

DOWNTOWNDC ECONOMY UPDATE

FALL 2020



Outdoor dining, on expanded sidewalks, in parklets or streateries, was an important boost to DowntownDC and other DC restaurants. Photo credit: Interstellar Studio

OVERVIEW

October 2020 marked seven months since the COVID-19 pandemic shut down the District of Columbia and U.S. economies.

Though the DowntownDC economy rebounded from the lows of April and May, in Fall 2020 it was performing at only 18% of its Fall 2019 activity level. This is up from 12% of 2019 levels in Summer 2020—mostly due to an increase in the percentage of office workers in their offices. *Find a full analysis of DowntownDC economic activity at the end of this report.*



ONLY 10% OF DOWNTOWNDC OFFICE WORKERS WERE WORKING FROM THEIR OFFICES IN OCT 2020—UP FROM 5% IN JULY

In addition to the increase in the percentage of office workers in their offices to 10% in the Fall from 5% in the Summer, more hotels, restaurants, stores and museums were open in October than in July. However, sales and attendance were well below last year's levels. Key contributors to DowntownDC's vitality also remained closed: Capital One Arena, Walter E. Washington Convention Center, all seven theatres or performing arts venues and five of eight museums.

The pandemic-induced economic crisis was mitigated greatly during its first four to six months by immediate federal and DC government responses through the CARES



DAYTIME POPULATION DROPPED FROM 256,000 IN FEB TO 47,000 IN OCT (DOWN 82%)—UP FROM 35,000 IN JULY

Act and DC small business grants and tax deferments. The positive impact of that financial assistance appears have ended in August and September, and continued new job losses have offset much of the significant rehiring of laid off workers in the Spring. Though the unemployment rate has fallen in DC and the nation, much of that improvement in the unemployment rate can be attributed to people dropping out of the workforce. DowntownDC, DC and suburban employment have declined by 3.8%, 6.8% and 5.4%, respectively, as of September 2020 compared to September 2019.



METRORAIL WEEKDAY RIDERSHIP FOR SEPTEMBER 2020 WAS 8% OF SEPTEMBER 2019 RIDERSHIP—UP FROM 2% IN APRIL AND 4% IN JUNE

Federal funding to DC businesses and non-profits through the Paycheck Protection Program (PPP) totaled \$2.1 billion. The failure of the federal government to agree on a new stimulus package has slowed and will continue to slow the economic recovery of DowntownDC, DC and the U.S.

The District government efforts to allow expanded outdoor dining and curbside pick up with streamlined permitting and minimal expense have significantly boosted sales and employment for restaurants and retailers. These measures have saved many businesses from closing. In addition, the District government has funded several business relief programs totaling approximately \$80 million.



THE RETAIL VACANCY RATE REACHED A RECORD HIGH OF 18% IN OCT 2020—UP FROM 17% IN JULY AND 12% AT THE END OF 2019

What's Next?

What happens next is dependent upon the pace of decline in the spread of COVID-19. If the level of cases remains at current levels, then it is possible DowntownDC may experience a significant increase in office workers returning to their offices, as well as the reopening of more cultural and entertainment venues in early 2021. The DowntownDC BID will be partnering with its members, stakeholders and the DC government to prepare for the return of office workers, business travelers and tourists as early as possible in 2021.



HOTEL REVENUE IN 3Q 2020 WAS 9% OF 3Q 2019 REVENUE—UP FROM 3% IN 2Q 2020

EMPLOYMENT

DowntownDC employment was an estimated 181,600 as of September 2020, up from 179,700 as of June 2020, but down from 188,600 at the end of 2019—a decline of 7,000 jobs or 3.7%. This decline is 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 mostly 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 were not working at their offices, they were still employed. DC hit an all-time employment high of 800,000 jobs at the beginning of 2020. DC's September 2020 employment was 743,700 (not seasonally adjusted), a decrease of 54,100 from September 2019, or a decline of 6.8%. This is a slightly larger decline than both the rest of the region (a 6.2% decline) and the nation (a 6.4% decline). However, this is an improvement

from June when the year-over-year job losses for DC, the rest of the region and nation, were 7.3%, 8.2% and 12.1%, respectively. A total of 56% of DC's job losses, or 30,100 jobs, were in the hospitality and leisure sectors: a decline of 20,400 jobs, or 36%, in Food Services and Drinking Places; a decline of 9,700 jobs, or 58%, in Accommodations; and a decline of 5,500 jobs, or 56%, in Arts, Entertainment and Recreation. The other employment sectors that experienced significant job losses were the Professional and Business Services and Education sectors, which lost 8,200 and 7,000 jobs, respectively, representing declines of 4.8% and 11.9%.

DC's September 2020 seasonally adjusted unemployment rate was 8.7% (34,500 unemployed residents)—the same as the average in May-August of 8.7% and down from 11.7% in April 2020 (47,000 unemployed residents), but up from 5.2% in February 2020 (21,300 unemployed residents).

The employment levels in DowntownDC and the Rest of DC (all of DC outside of DowntownDC) remained very unsettled in Fall 2020. In late October, Aramark announced temporary layoffs of 916 of their 1,300-person DC workforce, including 738 employees at Capital One Arena and 123 at the WEW Convention Center until those facilities reopen. On the other hand, Macy's employment was back to 100% of pre-pandemic levels at the end of October and the store was hiring for the holiday season.



DC'S RECENT **SLOWER JOB GROWTH** THAN THE REST OF THE REGION AND THE U.S. IS DUE MOSTLY TO DC'S HIGH PERCENTAGE OF HOSPITALITY AND LEISURE JOBS.

OFFICE

At the end of September 2020, DowntownDC and the Rest of DC reported record office vacancy rates of 15.2% and 11.5%, respectively, with record vacant office square footage (SF) of 8.7 million and 12 million, respectively. The vacancy rates have climbed by 3.2% and 2.4%, respectively, since the end of 2018. DowntownDC recorded a decrease in leased space (negative absorption) for January through September 2020 of 83,000 SF and negative absorption of 127,000 SF for 3Q 2020. The Rest of DC recorded positive absorption of 15,000 SF for January through September 2020 and negative absorption of 666,000 SF for 3Q 2020.

While vacancy rates rose significantly over the past three years, at the end of September 2020 occupied office space in DC was only 70,000 SF below its 3Q 2019 occupancy high of 141.7 million SF, a miniscule decrease of 0.05%. Also at the end of September 2020, DowntownDC was 1 million SF below its 3Q 2018 occupancy high of 49.5 million SF (a decrease of 2%), and the Rest of DC was 840,000 SF below its 2Q 2020 occupancy high of 93.7 million SF (a decrease of 0.9%). DowntownDC and DC have not been experiencing an increase in vacancy rates due to the loss of many tenants (office-using jobs were down less than 2% in DC in September 2020 compared to September 2019). Rather, vacancy rates rose

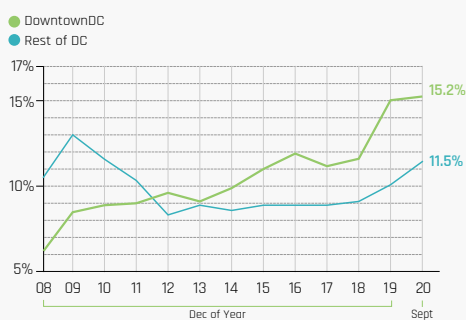
as new office buildings were developed that attracted existing DC tenants (often with a 10%-20% reduction in leased space) and left behind vacant older office space.

Overall asking rents were down slightly in DowntownDC to \$56 per SF and were stable in the Rest of DC at \$52 per SF. However, new leases and renewals were being offered with record rent concessions in the form of (1) tenant improvements (increased from \$95 per SF to \$125 per SF over 2015-2019 and \$15 per SF since the end of 2018), and (2) months of free rent (increased from 11 months to 17 months over 2015-2019 and 2 months since the end of 2018). For a 10-year lease, this is an effective rent reduction of \$8 per SF to \$12 per SF.

Office space leasing volume in both DowntownDC and the Rest of DC during 2Q and 3Q 2020 was at about 40% of 2015-2019 average leasing volumes as many tenants adopted a "wait and see" approach to the pandemic before making major decisions about their long-term work from home policy or renovations to their existing office space.

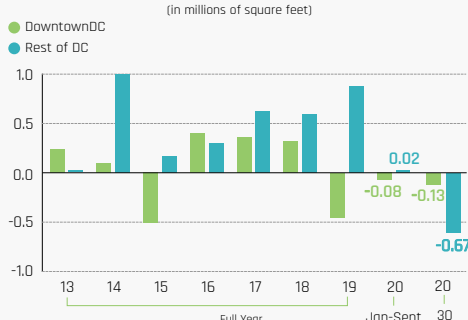
While other large cities experienced significant increases in sublet space in recent months, this was not the case in DowntownDC and the Rest of DC with sublet space as a percentage of total office space at the end of September 2020 of 1.4% and 1.1%, respectively.

Vacancy Rate



Source: CoStar

Office Space Net Absorption



Source: CoStar

Uncertainty in the leasing market spilled over into the office sales markets in 2Q and 3Q 2020. There were no office sales in DowntownDC and the Rest of DC in 3Q 2020, which was highly unusual for these areas. The annual office sales volume average for 2015-2019 for DowntownDC was \$2.4 billion from 10 to 15 building sales compared to \$477 million in three building sales for January through September 2020. With 137,000 SF under construction in DowntownDC and another 2.4 million SF in the Rest of DC in October 2020 (with 60% pre-leased) and a few previously announced government agency moves to Prince George's County, office vacancy rates were

expected to continue to rise over the next 12 to 24 months. However, with limited office building groundbreakings over the past 12 months, this new supply should be absorbed over the next 2 to 4 years.

In October 2020, there were several major long-term concerns in the DowntownDC office market: (1) timing of an effective treatment or vaccine for COVID-19, (2) the impact of working from home, (3) the amount of co-working space the market could support and (4) the continued departure of U.S. General Services Administration tenants from DowntownDC to other DC or suburban submarkets. The short-term concerns for the DowntownDC office market were: (1)

the effectiveness of building and employer health measures, (2) in-classroom teaching at K-12 schools, (3) availability of quality and affordable day care and (4) the health and safety of public transportation.

A DowntownDC BID survey in October 2020 showed that 10% of office workers occupied their offices (up from 5% in July). That percentage was not expected to change before end of the year. While many employers were focusing on July 2021 for a return to the office, the DowntownDC BID began plans to work with its members, stakeholders and District government partners to enable office workers to return to the office when they feel it is safe to do so.

CURRENT DEVELOPMENT

The third quarter of 2020 was busy with six development deliveries in DowntownDC totaling \$350 million. One \$25 million project broke ground and five projects totaling \$280 million were under construction.

The six deliveries were (1) the stunning renovation of the Dr. Martin Luther King Jr. Memorial Library, (2) new museum Planet Word, which opened in the beautifully renovated Franklin School, (3) the renovated 1201 New York Avenue NW office building, (4) the renovated and rebranded Hotel Zena, (5) the renovated 950 E Street NW office building and (6) the striking restoration of the Chinatown Arch.

All of these completed projects were renovations of existing structures. This has been the case for much of the past five years in DowntownDC—renovation investments

have outweighed ground-up developments—and that trend will continue. DowntownDC in October 2020 had only eight remaining ground development sites, down from 125 in 1995.

Investment in DowntownDC development projects in 2019 and 2020 was at its lowest level since the end of the Great Recession in 2009: five projects are currently under construction totaling \$280 million. The projects are (1) renovation of the National Bank of Washington's historic building and new office construction at 619 14th Street NW, (2) Milken Foundation's museum dedicated to the American Dream, (3) World War I Memorial, (4) office renovation of 1425 New York Avenue NW, and (5) Franklin Park renovation. Of the five projects currently under construction three started in 2020 with a total cost of \$44 million. The three

projects are the Franklin Park renovation, the renovation of the 1425 New York Avenue NW office building and Chinatown Arch's restoration.

There were 19 development projects planned in DowntownDC in October 2020 totaling \$2.3 billion, including Johns Hopkins University's purchase and redevelopment of 650 Pennsylvania Avenue NW, the redevelopment of the Washington Metropolitan Area Transit Authority's current headquarters, four hotels, three apartment buildings and Georgetown University's renovation of an office building into a graduate school facility.

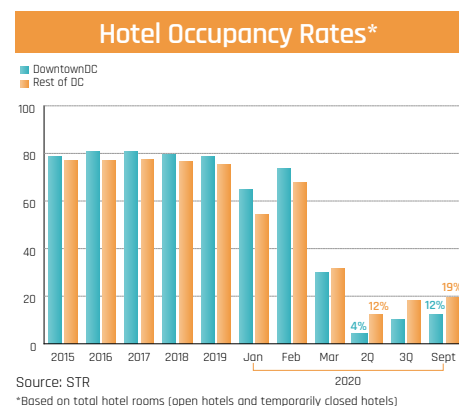
No new development projects were announced in 3Q 2020; one was announced in 2Q 2020 and four were announced in 1Q 2020.

HOTELS, CONVENTION CENTER & TOURISM

The three main sources of demand for DowntownDC hotels—business travel, conventions and tourism—largely disappeared with the start of pandemic in March 2020. In October 2020, the number of open hotel rooms in DowntownDC increased to 83% of pre-pandemic levels, up from 46% for April through July 2020, with 29 of DowntownDC's 33 hotels reopened (or 88%). However, occupancy and revenue were very low for 3Q 2020.

DowntownDC hotel occupancy was 9% for 3Q 2020 and 12% in September 2020—up from 8% in June 2020 and 3% in April 2020 and compared to 74% occupancy in February 2020 and 79% for all of 2019. In September, June and April 2020, the hotels in the rest of DC had occupancy rates

of 25%, 17% and 10%, respectively. *Occupancy is defined as demand as a percentage of all hotel rooms open before the pandemic.*



DowntownDC's occupancy continued to trail that of Rest of DC hotels (which started in March 2020 for the first time since the DowntownDC BID began collecting data in 1995), due to reduced business and tourism travel as office workers were working from home, and the closure of the Walter E. Washington Convention Center, the Capital One Arena, all theatres and performance venues and most museums, as well as the response to vandalism and property damage this summer during protests and demonstrations.

DowntownDC BID hotel room rates were 70% of 2019 room rate levels during 3Q 2020, but remained at historically high premiums—20% or more—above Rest of DC hotels for April-September 2020.

DowntownDC and the Rest of DC hotel revenues in 3Q 2020 were 9% and 16% of 3Q 2019 revenues, respectively. For both DowntownDC and the Rest of DC, this is up considerably from 2Q 2020, when revenue as a percent of 2Q 2019 revenue was just 3% and 7%, 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.

Several Smithsonian museums reopened in September 2020, joining several other DowntownDC and DC museums that reopened over the past few months. However, all museums are open with limited capacity.

Tourist air travel continued to be very low with the DC area's three airports reporting August 2020 passenger volumes at 25% of pre-pandemic levels. Hotel development has stalled in DowntownDC, though the Hotel Zena opened in October after a \$25 million renovation including two beautiful murals on the exterior of the hotel overlooking Thomas Circle.

CULTURE & ENTERTAINMENT

In 2019, 7.5 million culture and entertainment patrons visited DowntownDC: 2 million at the Capital One Arena, 4.8 million at nine museums and 727,000 at eight theatres and performance venues.

As the city remained in Phase Two of its ReOpen DC Plan, four of DowntownDC's 11 museums were open, but the other culture and entertainment venues were not. Between April–July 2020, no culture and entertainment organizations were open.

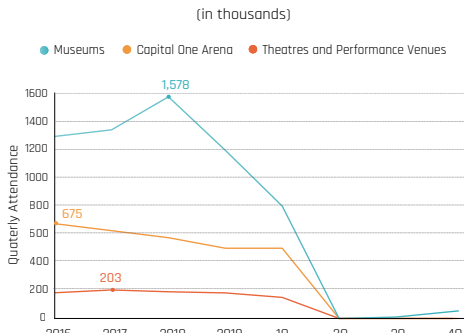
The National Museum of Women in the Arts reopened in August and the National Portrait Gallery and Smithsonian American Art Museum reopened in September. Planet Word opened its doors for the first time in October. After opening in early 2020, the National Children's Museum had remained closed since March. The four DowntownDC museums that opened were all admitting visitors on reserved and timed tickets and restricted the number to visitors to well below 2019 attendance levels.

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

Over 1,000 theatre shows and other performances were canceled from March 2020 through December 2020 in DowntownDC. As a result, a total of 400,000 patrons will not be coming to DowntownDC in 2020.

DC Arts, Entertainment and Recreation employment this year declined by 56%, from 9,900 at the end of 2019 to 4,400 in September 2020.

Culture & Entertainment Attendance



HOUSING

The housing sector this quarter remained the strongest DowntownDC economic sector though it reported lower apartment performance in 3Q 2020 than 2Q 2020 (as did many other DC and regional submarkets). It is estimated that 88% of DowntownDC's apartments and condos were occupied—down from 90% in June, due primarily to an increase in apartment vacancies.

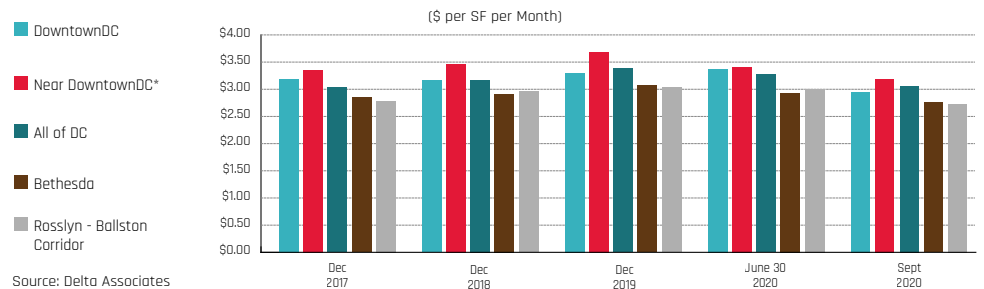
Class A apartment rents in DowntownDC declined to \$2.96 per SF in September 2020 from \$3.37 per SF in June, a decline of 12.2%, and down from \$3.30 per SF at the end of 2019. DC overall Class A apartment rents also declined in September 2020 to \$3.06 per SF in September 2020 from \$3.27 per SF in June, a decline of 6.4%, and down from \$3.38 per SF at the end of 2019. The suburbs have experienced rent drops of 6% to 9% in 3Q 2020 from 2Q 2020.

Class A apartment vacancy rates were 9.4% for DowntownDC (up from 8.1% in June and 4.9% at the end of 2019) and 7.8% for DC overall (up from 6.8% in June and 4.8%

at the end of 2019). Most of DC's vacancy rate increase is due to the delivery of 11,400 apartments in 2019 and 2020—an increase of 7.9%. Vacancy rates declined slightly in Bethesda and rose a bit in the Rosslyn-Ballston Corridor—in 3Q 2020.

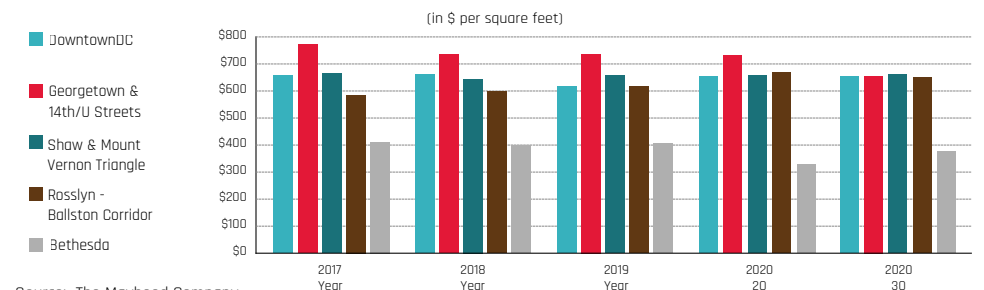
Condo resale prices in DowntownDC remained strong at \$653 per SF for 3Q 2020 (compared to \$672 and \$650 per SF for 1Q and 2Q 2020, respectively) and \$883 per SF for Jan-Oct 2020 at CityCenterDC and on strong sales volume.

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 Mayhood Company



HOUSING REMAINED THE STRONGEST ECONOMIC SECTOR OF THE DOWNTOWNDC ECONOMY DURING APRIL-SEPTEMBER 2020

SHOPPING

A total of 73 of DowntownDC's 77 destination shopping stores (95%) were open in October 2020, up from 86% in July 2020. However, sales were at 40%-60% of 2019 levels (but up from 30%-50% in July 2020). Lululemon opened on the 1000 block of F Street in 3Q 2020 in the space formerly occupied by Uniqlo.

In October 2020, 80% of DowntownDC's 230 service and convenience retailers were open—up from 76% in July 2020.

Three new stores were under construction in DowntownDC at CityCenterDC in October 2020: Chanel, Akris and Giorgio Armani.

The following five destination shopping 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.

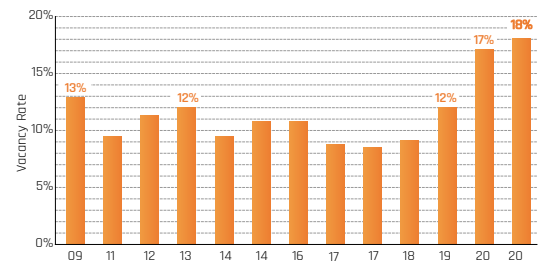
Shopping Store Net Change

Time Period	Net #	Net Change in # of Stores												
		-4	-2	0	2	4	6	8	10	12	14			
2012	(1)													
2013	1*													
2014	12*													
2015	12*													
2016	1													
2017	3													
2018	(4)													
2019	(1)													
1Q 2020	(2)													
2Q 2020	(3)													
July-Oct	1													
Under Construction	3													
Planned	1													

Source: DowntownDC BID

* CityCenterDC stores

Retail Vacancy Rate History



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



12 RESTAURANTS PLAN TO OPEN IN 2021 (STARTING IN THE SPRING) IF PUBLIC HEALTH CONDITIONS AND CONSUMER DEMAND ARE STABLE

DINING

Outdoor dining was available at 40% of DowntownDC's 134 destination restaurants in September 2020, up from 37% in July 2020. Indoor dining was offered at 50% of these restaurants up from 36% in July 2020. A total of 64% were offering takeout or delivery. However, restaurant sales were only 30%-50% of 2019 sales levels—up from 20%-40% of 2019 sales in July 2020.

One restaurant closed between August and October 2020: Olivia on the 900 block of F Street NW.

No new restaurants opened between August and October.

Twelve new restaurants were planning to open in 2021: Truluck's at 700 K Street NW, The Cheesecake Factory at 733 15th Street NW, Yardbird at 901 New York Avenue NW, Farmbird at 401 9th Street NW, a restaurant by Immigrant Food at Planet Word, a new café/restaurant in Franklin Park, Kura Sushi at 614 H Street NW and Philotimo, Dauphine's, Shoto, Akedo and Grazie Nonna/Bad Fortune/Sweet Blossom at Midtown Center at 1100 15th Street NW.

Eleven destination restaurants closed in 2020: Bar Louie, Claudia's, Fado Irish Pub, Momofuku, The Source, Poca Madre, Maddy's Tap Room, Taco Bamba, Thai Chili, Olivia and Billy Goat Tavern.

Destination Restaurant Net Change

Time Period	Net #	Net Change in # of Destination Restaurants														
		-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6	7	8
2010	(2)															
2011	5															
2012	(2)															
2013	4															
2014	(2)															
2015	7															
2016	4															
2017	6															
2018	(4)															
2019	(4)															
1Q 2020	(1)*															
2Q 2020	(5)*															
3Q 2020	(2)**															
Oct 2020	(1)**															
Under Construction	8															
Announced	3															

Source: DowntownDC BID

* One opening
** No openings

DOWNTOWNDC ECONOMIC ACTIVITY SUMMARY-OCTOBER 2020

Economic Sector	DOWNTOWNDC			Activity Components For October 2020				October 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 October 2020	2020 Sales as % of 2019	
1 Office	74.6	76.4%	42%	Partially Open	85%	10%	90%	10.58%
2 Housing	6.5	6.7%	2%	Open	97%	88%	98%	6.02%
3 Hotels	6.1	6.2%	33%	Open	80%	12% (b)	80% (c)	0.12%
4 Retail	4.0	4.1%	N/A	N/A	88%	81%	N/A	N/A
A Restaurants	1.6	1.7%	N/A	Open	100%	70%	40%	0.45%
B Destination Shopping	0.7	0.7%	N/A	Open	100%	95%	45%	0.30%
C Other Retail	1.0	1.0%	N/A	Open	100%	80%	60%	0.48%
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%	33%	20%	0.13%
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%						18.12%

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

(a) DowntownDC is one square mile-1.6% of DC's land area. (b) 81% of hotel rooms are available, but only 12% are being booked. (c) Average Daily Rate (ADR) was 80% of 2019 ADR. (d) DowntownDC BID estimate.



DOWNTOWNDC

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