

# SOUTHEAST REAL ESTATE BUSINESS®

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## MID-ATLANTIC'S COASTAL ELITES

Metro D.C., Baltimore's high barriers to entry, favorable demographics support new retail projects and redevelopments underway.

By John Nelson



Port Covington in Baltimore will span 235 acres and feature 2.5 miles of waterfront. Weller Development will begin Chapter 1 of the \$5.5 billion project this spring.

The measured retail development activity in Washington, D.C., and Baltimore in recent years has wholly benefitted both markets as rental rates and occupancy are at healthy, attractive levels.

Ben Becker, principal at brokerage firm KLNB, goes one step further when discussing Washington, D.C.'s retail market.

"The D.C. metro area continues to be one of the strongest, if not the single-strongest, retail markets in the country," says Becker. "Our market as a whole is affluent, well-educated and time-constrained."

CoStar Group agrees. In its latest retail market summary, the Washington, D.C.-based research firm reported that the metro retail market has performed



**Ben Becker**  
KLNB

the most consistently among D.C.'s major property types in recent years.

Michael Isen, senior vice president of commercial real estate services firm NAI Michael, says the buying power of Washington's residents is the most important driver for the performance of the metro area's

stores and restaurants.

"The disposable incomes of the people who live here remain some

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## EXPERTS BULLISH ON CAROLINAS RETAIL

Grocers leading the charge as retailers are attracted to region's job, population growth.

By Alex Tostado

From the Charlotte metro area to Raleigh-Durham and back down to Upstate South Carolina and Charleston, North and South Carolina are quickly becoming the top choices for retail developers, owners and consumers, leading retail industry experts say.

With new residents moving to the two-state region's metro areas, grocers are moving in where they can. Raleigh has seen Harris Teeter expand, and Wegmans and Publix en-

ter the market. Costco and Publix are expanding in Charleston. In Upstate South Carolina, Lowes Food and Sprouts Farmers Market are opening their doors to new residents as well.

Charlotte's metro area population is estimated to be about 2.5 million in 2017, good for a 14 percent uptick from the 2010 U.S. Census report. Raleigh-Durham has seen its population grow at a 15 percent rate to more than 2

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In December 2018, Halpern Enterprises delivered Leesville Market Place, a shopping center in Raleigh anchored by Publix. The grocer is expanding throughout the Carolinas.

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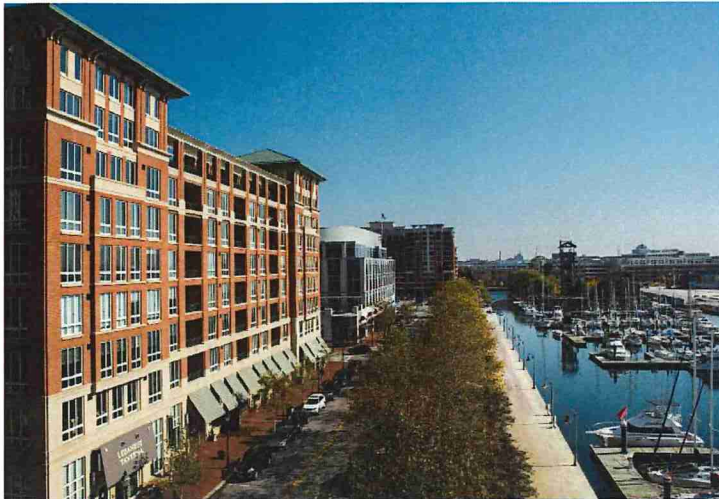
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# MID-ATLANTIC'S COASTAL ELITES

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Harbor East is situated along Baltimore's Inner Harbor. Harbor East Management Group says the river is crucial to the mixed-use neighborhood's success and longevity.



Whole Foods Market is relocating from a 20,000-square-foot store in Harbor East into about 50,000 square feet within Liberty Harbor East, a 22-story residential tower.

of the strongest in the country," says Isen. "That gets spent at local restaurants, grocery stores and businesses."

First Washington Realty Trust (FWR) is a national real estate investment and management firm with more than 25 shopping centers in Maryland, Virginia and Washington, D.C. FWR's senior vice president and national director of leasing, D. Wright Sigmund, says that the median household income within a three-mile radius of its Northern Virginia portfolio is an average of \$117,236, nearly double the national average of \$62,175.

"This translates into higher sales for our merchant partners and resilient rent growth across economic cycles," says Sigmund.

The Northern Virginia area has been in the headlines as Amazon chose Arlington as one-half of its \$5 billion HQ2, the other being in New York City before the e-commerce firm decided to pull out of the Queens borough. The new Arlington campus is still expected to house more than 25,000 employees, which Isen says will be a great shot in the arm for the metro area's retail market.

"That's a lot of workers, so they're going to need a lot of housing, as well as furniture and cars," says Isen.

Forty miles north on Interstate 95, Baltimore is also seeing its retail fortunes improve as the market posted 4.3 percent rent growth in the past 12 months, according to CoStar. It was the first time the city's retail market eclipsed 3 percent growth this economic cycle.

"As a result of an improving econ-

omy here in Baltimore, landlords are able to push rents because retailers and restaurants are performing well, so there's not as much turnover, and landlords are finding the right mix," says Bill Holzman, vice president of leasing at St. John Properties, a Baltimore-based development firm and recipient of the 2018 Developer of the Year honor by NAIOP.

"Overall, landlords are more cautious and looking over financial statements, business plans and pro formas to make sure they make sense so that we're not creating a perpetual swath of vacancies on the market."

CoStar did report that Baltimore had negative absorption totaling 256,000 square feet in the past 12 months, but brokers are quick to mention that those numbers are a product of bad timing as 2018 saw a number of store closures of bigger boxes.

"Big box closures like Toys 'R' Us, Sears and Kmart are certainly to blame for the negative absorption in 2018," says Mark Mueller, president of brokerage at Broad Reach Retail Partners. "Those are slowly being filled up."

Due to their proximity and market size, Baltimore and Washington, D.C., are also helping each other succeed as corporations and investors are increasingly com-

ing to regard the corridor as one large trade area exceeding 9 million people. The commuter traffic between the two metros is also beneficial for the shops and restaurants on the route.

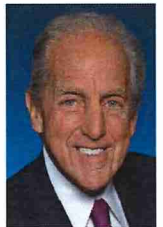
"The commuter lines between Baltimore and D.C. are heavily used," says Geoff Glazer, senior vice president of national development for Kimco Realty. "Plenty of companies have started to see this area as more of a corporate base."

"Baltimore is part of the Washington area to some degree these days," adds Marc Weller, president and founding partner of Weller Development, the lead developer of the \$5.5 billion Port Covington development in south Baltimore. "There's a tremendous amount of people going into Washington, D.C., every day, and there are even more coming up to Baltimore from Washington. We have found that trend to be very helpful."

Proximity, promising demographics and naturally high barriers to entry for Baltimore and Washington, D.C., are attracting developers and owners to invest in the region long-term. Though, few can claim to have as long an ownership stake in the region as locally based and nationally recognized

located within these jurisdictions that are small and cohesive with a community spirit."

Cordish Cos. has a number of sports and entertainment destinations underway across the country, including in Philadelphia, Texas and Jacksonville. The company is also expanding its Spark Baltimore shared office space within its Power Plant Live! development in Baltimore's Inner Harbor district, as well as expanding the events center at the newly opened Live! Casino & Hotel Maryland at Arundel Mills mall in Anne Arundel County.



**David Cordish**  
The Cordish Cos.

## Waterfront Baltimore

This year marks a significant milestone in Baltimore as Weller Development plans to break ground on Chapter 1 of Port Covington, a 235-acre mixed-use redevelopment project in south Baltimore. Apparel brand Under Armour owns 58 acres of land within the project, and the rest is jointly owned by Under Armour-backed Plank Industries and Goldman Sachs Urban Investment Group, which committed \$233 million of equity in the project in 2017.

Sagamore Spirit Distillery opened at Port Covington in 2017. Opening that same year adjacent to the venue was Rye Street Tavern, an American restaurant headed by James Beard award-winning chef Andrew Carmellini and his firm NoHo Hospitality Group.

In addition to these uses, Chapter 1 of Port Covington will span about 3 million square feet and feature office



**D. Wright Sigmund**  
First Washington Realty Trust



**Michael Isen**  
NAI Michael



**Mark Mueller**  
Broad Reach Retail Partners



**Marc Weller**  
Weller Development



Already open and operating at Port Covington are Sagamore Spirit Distillery and Rye Street Tavern, an American restaurant headed by chef Andrew Carmellini.

space, apartments, 269,000 square feet of retail and restaurants, hotels and a live music venue.

The retail and dining components of Chapter 1 are critical to the long-term success of Port Covington, says Steven Siegel, partner at Weller Development. The project will feature pedestrian-oriented retail space, as well as a 13,000-square-foot market and food hall.

"A lot of Baltimore's most successful areas are built around markets, and we plan to do that here," says Siegel.



**Steven Siegel**  
Weller Development

Siegel says the firm isn't engaging in leasing discussions for its inline retail tenants yet but is focusing first on its anchor tenants since they'll be the table setter for the project. Weller says that the firm hopes to feature a blend of local, regional and national tenants.

"It's a very interesting mix that will not only serve local residents and daytime workers, it will also attract people off Interstate 95," says Weller. "We have three exits off the interstate that go directly into Port Covington. There's an incredible opportunity to get people off the road and into our project."

The project will also feature 2.5 miles of waterfront on the Patapsco River, which Weller says is the forgotten ingredient for the project.

"We have a significant amount of shoreline in Port Covington and some bulkhead in our first phase," says Weller. "Combine that with a lack of marinas and boats, we have a beautiful view across the water almost out to the bay across the Key Bridge."

Siegel says that Baltimore doesn't yet have a waterfront main street so

Port Covington could fill that void. Weller Development plans to break ground on Chapter 1 in the spring and begin building in full force in the fall and winter of this year. The company says the combination of uses, waterfront access and presence of Under Armour's world campus will set this project apart from anything else in the trade area or beyond.

"All in all, there's nothing like Port Covington," says Weller. "It's its own thing."

Up the river from Port Covington sits Harbor East, a mixed-use development sitting on 12 city blocks at the city's Inner Harbor. Tim O'Donald, president of owner and developer Harbor East Management Group, says that the river is critical to the success of the project, which launched in 1994.

"The waterfront was vital to merchandising the neighborhood, essentially the restaurants would just go along the waterfront so that people had the vistas out toward the water," says O'Donald, who chairs a business improvement district called the Waterfront Partnership of Baltimore. "We're committed to making sure the waterfront is accessible to citizens and customers. We really see Baltimore's future continuing to develop and evolve around the waterfront."

Whole Foods Market is moving out of its former 20,000-square-foot Harbor East location at 1001 Fleet St. The grocer is relocating to about 50,000 square feet of ground-level retail space at the new 22-story Liberty Harbor East residential building and a mezzanine level. Set to open later this year, the new Whole Foods will feature a café and dining area near the waterfront.

O'Donald says the ethos of Harbor East centers around blending local and regional boutique retailers like Sassanova and South Moon Under, popular eateries like Charleston, national chains like Brooks Brothers, digitally native brands like Bonobos

and Warby Parker and locally driven mainstays like the Under Armour Brand House.

"We wanted to speak to the people who work here, live here and who come here to dine or shop," says O'Donald.

Harbor East Management Group is marketing the former Whole Foods space to three or four retailers, and as of this writing, no letters of intent had been signed. The company also plans to develop another building north of the new Whole Foods that will add another 40,000 square feet of retail space.

### Open-Air Baltimore

Outside of mixed-use neighborhoods on the city's waterfronts, the main through line for metro Baltimore's retail development pipeline are open-air shopping centers. These include Kimco Realty's Mill Station, St. John Properties' Greenleigh at

Crossroads, 28 Walker Development's Canton Crossing and Greenberg Gibbons' Foundry Row, which is still adding tenants to the Wegmans-anchored project.

Greenberg Gibbons is also teaming up with Caves Valley Partners to build a 1.2 million-square-foot mixed-use project called Towson Row in the northern suburb of Towson. The \$350 million development will add 100,000 square feet of retail space to Baltimore County.

Holzman of St. John Properties says that the rise of open-air centers in the metro Baltimore market goes back to the 2000 opening of Greenberg Gibbons' Hunt Valley Towne Centre in northern



**Bill Holzman**  
St. John Properties

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Baltimore County.

"Overall, there was a transition that goes all the way back to when the lifestyle center really started to become attractive to people versus the mall," says Holzman. "What really attracted people was that there wasn't a long walk from the parking lot or parking garage through different corridors to find your specific store. People can pull up relatively near the store and get in and get out with ease."

Additionally, open-air centers tend to feature aesthetic amenities such as park benches, green space and water features. Holzman says the format's walkability factor and outdoor activations help satisfy two types of trips.

"Open-air centers satisfy both the convenience shopper and the destination or entertainment consumer," says

Holzman. "You feel like you're somewhere."

"Open-air centers are the mall reinvented," adds Mueller of Broad Reach Retail Partners.

St. John Properties has begun vertical construction on the residential component of Greenleigh at Crossroads in Baltimore County's Middle River, which has helped the developer gain some momentum with retailers. An unnamed fast casual restaurant, a Thai restaurant and the second location of Michael's Café will join the center's tenant roster, which includes The UPS Store, Subway, Crossroads Wine & Spirits, The Fitness Rave, Malia Salon & Spa and Dunkin' Donuts.

The project also includes a SpringHill Suites hotel, an office building leased to Stanley Black & Decker, an



Mill Station is Kimco's \$108 million redevelopment of the struggling Owings Mills Mall in Maryland. Lowe's Home Improvement opened at the development in late January 2019.

additional office building under construction and a planned grocery store anchor.

"Greenleigh at Crossroads has been a model project for us, we're developing more retail now as a result of the success we've had with that center," says Holzman.

In the thriving submarket of Owings Mills, Kimco Realty is developing Mill Station, a \$108 million shopping center that is replacing the troubled Owings Mills Mall. The developer recently signed leases with Giant Food, a newly opened Lowe's Home Improvement store, Marshalls, HomeSense, Burlington and Five Below. Mill Station also includes a Costco and AMC Theatres.

Kimco Realty's Glazer says that both Costco and Lowe's were ideal suitors for Mill Station.

"Both Costco and Lowe's for the past 10 to 20 years have been looking for opportunities in that corridor that would help serve their clientele," says Glazer. "It's difficult to find large projects like this available. We happened to have a parcel that could fit both retailers, plus outparcel and junior anchor tenants."

At full buildout, Mill Station will total 620,000 square feet and house up to 30 retailers and restaurants.

### Redeveloping D.C.

Because of the high barriers to entry and the established retail pockets throughout metropolitan Washington, D.C., the majority of the retail development pipeline is concentrated in redevelopments. These include projects like City Ridge, the \$640 million, Wegmans-anchored overhaul of Fannie Mae's former headquarters in Washington, D.C., to Ballston Quarter, For-

est City Washington's major facelift of the former Ballston Common Mall in Arlington, Virginia.

"We're seeing our push for new product is through redevelopments, and those redevelopments are taking what was our traditional urban strip center and redeveloping it into a vertical mixed-use project," says Michael Zacharia, senior vice president of CBRE. "We see Arlington, Tysons Corner, Rockville and Bethesda that were

the core, traditional suburban strip shopping center markets that are all now being redeveloped with vertical mixed-use projects. It's really a common theme for us in those infill markets."

"A lot of our product was built in the 60s through the 80s, and at some point things need to be modernized," adds Isen of NAI Michael. "It looks like a lot of landlords are doing that."

The Meridian Group is redeveloping SAIC's corporate campus in Tysons into The Boro, a 4.2 million-square-foot mixed-use development. Meridian has signed several tenants at the 2 million-square-foot Phase I of Boro, including a two-story Ethan Allen furniture store, Whole Foods Market, Verizon Wireless, French bakery Paris Baguette and ShowPlace ICON Theaters.

Federal Realty Investment Trust has a pair of mixed-use redevelopments in the works in the Suburban Maryland area. In North Bethesda, the Rockville, Maryland-based developer razed an aged shopping center it had owned for decades to create Pike & Rose, a \$700 million transit-oriented development situated around the corner from the Metro's White Flint Station.

Phase I of the project opened in 2014

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**Geoff Glazer**  
Kimco Realty



**Michael Zacharia**  
CBRE

and new additions and announcements include a rooftop garden, Porsche dealership, West Elm, Scout & Molly's, Uniqlo, Nada, a food hall known as The Block and Julii, a restaurant from the founders of Cava. Existing retailers at Pike & Rose include REI, Pinstripes, iPic Theaters and L.L. Bean.

"The philosophy behind Pike & Rose's merchandising is to provide the most current and relevant retail, entertainment and dining experiences available in the Washington, D.C., metro area," says Ralph Ours, director of leasing for Federal Realty. "This development offers the best of both worlds: an authentic neighborhood feel and a regional destination."



**Ralph Ours**  
Federal Realty  
Investment Trust

In Bethesda Row, Federal Realty has helped downtown Bethesda's transformation into an urban market with big city amenities. The developer continues to evolve and expand the project, with recent additions including Anthropologie & Co., Amazon Books, the first street retail stores for Peloton and Indochino, clean beauty brand Follain and Philz Coffee.

"Over the last 12 months, we've been fortunate to open many new stores at Bethesda Row, including digitally native and new-to-market concepts," says Ours.

Kimco Realty also has a pair of redevelopment projects underway in the metropolitan area: Pentagon Centre in Pentagon City, Virginia, and Kentlands Market Square in Gaithersburg, Maryland.

Kimco has been underway on Pentagon Centre for the past four years. The nearly 330,000-square-foot center is anchored by Costco and includes Nordstrom Rack, Costco, Marshalls, Best Buy, CVS/pharmacy, California Pizza Kitchen, Starbucks Coffee and Mattress Firm.

"We have a 150-room hotel that's approved to be built on that property, as well as an additional 700,000 square feet of office and 350,000 square feet of retail," says Glazer of Kimco. "We have long-term leases so when we build the pieces of our project it didn't have to significantly affect any of our existing retailers."

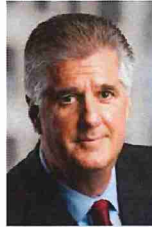
Anchored by Whole Foods Market, Kentlands Market Square was an under-utilized center when Kimco purchased the nearly 250,000-square-foot property in 2016, according to Glazer. The center's tenants now include Cinépolis, Five Below, Michaels and PetSmart.

"For both Kentlands and Pentagon, the strength of their respective markets supports both projects," says

Glazer. "Clearly construction costs keep going up higher than anyone could count on. We don't know where it's going, but you have to choose the markets you want to be in."

### What's backfilling?

No matter how prosperous the trade area or savvy the landlord, shopping center owners say that no one is immune from the fast-paced nature of retail. David Cordish says that his company's Power Plant Live! project in Baltimore housed the first ESPN Zone in the nation and it performed well up until Disney closed the national chain in 2010. Cordish Cos. then backfilled the space to Phillips Seafood, which relocated from its Inner Harbor home of more than 30 years.



**Paul Puma**  
Kimco Realty

Today, the recent wave of store shutterings and bankruptcies from the likes of Payless ShoeSource, Toys 'R' Us, David's Bridal, Charlotte Russe, Bon Ton, Macy's, Sears, Kmart and Hhgregg are reaching far and wide.

"Tenant rollover is inevitable, even in the best constructed portfolios,"



Pike & Rose's new additions that have opened or will open soon include a Porsche dealership, West Elm, Scout & Molly's, Uniqlo, Nada, a food hall and a rooftop garden.

says Sigmund of FWR.

Lost in the shuffle of these store closings are the opportunities those create for other retailers to lease space, often times at rents higher than the ones the previous tenant was paying.

"We had several Toys 'R' Us locations come back, and we're successfully backfilling all of them," says Paul Puma, president of Kimco Realty's Southeast region. "We have ne-

gotiated LOIs with discount retailers or fitness for the entire box, and we've subdivided some boxes for different uses."

FWR recently replaced a former Shoppers Food Warehouse in Centreville, Virginia with a 55,000-square-foot Coast Guard Exchange, which is a first-to-market retailer for the area. Also known as CGX, the store provides merchandise and services to

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In order to gain market share in the Washington, D.C., market, Target is adapting its layout to backfill a vacant 18,000-square-foot store at Sam's Park & Shop.

men and women serving in the Coast Guard, as well as civilians.

Entertainment venues are also finding success backfilling former department stores since those tend to share some of the design elements required to facilitate buildout. In Richmond, Cushman & Wakefield | Thalhimer arranged a lease for Surge Trampoline on the top floors of a former Macy's department store at Regency Mall.



**Tom Fidler**  
MacKenzie  
Commercial Real  
Estate Services

Food and beverage concepts are helping to fill in the gaps as well. Tom Fidler, executive vice president and principal at MacKenzie Commercial Real Estate Services,

says that in the past three years, nearly 70 percent of all retail leasing has been from restaurants, bars and eateries like coffee shops and ice cream vendors.

"For a few years, restaurants were the only ones leasing," says Fidler.

"The D.C. metro is an especially active with restaurant deals," adds William Winterburn, vice president of leasing at Lerner Enterprises. "We are fortunate to have strong real estate allowing Lerner to make various types of recent [food and beverage] deals, including freestanding and inline, sit down and fast casual, as well as food court and kiosk deals. Recently we have done deals with concepts such as Cava, Leon, Fogo de Chao, Finn Thai and Los Toltecos."

In the Maryland town of Bowie, BJ's Restaurant and Brewhouse replaced a former Sears Auto Center at Bowie Town Center.

"BJ's Brewhouse and Restaurant opened in 2018 and is leading the way in the redevelopment of that portion of Bowie Town Center formerly occupied by Sears," says John Henry King, economic development director for

the City of Bowie.

Larger-format retailers are also adapting their floor plans in order to expand in Mid-Atlantic's tight submarkets. In Washington, D.C., Target is backfilling a former Petco space at Sam's Park & Shop, a shopping center owned by Federal Realty in the city's Cleveland Park neighborhood.

"We are excited to bring Target's urban-format to the Cleveland Park community," says Ours of Federal Realty.

Target has also leased 46,016 square feet of space at City-Line, a historic retail destination in northwest Washington, D.C. Formerly home to the first Sears store in the city, the new Target is set to open in 2020.

In addition to national brands like Target, owners and brokers are also noticing positive feedback from the



**John Henry King**  
City of Bowie

younger generation when they lease space to local and regional retailers and restaurants.

"Millennials are seeking out the local or regional operator, and they're justified committing their dollars on local businesses," says Fidler. "That's been a phenomenal change in both theory and practice, especially for these small concepts that are having more success and stability than they've ever had."

## Grocers checking in

Grocers are also helping to backfill the space left behind by traditional retailers. In Bel Air, Maryland, Sprouts Farmers Market is leasing a former Hhgregg store within Tollgate Marketplace. Chris Read, senior vice president of retail services at Colliers International's Norfolk office, says his home market of Hampton Roads has seen a number of backfilling from experienced grocers like Food Lion and Harris Teeter.

"The grocery sector has been very active in Hampton Roads, with new locations being added by Aldi, Kroger and Harris Teeter," says Read. "The exit of Farm Fresh (SuperValu) has created a number of real estate opportunities."

The newest entrant to the grocery scene in Hampton Roads is Wegmans, which plans to open a new 113,000-square-foot store in Virginia Beach, in addition to the Fannie Mae headquarters overhaul in Washington, D.C. The new

Wegmans is set to open in April near Virginia Beach Town Center at the intersection of Virginia Beach and Independence boulevards.

The Hampton Roads region, a trade area in coastal Virginia that spans

nearly 1.7 million people, is about to get a new IKEA store as well.

Other grocery activity in the region includes Harris Teeter opening a new 53,000-square-foot store within Great Neck Square shopping center in Virginia Beach, as well as a new 59,000-square-foot store within Bennett's Creek Crossing in Suffolk.

In the Roanoke area, Food Lion has invested \$91.7 million to remodel 63 stores and hire an additional 2,000 associates.

Regional grocery chain Publix has been continuously expanding north along the East Coast from its home state of Florida. The grocer's most northern stores are in the metro Richmond area, where Publix has 13 new stores either recently opened or underway.



**David Beitz**  
Beitz and Daigh  
Geographics

"It's wonderful to have these best-in-class grocers expanding into the area and the diversification of offerings is something that provides value to the shopper," says Sigmund of FWR. "We are always happy to see new demand in the grocer space and we are actively engaged with all of the players."

The general consensus among retail owners and brokers is that grocery stores have yet to be infiltrated by e-commerce to the point where it's a disruption. Grocers are partnering with online delivery services like Instacart, Shipt (Target) and Amazon Prime (Whole Foods) to gain market share, but nothing is yet replacing these stores.

"These services are now adding large numbers of zip codes to more suburban and even semi-rural areas," says David Beitz, partner at Beitz and Daigh Geographics, which tracks the locations of new and proposed grocers nationwide through a mapping platform called Planned Grocery. "Technology is making it easy to get your groceries delivered, but it's still more expensive."

Planned Grocery's clients include grocery retailers, shopping center owners and developers, as well as investment banks and hedge funds. Beitz says that according to their data, Aldi is the nation's fastest growing grocery retailer with 58 new locations opened in the last six months. Beitz says that Lidl, another German discount grocer, is the most active in the Southeast and Mid-Atlantic region.

"We are tracking 68 proposed sites and 59 planned sites for Lidl," says Beitz. "We define 'proposed' as a site that still has significant hurdles to overcome such as zoning, or still having to get various city approvals. 'Planned' is when all signs point to construction starting." ■



Wegmans is expanding south down through the Mid-Atlantic region. The grocer plans to open a Virginia Beach store in April. (Pictured is a store in Alexandria, Virginia.)