SEPTEMBER 6, 2017

CENTER CITY

RETAIL MARKET SNAPSHOT

CENTER CITY DISTRICT

Center City's flourishing retail scene is the result of more than two decades of diversified development, as convention, tourism, entertainment and residential growth have dramatically broadened the base of retail customers already provided by major office and institutional employers. Center City's residential population has increased by 19% since 2000. Occupied hotel room nights have increased by 22% in the last decade. Today, almost a half million workers, residents and visitors generate over $1 billion in retail demand annually within the downtown core and surrounding neighborhoods.

Two decades ago, all of Chestnut Street and Walnut Street east of Broad were plagued by high vacancy rates and deteriorated storefronts. East Market Street retail was lagging. But as Center City's purchasing power has grown and rebounded following the Great Recession of 2008, so has the demand for retail space: 54 national retailers have chosen a Center City location since 2013 and more than 2 million square feet of retail is currently under development. East and West Chestnut are thriving, while East Market and the rest of Center City East is experiencing $815 million in new investment. Nearly all of this is mixed-use, as new retail venues are supported by new upstairs residences and work space.

To be sure, Center City has seen the impact as several national retailers declared bankruptcy and shuttered stores across the country. But vacancies on prime retail corridors in Center City are 4.5%.[1] By comparison, in Q2 2017 retail vacancies hit 10% nationally[2] and 8.2% regionally.[3]

Globally, all retailers are challenged both by the need to find the right mix of online and brick-and-mortar locations and the need to create an environment that brings shoppers into stores. But those retailers who find the right balance and create unique and memorable in-store experiences, are thriving. While nationally, in-store retail sales are down in certain market segments, others are experiencing gains and performing well. These include grocery, prepared foods, home and garden, wellness and beauty, restaurant and beverage, value/outlet and retailers who have found a way to integrate their online and in-store operations.[4] Retailers seeking to lure customers to brick-and-mortar stores are adding in-store technology, customization of merchandise, local and sustainable, and food and beverage to their in-store experience. All these categories and retail concepts are expanding and flourishing in the Center City market.

Retailers that are performing well nationally are choosing to locate in Center City because of downtown's desirable demographic, rich in millennials entering their peak consumer-spending years. These include online retailers opening brick-and-mortar locations in select markets (Warby Parker, Indochino, UNTUCKit, Bonobos), beauty and wellness (Ulta, Drybar, Snap Kitchen, Soul Cycle, OrangeTheory, Barre 3, SLT), athletic apparel (Under Armour, New Balance), luxury 'lite' brands (Vince, Theory, Rag & Bone, Michael Kors), value and outlet (Nordstrom Rack, Century 21, Bloomingdale's Outlet), fast fashion (Uniqlo, Forever 21, H&M), home (CB2, Thos. Moser), and food and beverage concepts. Additionally, many first-to-market retailers are choosing Center City as the place in which to enter the regional market.

The steady increase in office workers, tourists and residents of all ages has driven the growth in full-service restaurants, which have increased from less than 100 two decades ago to 464 in the downtown core, even as quality restaurants thrive in neighborhoods that surround Center City. Additionally, Philadelphia has been recognized as one of the top dining destinations in the country, with several Center City restaurants receiving James Beard Awards and other accolades.

While new national tenants diversify the downtown marketplace, creating both entry-level and higher-skilled jobs, local retailers, boutiques and independents represent 77% of the downtown's retail mix — differentiating Center City from regional shopping malls. Overall Center City retail, restaurant, leisure and hospitality venues provide 46,000 jobs, the majority of which are held by Philadelphia residents.

RESIDENTS	CORE CENTER CITY	GREATER CENTER CITY	CITY OF PHILADELPHIA	PHILADELPHIA MSA
Population	64,838	187,874	1,567,872	6,070,500
Households	37,061	89,593	584,722	2,247,334
Aggregate Income*	$3,923,625,124	$8,225,822,092	$33,750,763,446	$199,109,697,457
Average Household Income*	$116,060	$95,963	$58,086	$89,247
% of Population Millennial (age 20-34)	46%	40%	26%	21%
% Population with a BA or Higher	78%	59%	25%	35%

* CPI Adjusted

Source: U.S. Census Bureau, American Community Survey, 2011–2015

1: This refers to vacancy rates for Walnut and Chestnut Streets from Broad to 20th Streets and were recorded through the CCD's annual retail survey conducted in the summer of 2017.

2: Reis Inc.

3: Colliers International

4: US Census Bureau's Retail Trade Report

CENTER CITY SHOPPING SURVEY

Center City District (CCD) and Central Philadelphia Development Corporation (CPDC) conducted a consumer survey in the spring of 2017 to gather information on Center City shoppers, including their spending patterns and shopping preferences. The survey was distributed to a list of 76,000 people who live and work throughout the region. A majority of the almost 2,000 respondents work in Greater Center City (53%) and reside throughout the region (44% live in Greater Center City, 28% throughout other Philadelphia neighborhoods and 26% in the PA and NJ suburbs).

What respondents value most about shopping in Center City are experiences you cannot get anywhere else in the region: *walkability* (57%), *diversity of food, entertainment and cultural offerings* (41%), and the strong presence of *local shops* (29%). Dining is the most popular activity for those coming to Center City, followed by shopping. High on the wish list for respondents are more grocery stores (36%), local boutiques (34%), entertainment establishments (34%), and outlets (33%) in Center City, all categories strongly represented in developments currently under construction.

Contradicting the assumption that this is an either/or choice, 79% of respondents say they shop online, while 76% note they also shop in Center City, with 31% frequenting King of Prussia Mall and 24% Cherry Hill Mall. Among those who live in Greater Center City, downtown shopping at 92% surpasses online at 82%, while King of Prussia and Cherry Hill Malls remain relatively similar at 27% and 24%, respectively.

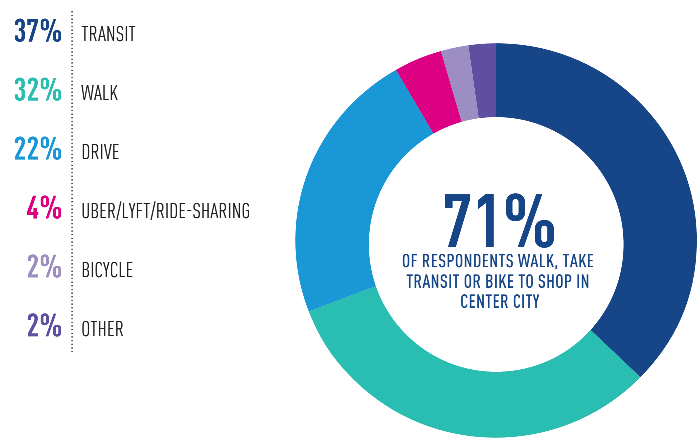
These findings suggest that the Center City and the suburban retail markets are distinct with only modest customer overlap. This is why retailers are opening locations in both the downtown and surrounding suburbs. While Philadelphia was once considered a one-store market by many retailers, the substantial growth of the downtown marketplace has made retailers want to open a store downtown to capture Center City's desirable demographic.

Because Center City is at the center of the region's transportation network, it is much easier for residents and workers living in other Philadelphia neighborhoods (and in some cases even the suburbs) to shop in Center City than it is at auto-dependent, regional malls. Seventy-one percent of survey respondents said they walk, take transit, or bike when they shop in Center City.

SHOP CENTER CITY CAMPAIGN

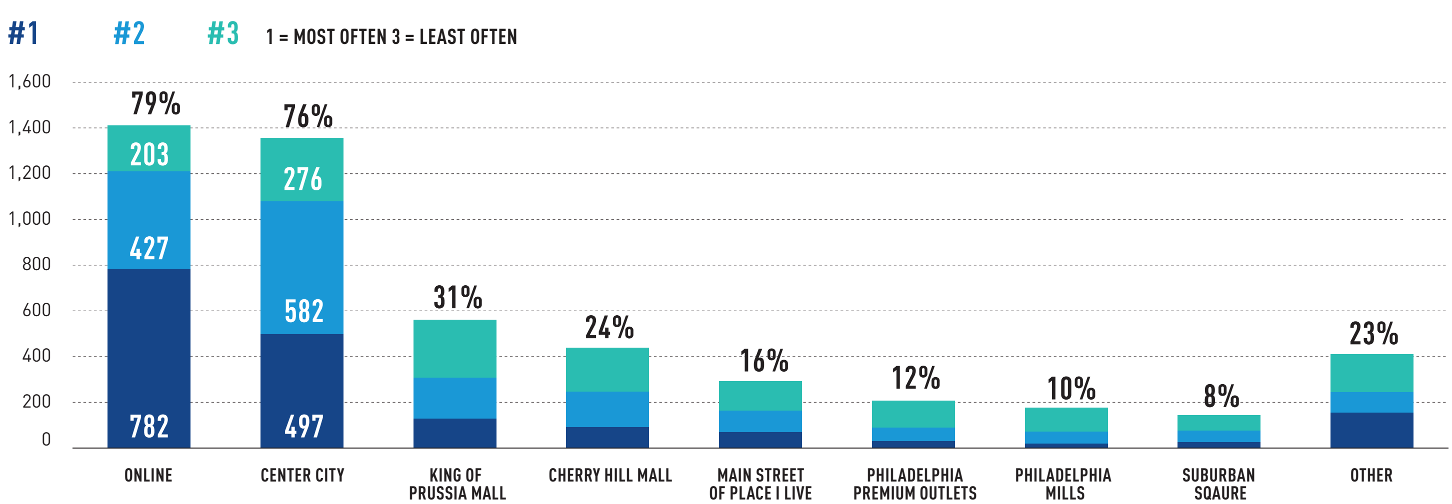
To accentuate these trends and to respond to the changing national retail scene, the CCD is launching a consumer-oriented marketing campaign to position downtown Philadelphia as a premier shopping destination and leverage Center City's primary strengths of walkability, the intermingling of food, culture and shopping alternatives and the unique mix of nationals and locals. To learn more about the campaign visit, ShopCenterCityPhilly.com.

MODE OF TRANSPORTATION SHOPPERS TAKE TO COME TO CENTER CITY



Source: CCD/CPDC Shopping Survey

WHERE SURVEY RESPONDENTS SHOP MOST OFTEN



Source: CCD/CPDC Shopping Survey