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# Supermarket Spike: Measuring Apartment Rent Growth Around New Grocery Stores

May 14, 2019 Jon Banister, Bisnow Washington, D.C.

Apartment developers expect to receive higher rents when a new grocery store opens next door, but a new report sheds light on which grocery chains come with the largest rent premiums and where in the D.C. region that premium tends to be highest.



The Whole Foods at 101 H St. SE, in WC Smith's The Collective development, opened in September

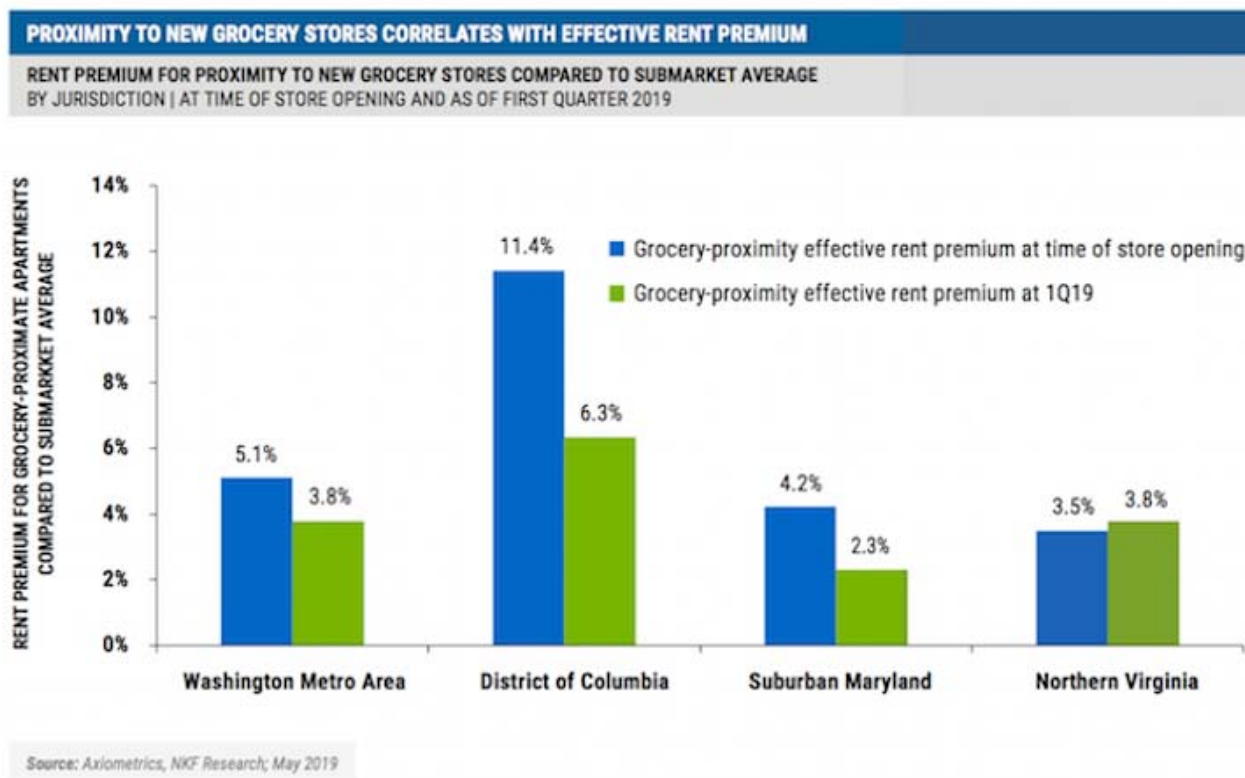
Across the D.C. region, apartments near a new grocery store had rents more than 5% higher than the submarket average at the time of the store's opening, Newmark Knight Frank's Grocery Store Effect report found.

NKF's report analyzed 55 grocery stores across the region that have opened since January 2014 and 402 apartment properties within a nearby radius, defined as a half-mile for the District and 1 mile for Northern Virginia and Suburban Maryland.

NKF Research Director Bethany Schneider said she expected to find grocery stores associated with higher rents, but was surprised by the magnitude of the rent premium.

"The overall premium of 5.1% higher than the submarket average was pretty surprising," Schneider said. "That is a significant premium." The rent premium was highest in the District, with apartments near new D.C. grocery stores achieving an 11.4% premium over the submarket average at the time of the store's opening. The premium was 4.2% in suburban Maryland and 3.5% in Northern Virginia. Schneider attributed this to fewer people owning cars in the District than in the suburbs.

"Having a grocery store right there is a lot more important when you don't have a car than it is in the suburbs when you could go further," Schneider said. "I think that's why the premiums in D.C. area are a lot more than in the suburbs, because the accessibility is more important."



A graph from NKF's report showing grocery-related rent premiums across the D.C. region Courtesy of Newmark Knight Frank

The report compared rent prices upon the stores' opening with the latest rent price as of Q1, finding that the rent premium around most new grocery stores peaks when the store opens and then decreases over time. Additionally, it found apartment rents begin increasing after the announcement of a new store, even if the store has not yet opened.

"We attributed it to the novelty of a new store," Schneider said. "Apartment owners are able to market that there is a brand-new grocery store less than a mile away and bake that into their rental rates."

Rent premiums were much higher in apartment developments anchored by grocery stores in the ground floor, rather than just being within a short walk, the report found. In the District, grocery-anchored

apartments achieved a 10.4% premium over other apartments within a half-mile radius and a 24.6% premium over the submarket average.

Stonebridge Managing Principal Doug Firstenberg, who developed the Harris Teeter-anchored Constitution Square in NoMa and Flats 8300 in Bethesda and recently signed Wegmans to anchor an Alexandria project, said he consistently sees higher rents for grocery-anchored projects, and now underwrites that premium when projecting finances for new developments.

"Our theory when we did our first grocery store and apartment building in 2006 was that we would certainly see a rate premium and hopefully a lease-up premium," Firstenberg said. "Having now done that several times, without question we have seen both. We have also seen an occupancy premium on a long-term basis."

Whole Foods, the popular organic grocer commonly associated with rising housing prices, achieved the highest rent premium, NKF's report found. Apartments near new Whole Foods stores had 8.4% rent premiums over the submarket average at the time of the stores' opening. But Safeway was not far behind, achieving an 8.2% rent premium upon the opening of the store.

Harris Teeter came next with a 7.9% premium, followed by Lidl with 5.9%, Giant with 4.2%, Trader Joe's with 2.9% and Aldi with a 2.6% premium.

Schneider said the sample sizes when measuring individual grocery store chains were smaller than the full data set and more likely to be affected by outliers and other factors affecting rent prices. For example, the opening of Safeway stores in Hyattsville and Petworth achieved 19.2% and 18.4% premiums, respectively, which were much higher premiums than the other Safeways measured.



The Safeway at 3702 East West Highway in Hyattsville Google Maps

The Hyattsville Safeway at 3702 East-West Highway, which opened in 2016 as part of an Echo Real Estate development, shows the conditions that can lead grocery stores to be associated with massive rent spikes.

"In the case of the one on East-West Highway, that whole development was new and was in an area that is quickly developing with higher amenities in a place that didn't have them before," Schneider said. "For that reason, rents are rising pretty rapidly there."

Studying apartment rents associated with new grocery stores presents a natural chicken-and-egg dilemma, Schneider said, because grocery stores can cause rent spikes, but they also tend to open in areas already experiencing rent increases. But she said that distinction should not matter for apartment developers.

"It's a little bit of both, but in the end the premium seems to be present across the board, so for developers the reason behind the premium is less significant than the fact the premium is there," Schneider said. "It seems grocery stores are a good bet for developers in every case."