

City Retail

Understanding
Philadelphia's prime
urban corridors



The *King* of retail

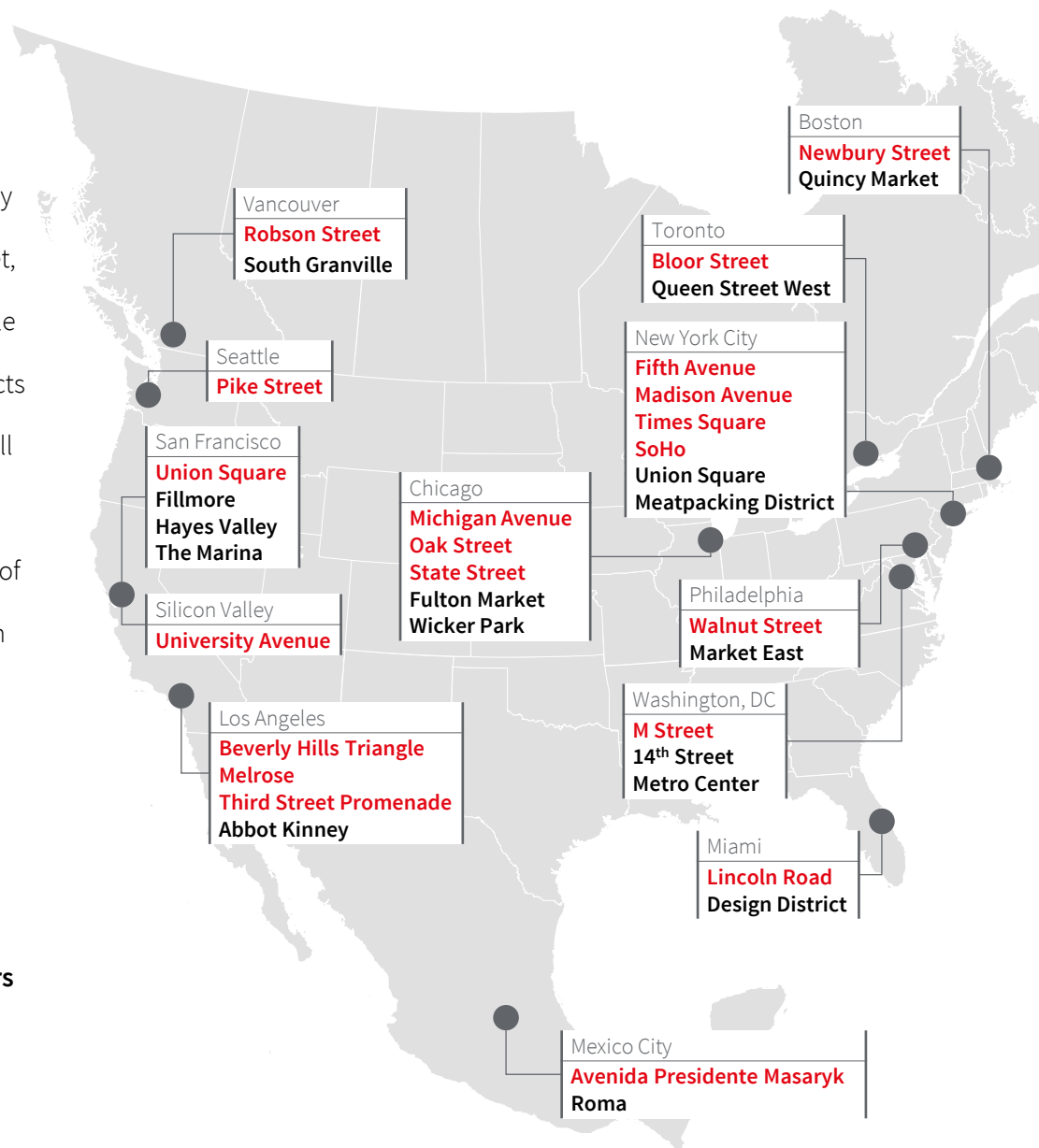
Shoppers love the city. Tour buses deliver domestic visitors into Times Square to be dazzled by the lights and browse in massive retail flagships. Well-heeled international travelers fly into LA for the opportunity to spend thousands or tens of thousands on Beverly Hills' Rodeo Drive. Office workers in Chicago take time during lunch hour to pick up affordable outfits along State Street. Different types of shoppers with different budgets, but a single destination:

a prime urban corridor.

Prime Urban Corridors are top urban shopping destinations

A prime urban corridor is a nationally recognized shopping district distinguished by its mix of high street, national and international tenants. Typically named for the most notable retail street within the corridor, the boundaries of these shopping districts were carefully drawn to include the most prominent retail spaces, as well as occurring and potential retail sprawl within these areas of focus. Prime urban corridors emerge organically and are not the product of a single master developer. We've identified and defined 12 such North American corridors for this report, further segmenting them into "existing" and "emerging" corridors.

- **Existing prime urban corridors** are characterized by a concentration of national credit tenants and evolve around high street retail.
- **Emerging prime urban corridors** include tenants of varying credit profiles. They have more local retailers and restaurants, and feature a growing presence of national brands.



Prime Urban Retail Corridor: 2017 metrics

Market	Prime Urban Retail Corridor	Annual Prime asking rent p.s.f. (\$US)	Annual rent growth (%)	Average Prime Product Cap Rate Range (x-x%)
Boston	Newbury Street	\$200	-7.0%	4.0-5.0%
Boston	Quincy Market	N/A	N/A	N/A
Chicago	Wicker Park	\$55	4.5%	6.0-7.0%
Chicago	Fulton Market	\$75	8.9%	5.5-6.5%
Chicago	State Street	\$175	2.2%	4.5-5.5%
Chicago	Oak Street	\$350	1.6%	4.0-4.5%
Chicago	Michigan Avenue	\$448	6.8%	4.0-5.0%
Los Angeles	Abbot Kinney	\$215	10.0%	4.0-5.0%
Los Angeles	Melrose	\$300	-10.0%	4.5-5.5%
Los Angeles	Third Street Promenade	\$360	0.0%	4.0-5.0%
Los Angeles	Beverly Hills Triangle	\$900	-20.0%	3.5-4.5%
Mexico City	Avenida Presidente Masaryk	N/A	N/A	N/A
Mexico City	Roma	N/A	N/A	N/A
Miami	Design District	\$95	2.2%	*TBD
Miami	Lincoln Road	\$300	-14.3%	4.0-5.0%
New York	Meatpacking	\$400	0.4%	3.5-4.0%
New York	Union Square	\$550	14.4%	3.5-4.0%
New York	SoHo	\$585	-7.6%	3.5-4.0%
New York	Lower Fifth Avenue (42 nd St-49 th St)	\$1,127	-3.6%	3.0-4.0%
New York	Madison Avenue	\$1,438	-8.8%	3.0-4.0%
New York	Times Square	\$2,033	-8.0%	3.3-4.3%
New York	Upper Fifth Avenue (49 th St-60 th St)	\$2,710	-8.6%	3.0-4.0%
Philadelphia	Market East	\$50	25.0%	4.5-5.0%
Philadelphia	Walnut Street	\$150	11.1%	4.0-4.5%
San Francisco	The Marina	\$85	7.7%	5.0-5.5%
San Francisco	Hayes Valley	\$90	4.7%	5.0-6.0%
San Francisco	Fillmore	\$115	13.6%	5.0-5.5%
San Francisco	Union Square	\$700	-2.1%	4.0-4.5%
Seattle	Pike Street	\$65	18.2%	4.5-5.5%
Silicon Valley	University Avenue	\$90	7.9%	4.5-5.0%
Toronto	Queen Street West	\$63	4.8%	3.5-4.5%
Toronto	Bloor Street	\$150	25.9%	3.0-4.0%
Vancouver	South Granville	\$65	N/A	3.3-3.8%
Vancouver	Robson Street	\$181	N/A	3.0-3.5%
Washington, DC	Metro Center	\$100	0.0%	4.5-5.5%
Washington, DC	14 th Street	\$130	18.2%	4.3-5.0%
Washington, DC	M Street	\$250	10.0%	4.0-4.5%

*The Design District was recently constructed and valued at \$1.4 billion in 2016. These assets have yet to trade.

The best place to communicate a brand message

Because prime urban corridors are often top tourist destinations or uniquely capture local demographics, they offer the best opportunities to get a message across. From Samsung 837, the electronic brand's digital playground in New York's Meatpacking District to RH West Hollywood, the 40,000-square-foot Restoration Hardware Gallery on Melrose Avenue, brands are using these corridors to create brand museums to showcase their messages.

With consumers more distracted than ever, there are fewer platforms through which mainstream retailers can communicate to large numbers of people. We expect the value of real estate in these select corridors will reflect that far into the future.

A congregation of luxury shoppers

Luxury shopping is still growing, albeit at a slower pace, around the world. Yet luxury shoppers are not often concentrated in one single area. Prime urban corridors are among the few global spots where enough wealthy shoppers live, travel and congregate to make it worthwhile to build a 16,800-square-foot Burberry flagship like the one on Chicago's Michigan Avenue, or the three-story Chanel boutique on 57th Street in New York. Prime urban corridors are unique hotspots of the highest demand, and that continued demand makes the properties within them sensible long-term investments. While rents have fallen somewhat in some corridors, the long-term value of luxury real estate to investors is clear. Witness the record-setting \$19,405 per square foot that LVMH paid for the House of Bijan building on Rodeo Drive.

Price point	Description	Sample retailers
Luxury	<ul style="list-style-type: none"> • Designer Brands • Most exclusive target customers • <500 retail locations 	Chanel, Burberry, Dolce & Gabbana, Dior
Luxury Lite	<ul style="list-style-type: none"> • Modern designers • High price point • Exclusive appeal • <500 retail locations 	Vince, Theory, Rag & Bone, Coach, Rebecca Minkoff
High	<ul style="list-style-type: none"> • Mass-marketed • High price point • <1,000 retail locations 	J. Crew, TopShop, lululemon, Anthropologie
Middle	<ul style="list-style-type: none"> • Mass-marketed • Wide consumer accessibility • 1,000+ retail locations 	Gap, Express, Under Armour, AnnTaylor Loft
Low / Discount	<ul style="list-style-type: none"> • Mass-marketed • Fast Fashion • 1,000+ retail locations 	Old Navy, Forever 21, H&M



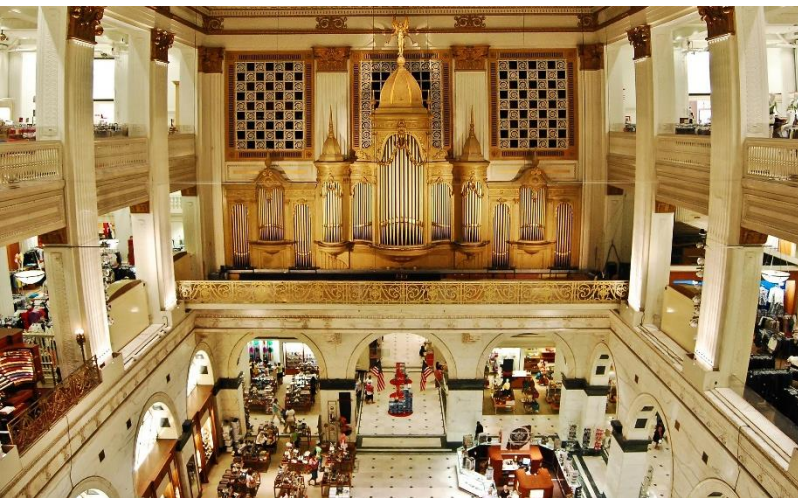


Philadelphia

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Walnut Street refreshes its tenant mix as more Millennials flood Center City

The tenant mix along the Walnut Street corridor, Philly's highest-demand existing retail corridor, continues to diversify to serve a growing residential population in the Rittenhouse Square neighborhood and adjacent areas. The area continues to be Center City Philadelphia's main hub for luxury-lite apparel and has recently welcomed additions to this segment including Rag & Bone to complement existing tenants Vince and Intermix. The most recent tenants have met demand for more convenience shopping, (i.e. Snap Kitchen, Target), health & wellness (i.e. Flywheel, sweetgreen, SoulCycle), and restaurants and bars, appealing to the millennial generation that comprise 40.0 percent of Center City's population. The Walnut Street corridor's strong reputation, walkability and prime location in Center City has made it a draw for online retailers looking to make a splash in the physical world like Warby Parker, Indochino, My.Suit and Bonobos.



Rising rents have caused both local and large-format national retailers, such as Forever 21 and Target, to refocus attention on Chestnut Street, where more affordable rents and larger floor plates are still to be found. With Walnut Street's near-full occupancy, the only new space opportunities are in redeveloped buildings or new construction. As a shopping corridor close to the central business district, residential areas, and major tourist

destinations, the area's retail caters to all three, and all three segments are growing. In fact, Philadelphia saw a record number of visitors in 2015, and the best hotel performance in more than a decade. The adjacent office submarket has welcomed several notable new tenants, decreasing vacancy, and more are on the way, creating a larger market for lunchtime dining options and convenience shopping. The residential population in the core of Center City has grown 7.5 percent since 2010 and 27.0 percent since the year 2000.



With the heightened attention placed on Walnut Street, construction projects and redevelopments are increasingly undertaken by interested investors trying to capture the market. With few opportunities on Walnut Street itself, the corridor is experiencing sprawl, with developers already taking steps to reposition buildings off of Walnut Street, particularly along and near Chestnut Street where floorplates are larger and can therefore accommodate some of the retailers that have circled the market but been unsuccessful in securing space. MM Partners recently purchased a two-story 10,000-square-foot building at 33-37 S 16th for \$6.5 million, while Post Brothers closed on two properties along the 1500 block of Chestnut for \$45 million early last year. With the continued popularity of the corridor and the growing twenty-something population, this type of development is anticipated to continue.

Philadelphia

Market East's vibrant location and development will draw more retailers and consumers in coming years

Market East is on the verge of a major repositioning that is years in the making. Long anchored by Macy's (previously Wanamaker's), the area had otherwise languished due to blighted buildings, vacant lots, and a failed inward-facing mall. Goldman Properties focused efforts to re-tenant 13th Street with mostly local concepts, creating buzz to entice national retailers. Now, the area is seen as the best area to supply Philadelphia's growing CBD with larger format retailers, as well as traditional retailers which are looking for more affordable options than the Walnut Street corridor. Market East welcomed Center City's first Target last year, and interest is strong from previously suburban-focused retailers looking to tap into a swelling millennial and empty nester population. The first three tenants signed at the East Market project - MOM's Organic Market, Design Within Reach, and Iron Hill Brewery - indicate the trajectory for the near term. These will be the first urban core locations for both MOM's and Iron Hill.

The corridor sits between two of the largest visitor nodes: Independence Mall attractions and the Pennsylvania

Convention Center, which also houses Reading Terminal Market. Convention business is up as is visitation to the historic sites. More critical than either of these is the sharp increase in Center City population - up 27.0 percent since 2000 - as well as median household income, which is now comfortably above \$120,000 east of Broad Street. The corridor also sits on top of the city's busiest subway line and one of its three regional rail hubs, expanding retailers' catchment to include commuters.

With nearly one million square feet of new or renovated retail space delivering between 2017 and 2019, leasing activity is achieving a pace not seen in decades. Two major developments transforming a total of four city blocks are attracting tenants across categories that would not have considered the corridor a year or two ago. Dozens of new-to-market tenants associated with these projects are anticipated, as well as additional or flagship locations of existing retailers and new concepts from homegrown restaurateurs. Retail real estate sales are likely to pick up as the area solidifies as a major retail hub. In the short-term, older structures on the strongest blocks may attract interest from developers looking to build out spaces capable of attracting national tenants.





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