-time employment high of over 800,000 jobs at the beginning of 2020. Historically, DC's high proportion of federal employment moderated the impact of recessions on DowntownDC and DC's employment declines.

DC's June 2020 seasonally adjusted unemployment rate was 8.6% (33,916 unemployed residents) compared to 8.8% in May 2020, 11.7% in April 2020 (46,998 unemployed residents), 5.2% in February 2020 and 5.6% in June 2019 (22,238 unemployed residents).

DowntownDC employment was an estimated 179,700 as of June 2020, down from 188,600 at the end of 2019—a decline of 8,900 jobs or 4.7% primarily due to closures and lower sales levels at hotels, restaurants, stores, theatres and performance venues, the Walter E. Washington Convention Center and Capital One Arena. DowntownDC's employment base continued to be primarily office workers (working mainly for the federal and DC governments, professional services such as lawyers and consultants and non-profits). While most of these workers are not working at their offices, they are still employed.

OFFICE

At the end of July 2020, the DowntownDC BID and the rest of DC reported record vacancy rates of 15.3% and 11%, respectively, with record vacant square footage (SF) of 8.7 million and 11.6 million, respectively, and net SF increase in lease space (absorption) for Jan-July 2020 of 60,000 SF and 90,000 SF, respectively.

Over the past few years, more new office space has been developed than there has been demand for at current rent levels. In fact, occupied office space in DC is only off slightly from its recent highs for the DowntownDC BID and the rest of DC. DowntownDC and DC are NOT losing many tenants, but new buildings are being developed that are able to attract existing DC tenants to move into them (often with a 10% to 20% reduction in leased space). This leaves behind older office space for which there is little current demand.

DC office sales volume in the first half of 2020 was 40% of 2019 full-year volume, and the percentage of foreign investors declined from approximately 25% in 2019 to less 10% of total

sales (compared to making up more than 50% of total investment between 2013 – 2017). There have been no trophy sales in 2020. Class A office sales prices in 2020 averaged \$634 per SF, about the same as 2015, 2017 and 2019, but down from 2018. Class B prices dropped significantly from the \$452 per SF to \$521 per SF range from 2016 – 2019 to \$290 per SF from Jan-June 2020. This is most likely due to the sale of 1445 New York Avenue NW in a "rushed sale" for \$164 per SF.

With 2.4 million SF under construction in 2020, office vacancy rates will continue to rise over the next 12 to 24 months. However, with limited groundbreakings over the past 12 months, this new supply should be absorbed over the next 2 to 4 years.

A DowntownDC BID survey in July showed that only 5% of office tenants occupied their offices and that percentage is not expected to change before Labor Day. Office occupancy is expected to slowly increase to 20% to 50% by year-end.



METRO RAIL WEEKDAY RIDERSHIP FROM APRIL–JUNE 2020 WAS 3% OF APRIL–JUNE 2019 RIDERSHIP

CURRENT DEVELOPMENT

Three development projects delivered in the first half of 2020, totaling investments of \$145 million: the Riggs DC hotel renovation, National Children's Museum at 1300 Pennsylvania Avenue NW and the renovated office building The Aleck at 1401 L Street NW.

Seven projects were under construction as of July 2020 totaling \$480 million, including the renovation of Martin Luther King Jr. Memorial Library, 699 14th Street office and retail development, Planet Word and Franklin Park.

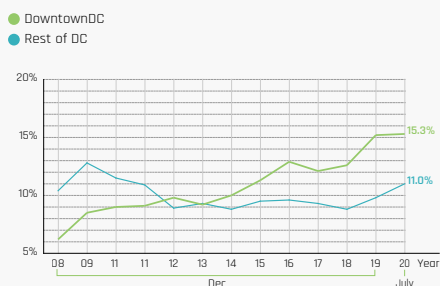
Every project that was under construction before the health emergency has continued.

One project broke ground during January – July 2020: the \$18 million reconstruction of Franklin Park in July.

One new project was announced in May—the addition of two floors to 20 Massachusetts Avenue NW and a renovation to yield two floors of retail, four floors of hotel and four floors of office.

Of the 22 planned projects at the end of 2019, totaling \$2.3 billion, many are moving forward, including Johns Hopkins University's purchase of the Newseum building in June 2020 for \$302.5 million and the Stonebridge/Rockefeller team's winning bid for the Washington Metropolitan Area Transit Agency's (WMATA) headquarters building.

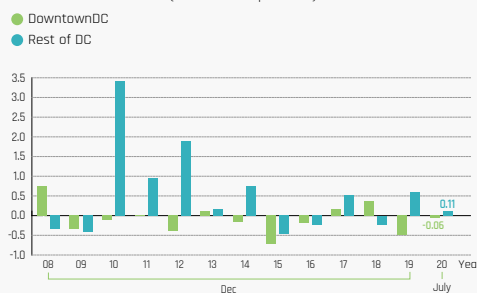
Vacancy Rate



Source: CoStar

Office Space Net Absorption

(in millions of square feet)



Source: CoStar

HOTELS, CONVENTION CENTER & TOURISM

The three main sources of demand for DowntownDC hotels—business travel, conventions and tourism—largely disappeared since the health emergency began in March 2020. Only 48% of DowntownDC hotel rooms were open as of July 31, 2020, but occupancy was very low.

DowntownDC hotel occupancy bottomed out in April 2020 at 3% compared to 74% occupancy in February 2020 and 79% for all of 2019. It increased to 8% in June 2020. (Occupancy is defined as demand spread over all hotel rooms open before the health emergency).

For the first time since the DowntownDC BID began monitoring hotel occupancy in 1997, its occupancy rate dropped below that of other DC hotels for April-June 2020, while its average daily rate continued at a premium to that of other DC hotels. In April and June 2020, the hotels in the rest of DC had occupancy rates of 8% and 15%, respectively. DowntownDC and the Rest of DC in June 2020 had hotel revenues at 6% and 10% of June 2019 revenue, respectively.

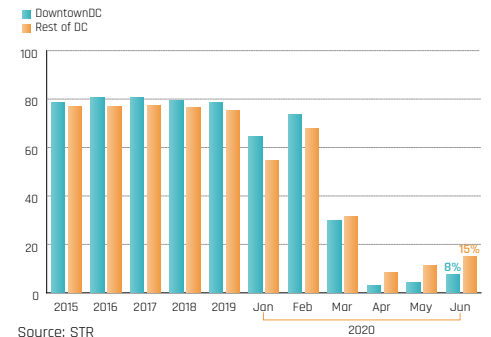
The Walter E. Washington Convention Center closed in March 2020 and will remain closed for the rest of 2020. Several conventions and events for 2021 have also canceled.

With the majority of Smithsonian museums still closed in the area and concerns about the safety of flying, tourism in DowntownDC and DC was extremely low. Only three large museums in the city were open: The International Spy Museum, The Museum of the Bible and the National Museum of Women in the Arts in DowntownDC.

Before the health emergency, the BID had three planned hotel projects: Acumen Cos.'s 100-200 room hotel on the north side of the 500 block of H Street NW, Jet Hospitality's renovation of 25 E Street NW into a 75-100 room boutique hotel and Quadrum Global's 400 room hotel at 333 G Street NW. In May, plans were announced

for the renovation and addition of floors to 20 Massachusetts Avenue NW, including four floors for a hotel (90,000 SF).

Hotel Occupancy Rates*



Source: STR

*Based on total hotel rooms (open hotels and temporarily closed hotels)

CULTURE & ENTERTAINMENT

In 2019, 6.7 million culture and entertainment patrons visited DowntownDC: 2 million at the Capital One Arena, 4 million at eight museums and 727,000 at eight theatres and performance venues.

The Capital One Arena closed in March and is unlikely to host any events or games before the end of 2020.

Seven of eight DowntownDC museums remained closed. The National Museum of Women in the Arts (4% of DowntownDC's

museum attendance in 2019) reopened on August 1, 2020 with timed and limited tickets. Over 1,000 theatre and other performances have been cancelled from March 2020 through December 2020 in DowntownDC, meaning a total of 400,000 patrons will not be coming to DowntownDC in 2020.



ALMOST NO CULTURE AND ENTERTAINMENT VISITORS FOR APRIL-DEC 2020

HOUSING

The housing sector was the strongest DowntownDC economic sector during 2Q 2020, reporting higher rents and condo prices, but also a jump in apartment vacancy rates.

It is estimated that over 90% of apartments and condos were occupied.

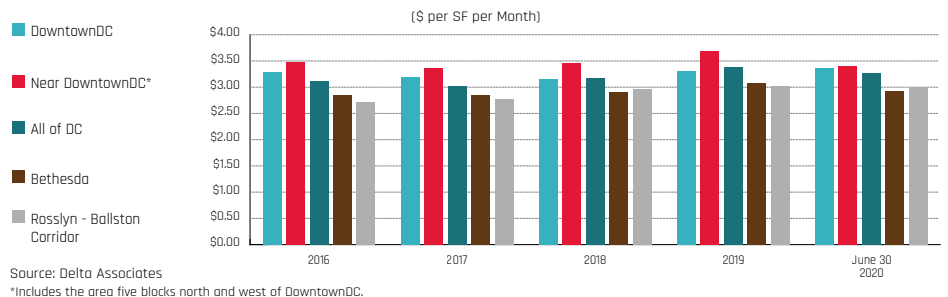
Class A rents rose in DowntownDC to \$3.37 per SF in June 2020 from \$3.30 per SF at the end of 2019, while apartment rents dropped in the rest of the city due to the significant new supply coming online (not mass departures to the suburbs). However, the DowntownDC apartment vacancy rate rose to 8.1% in June 2020 from 4.9% at the end of 2019.

Condo prices rose to \$663 per SF for January-June 2020 from \$617 per SF for 2019, but were still behind prices in Georgetown and the 14th & U corridor.



HOUSING WAS THE STRONGEST ECONOMIC SECTOR DURING APRIL-JUNE 2020

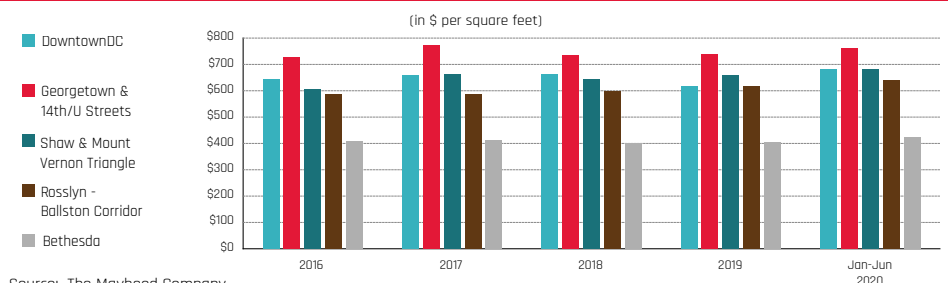
DC Region Class A Apartment Rents



Source: Delta Associates

*Includes the area five blocks north and west of DowntownDC.

DC Region Condo Prices



Source: The Mayhoo Company

SHOPPING

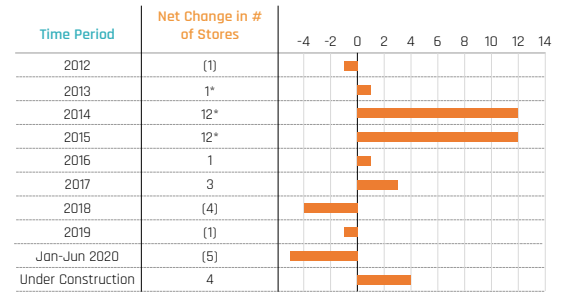
A total of 86% of DowntownDC's destination stores were open (67 of 78 stores) in July 2020 and 76% of all non-restaurant retail were open. However, destination stores were only achieving sales of 30%-50% of their 2019 sales levels.

Four new stores were under construction in DowntownDC in July: Chanel, Akris and Giorgio Armani at CityCenterDC, and Lululemon on the 1000 block of F Street NW (in the former Uniqlo space).

The following five destination stores permanently closed in 2020: lou lou on the 900 block of F Street NW, Bed Bath & Beyond in Gallery Place on 7th Street NW, Uniqlo and Jos A Banks on the 1000 block of F Street NW and Men's Warehouse on the 1300 block of F Street NW

The DowntownDC BID in February 2020 hired Retail Strategy Manager Emily Mooney (retail@downtowndc.org), who will be leading the BID's efforts to retain and attract retail to DowntownDC, including the potential creation of a DowntownDC Pop-Up Retail Program.

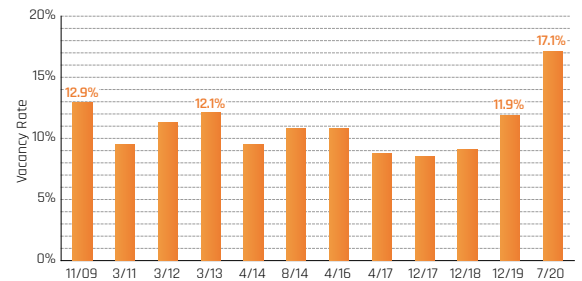
Shopping Store Net Change



Source: DowntownDC BID

* CityCenterDC stores

Retail Vacancy Rate History



Source: Dichter & Alexander (2017 - 2020) and DowntownDC BID (2009 - 2016)

DINING

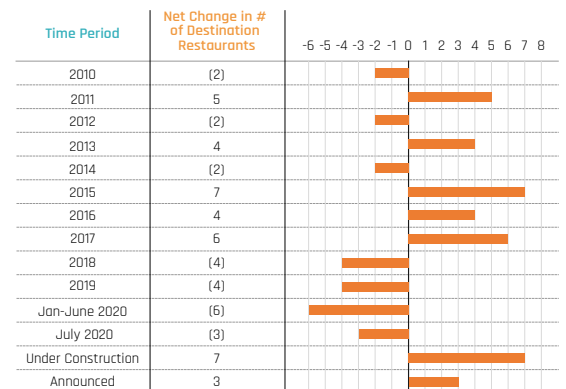
A total of 37% of DowntownDC's destination restaurants (50 of 135) were offering outdoor dining in July 2020, 36% were offering indoor dining and 58% were offering takeout and delivery. However, restaurant sales were only 20%-40% of 2019 their sales levels.

Seven new destination restaurants were under construction at the end of July 2020: Truluck's at 700 K Street NW,

Cheesecake Factory at 733 15th Street NW, Yardbird at 901 New York Avenue NW, Farmbird at 401 9th Street NW and Philotimo, Dauphine's and Shoto Zuma at 1100 15th Street NW.

Nine destination restaurants closed during Jan-July 2020: Bar Louie, Claudia's, Fado Irish Pub, Momofuku, The Source, Poca Madre, Maddy's Tap Room, Taco Bamba, and Thai Chili.

Destination Restaurant Net Change



Source: DowntownDC BID

DOWNTOWNDC ECONOMIC ACTIVITY SUMMARY-JULY 31, 2020

Economic Sector	DOWNTOWNDC			Activity Components For July 2020				July 2020 Weighted Economic Activity as a % of 2019
	SF (in millions)	% of DowntownDC	% of City (a)	Open or Closed	% Open or Occupied 2019	% Open or Occupied July 2020	2020 Sales as % of 2019	
1 Office	74.6	76.4%	42%	Partially Open	85%	5%	90%	4.07%
2 Housing	6.5	6.7%	2%	Open	97%	91%	100%	6.24%
3 Hotels	6.1	6.2%	33%	Open	80%	14% (b)	10% (c)	0.79%
4 Retail	4.0	4.1%	N/A	N/A	88%	83%	N/A	N/A
A Restaurants	1.6	1.7%	N/A	Open	100%	64%	30%	0.36%
B Destination Shopping	0.7	0.7%	N/A	Open	100%	86%	45%	0.32%
C Other Retail	1.0	1.0%	N/A	Open	100%	73%	60%	0.52%
D Vacant	0.7	0.7%	N/A	N/A	N/A	N/A	N/A	0.00%
5 Convention Center	2.3	2.4%	100%	Closed	100%	0%	0%	0.00%
6 Museums	2.0	2.0%	11%	Partially Open	100%	4%	20%	0.02%
7 Universities	1.5	1.5%	5%	Closed	100%	5% (d)	80% (d)	0.06%
8 Entertainment	0.7	0.7%	33%	Closed	100%	0%	0%	0.00%
Total	97.7	100.0%						12.36%

Source: DowntownDC BID, CoStar, Delta Associates, The Mayhoad Company, STR and Dichter & Alexander and MarginEdge.

(a) DowntownDC is one square mile -16% of DC's land area. (b) 48% of hotel rooms are available, but only 14% are being booked. (c) Average Daily Rate (ADR) was 72% of 2019 ADR. (d) DowntownDC BID estimate.



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