

**Development Feasibility Analysis:  
Safeway Site: 221 West Glebe Road**

**Alexandria, Virginia**

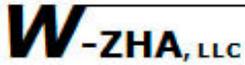
**Submitted by:**

**W-ZHA, LLC**

**May, 2008**

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## EXECUTIVE SUMMARY

### INTRODUCTION

W-ZHA, LLC, a national real estate advisory firm located in Annapolis, MD, was retained by the Weissberg Corporation to analyze the near term feasibility of redeveloping its property at 221 West Glebe Road in Arlandria. This study determines whether the redevelopment of the Subject Site as envisioned in Arlandria's "Long-Term Vision Plan" is economically feasible given near term market realities. The following table highlights the threshold rents and values required to make a project on the Subject Site economically feasible.

#### Redevelopment Economics <sup>n</sup> Required Rent To Be Economically Feasible

Residential Rent	\$2.80 per square foot per month
For-Sale Residential Price	\$360 per square foot
Office Rent	\$29.65 NNN per square foot per year
Retail Rent	
With Tenant Improvements	\$29.65 per square foot per year
Without Tenant Improvements	\$26.50 per square foot per year

1. These thresholds were determined without land cost.

Source: W-ZHA

### ARLANDRIA'S AND THE SUBJECT SITE'S MARKET STRENGTHS AND CHALLENGES

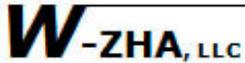
The Subject Site is located in a unique community that is incredibly diverse. Arlandria has been growing and accounts for more and more of the City's household growth. Arlandria is well located, but it is not directly accessible/visible from major transportation routes like South Glebe, I-395 and Route 1. Arlandria is very different (both economically and socially) from the neighborhoods further south on Mount Vernon Avenue.

From a conventional real estate investor's perspective the social and economic profile of the community suggest that it is a "fringe" location. To develop in Arlandria would entail more risk than a number of locations relatively close by.

### RESIDENTIAL MARKET OBSERVATIONS AND CONCLUSIONS

W-ZHA concludes that condominium development on the Subject Site is not feasible at this time for the following reasons:

- The capital markets are generally not interested in financing condominiums at this time;



- The Subject Site is in a location that is untested from a condominium standpoint – there are no direct comparables;
- From a financier’s perspective, the Site is in a “fringe” neighborhood– neighborhood demographics are relatively weak, there are perceived crime issues, there is no Metro Station, and the quality of the built environment surrounding the Site is marginal; and,
- There are superior sites available in the marketplace with plans to develop condominiums (Potomac Yard)

Over time, as the capital markets stabilize and recover from the sub-prime mortgage debacle, there may be condominium development potential on the Subject Site.

In considering the redevelopment of the Subject Site for apartments, there should be concern that with Potomac Yard and the “triangle site”, there may be a lot of apartment units coming onto the market at the same time. If competitively priced Potomac Yard is well positioned to capture the broad market that is mostly looking for a convenient location in the Alexandria/Arlington area. The “triangle site” on Mount Vernon Avenue is better positioned than the Subject Site to attract those households looking for a more unique, walkable, urban environment.

We conclude that it is unrealistic to assume that an investor will be interested in redeveloping the Subject Site for apartments in the near term; the rent premium is well above any other comparable project in the vicinity. The investment threshold for rental residential is \$2.80 per square foot per month. The highest rent in an apartment complex in the Arlandria neighborhood is approximately \$2.00 per square foot. The premium for new construction would require that the market support rents 40 percent higher than they are today. The market fundamentals such as household and average income growth are simply not there yet in the Arlandria neighborhood.

If the “triangle site” is successful on Mount Vernon Avenue north of Commonwealth Avenue, the redevelopment potential of the Subject Site will be significantly enhanced. W-ZHA concludes that redevelopment further south on Mount Vernon Avenue is necessary before the Subject Site’s potential can be fully realized.

## **OFFICE MARKET OBSERVATIONS AND CONCLUSIONS**

W-ZHA concludes that the Subject Site is not a competitive location for multi-tenant office targeting corporate clients. While there is service-office demand, it is not sufficiently large to justify the redevelopment of the Subject Site.

As a build-to-suit location, Arlandria’s distinct identity coupled with its location in Alexandria, eclectic commercial district and access to public transit could be attractive to the right business. It could be an attractive location for a business whose corporate image/identity is consistent with all that Arlandria has to offer. Consideration should be given to identifying target companies and marketing the Site to these prospects.



## **RETAIL MARKET OBSERVATIONS AND CONCLUSIONS**

There is retail potential in Arlandria. From a market perspective, the near term opportunity is greatest for additional one-story, inexpensive space, however. Because this type of space is inexpensive it is attractive owner-operated, specialty retail; the type of retailers attracted to Arlandria's eclectic character.

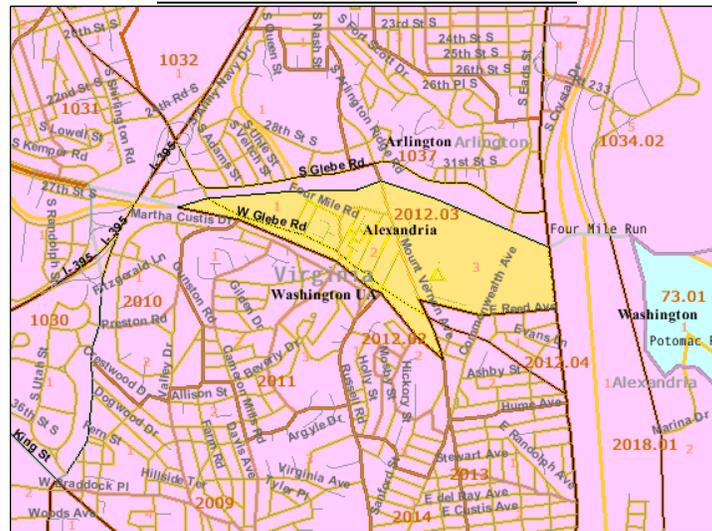
## INTRODUCTION

### The Arlandria Neighborhood

As its name reflects “Arlandria” is located on the border of Arlington County and the City of Alexandria. The 2002 “Long-Term Vision Plan and Action Plan for the Arlandria Neighborhood” defined the boundaries of the Arlandria neighborhood as bounded on the north by Four Mile Run, on the southwest by West Glebe Road, and on the east by Four Mile Run Park.

As depicted below, Census Tract 2012.03 contains Arlandria. For analytic purposes, data for this census tract has been applied to the Arlandria neighborhood in order to understand its demographic and economic characteristics.

**Census Tract 2012.03 Boundaries**



Source: United States Census Bureau

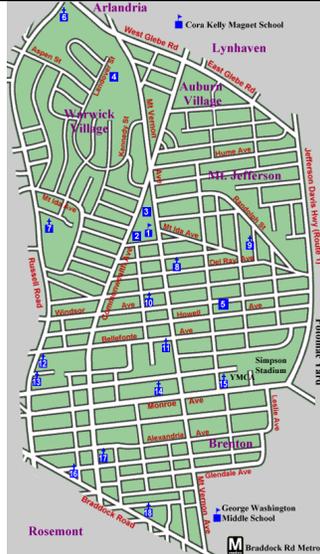
Arlandria is located within the “Potomac West” planning area, which contains the following census tracts: 2012.03, 2012.02, 2012.04, 2013, and 2014. The boundaries of Potomac West are illustrated below.

### Potomac West Area



The Del Ray Community is located south of West Glebe Road. Del Ray's neighborhood boundaries as defined by its Citizens Association are illustrated below.

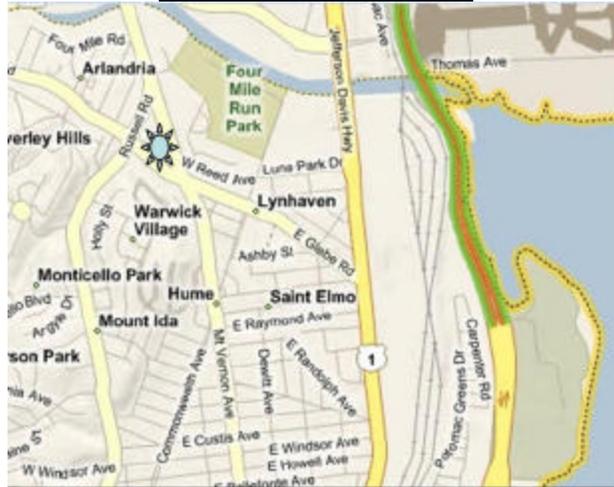
### Del Ray Neighborhood Boundaries



Source: Del Ray Citizens Association

The Subject Site

**221 West Glebe Location**



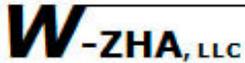
Source: Microsoft MapPoint

The Subject Site, 221 West Glebe Road, is located in Arlandria. Almost 3 acres in size, the Subject Site is oddly shaped. It has approximately 445 feet of frontage on West Glebe Road, 72 feet of frontage on Mount Vernon Avenue and approximately 250 feet along its other two sides. The Site can be accessed via Mount Vernon Avenue and West Glebe Road.

**221 West Glebe Road**



The site contains a building of approximately 20,000 square feet and surface parking. The building once contained a Safeway grocery store (hence the community moniker, “the Safeway Site”). The building



now has three tenants: *Cerro Verde Restaurant*, a discount department store (*\$+Imports*), and a *Duron Paint* store.

### Planning Background

From 2000 to 2003, the City worked with a neighborhood task force to develop The “Long-Term Vision Plan and Action Plan for the Arlandria Neighborhood.” This plan identifies the “Safeway/Datatel” site as a key redevelopment site. That site is roughly the triangle formed by West Glebe Road, Mount Vernon Avenue and the property boundary across the back of the grocery store building. The Subject Site accounts for approximately 56 percent of the “Safeway/Datatel” site; thus, the Subject Site is not the entire “Safeway/Datatel” site.

At the time the plan was written, both the Subject Site and the six story Datatel building were vacant. The Datatel building since has been demolished by the City and replaced by a surface parking lot.

The community envisioned a mixed-use development on the “Safeway/Datatel” site. Such development has the potential to bring activity to the area. As envisioned, the “Safeway/Datatel” site will be redeveloped with ground floor retail and upper-level office or residential land uses. Redevelopment of this pivotal site would help to create a “gateway” to Arlandria’s commercial district on Mount Vernon Avenue.

A key principle of the Vision for the Arlandria neighborhood is economically viable development. For the “Safeway/Datatel” property the Vision contains the statement that “any new development should be economically viable.”

### Study Purpose

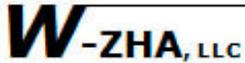
This study seeks to determine whether the redevelopment of the Subject Site as envisioned in the “Long-Term Vision Plan” is economically feasible given near-term market realities. This Study tests the marketability of the Subject Site, not the entire “Safeway/Datatel” property. The conclusions reached in this Study, however, are applicable to the entire “Safeway/Datatel” property.

The Study begins with a definition of economic viability from a private developer’s perspective. Next, market strengths and challenges facing Arlandria and the Subject Site are summarized. Finally, trends and indicators as they relate to the residential, retail and office markets are presented. For each land use, W-ZHA concludes with an opinion as to whether now is the time to capitalize on this Site’s (and Arlandria’s) unique locational attributes.

## **DEFINITION OF ECONOMIC VIABILITY**

### Introduction and Methodology

Successful real estate projects must generate sufficiently large revenues (or sale prices) to justify the investor’s time, money and risk. For revenue-generating projects (in other words, rental projects not for-sale projects) the simplest and most common method for obtaining a snapshot of the economics of a real estate deal is by using the “return-on-cost” ratio. That method divides the projected net operating income of a project into the total cost to develop the project.



If the project's net operating income achieves a certain percent of the project's development cost ("investment threshold"), the project is worth pursuing. If a rental project's economics cannot achieve the investment threshold the project is not economically feasible. In these cases, developers typically seek out subsidies.

This methodology does not deal with the time value of money, capitalization rates, financing, etc. It is a simple calculation that can be done on the back of an envelop but it goes to the heart of the matter: can a project generate sufficient income to justify its costs?

Net operating income is defined as revenue less operating costs – it does not include debt service. Most retail leases "pass through" a vast majority of operating expenses to the tenants. Office projects vary – some charge full service rents that cover all operating costs, while others charge triple net rent. Triple net rent means the tenant is charged an additional amount to cover property taxes, maintenance and operating expenses. Rental residential projects typically include in their rent such operating costs as maintenance and property taxes, but not utilities.

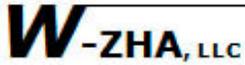
Price Waterhouse Cooper's "Korpacz Investment Survey" sheds light on current market conditions as they relate to investment thresholds. The Korpacz Investment Survey tracks the "overall capitalization rate (OAR)" or initial rate of return on an all cash transaction among various land uses. As of the fourth quarter of 2007, investors in the Northern Virginia Central Business District office market accepted OARs from 5.00 percent to 9.0 percent, with the average OAR at 6.8 percent. Investors in the rental apartment market accepted OARs from 3.50 percent to 8.0 percent, with the average OAR at 6.6 percent

In W-ZHA's joint development experience when initially scouting a project, a typical investment threshold for rental property is between 7.5 percent and 8.5 percent depending upon the land use. Rental residential tends to be at the low end of the scale with office at the high end. These thresholds are higher than the OAR average because these are *planning* thresholds, not actual returns. When planning a project higher investment thresholds are assumed to compensate for risk.

In terms of for-sale products, a typical investment threshold is a return of 20 percent. This means that sale proceeds must be at least 20 percent higher than the total development cost.

#### Return-On-Investment Thresholds

The development cost estimates provided below are based on recent joint development negotiations in the Washington, D.C. area. These costs represent quality, stick-built product. **The development cost estimates exclude land cost.** The value of land is a function of the land owner's aspirations and the market's value. Land cost will increase development costs and, in turn, required rents/prices.



**Development Costs By Land Use  
Assuming No Land Costs**

	Per Gross Square Foot of Building Area		
	Residential - Rental	Office	Retail
	w/Pkg & Infrastructure	w/Pkg & Infrastructure	w/Pkg & Infrastructure
Building & Contingency	\$145	\$130	\$130
Parking	\$23 <sup>/1</sup>	\$59 <sup>/2</sup>	\$59 <sup>/2</sup>
Infrastructure & Site	8% <u>\$12</u>	<u>\$11</u>	<u>\$11</u>
Sub-Total: Hard Costs	\$180	\$200	\$200
Soft Cost	16.0% <u>\$29</u>	12.0% <u>\$24</u>	12.0% <u>\$24</u>
Fees	9.5% <u>\$17</u>	9.5% <u>\$19</u>	9.5% <u>\$19</u>
Sub-Total: Development Cost	\$226	\$243	\$243
Tenant Improvements		\$40	\$40
Financing	8% <u>\$18</u>	8% <u>\$19</u>	8% <u>\$19</u>
Total Cost Exc. Land	\$244	\$302	\$302
<b>Say</b>	<b>\$245</b>	<b>\$300</b>	<b>\$300</b>

1. Assumes 1.2 spaces per unit. Spaces estimated to cost \$23,000 per space.
2. Assumes 1 parking space per 1,000 square feet.

Source: W-ZHA

The retail development costs assume a mixed-use building. Thus, retail entails the same cost as office.

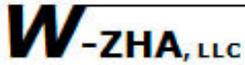
Given these development cost assumptions, at a minimum, a residential project will have to be able to charge rents in excess of \$2.80 per square foot per month to meet the return-on-investment threshold. This amounts to approximately \$1,970 per month for a one-bedroom apartment.

**Rental Residential Economics  
Required Rent To Be Economically Feasible**

Development Cost /Gross Square Foot	\$245
Development Cost /Rentable Square Foot	\$288
8% Investment Threshold/Required Net Operating Income	\$23.06
Less: Other Income/Fees @ 5%	-\$1.15
Plus: Operating Expenses @ 35% of Income	\$10.64
Total Rent /Year	\$33.70
<b>Required Rent /SF /Month</b>	<b>\$2.81</b>

Source: W-ZHA

Condominiums would have to sell for at least \$360 per square foot. This amounts to approximately \$254,000 for a 1-bedroom condominium.



**Condominium Residential Economics  
Required Prices To Be Economically Feasible**

Development Cost /Gross Square Foot	\$245
Development Cost /Rentable Square Foot	\$288
20% Investment Threshold	\$346
Plus: Sales/Commissions	\$17
<b>Required Price</b>	<b>\$363</b>

Source: W-ZHA

A triple net rent in excess of \$29.00 per square foot per year is required to justify office development on the Subject Site. This amounts to a full-service rent of approximately \$38. to \$40 per square foot.

**Office Economics  
Required Rent To Be Economically Feasible**

Development Cost /Gross Square Foot	\$300
Development Cost /Rentable Square Foot	\$353
8% Investment Threshold/Required Net	\$28.24
Plus: Vacancy Allowance	\$1.41
<b>Required Rent /SF /Year</b>	<b>\$29.65</b>

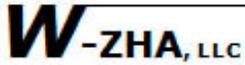
Source: W-ZHA

Retail can be marketed with or without tenant improvements included. With tenant improvements retail space must be able to obtain a rent of \$29.65 per square foot per year. Without tenant improvements, the rent could be reduced to \$26.50 per square foot per year.

**Retail Economics  
Required Rent To Be Economically Feasible**

Development Cost /Gross Square Foot	\$300
Development Cost /Rentable Square Foot	\$353
8% Investment Threshold/Required Net	\$28.24
Plus: Vacancy Allowance	\$1.41
<b>Required Rent /SF /Year</b>	<b>\$29.65</b>

Source: W-ZHA



Conclusions

The following table highlights the threshold rents and values required to make a project on the Subject Site economically feasible.

**Redevelopment Economics <sup>1</sup>  
Required Rent To Be Economically Feasible**

Residential Rent	\$2.80 per square foot per month
For-Sale Residential Price	\$360 per square foot
Office Rent	\$29.65 NNN per square foot per year
Retail Rent	
With Tenant Improvements	\$29.65 per square foot per year
Without Tenant Improvements	\$26.50 per square foot per year

1. These thresholds were determined without land cost.

Source: W-ZHA

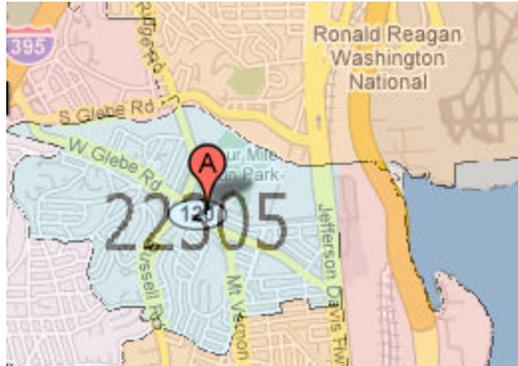
**ARLANDRIA’S AND THE SUBJECT SITE’S MARKET STRENGTHS AND CHALLENGES**

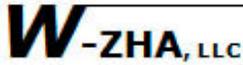
Market Strengths

***An Attractive Location***

Arlandria and Potomac West are within minutes of Potomac Yard, Crystal City, Washington, D.C., and Downtown Alexandria. Route 1, Interstate 395 and South Glebe Road are major regional thoroughfares easily accessible from Arlandria. Metro is not within walking distance, but the Braddock Road and Crystal City stations are a short bus ride away. City bus service on Mount Vernon Avenue is reportedly very good.

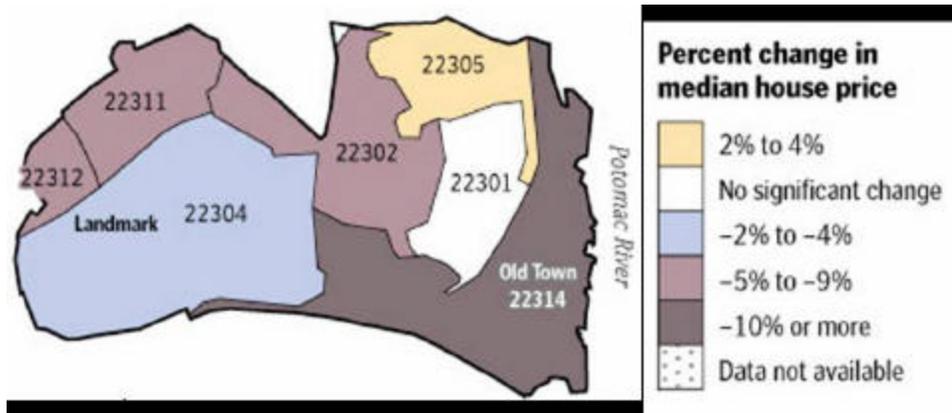
**22305 ZIP Code Boundaries**





Arlandria is located in ZIP code area 22305. According to Washington Post, this ZIP code area was the only area in Alexandria where home values appreciated markedly in value from 2006 to 2007. Its locational assets make it an attractive residential location.

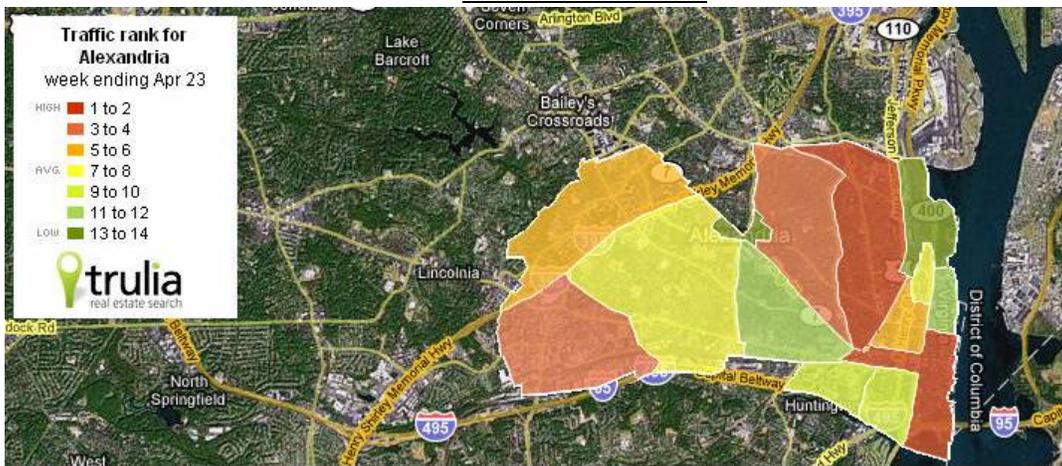
**For-Sale Housing Appreciation (Excluding Condominiums)  
Alexandria ZIP Codes  
2007-2008**



Source: Washington Post, "2008 Housing Outlook"

Trulia.com tracks home sales and location requests on its Website. The map below ranks Alexandria neighborhoods by the level of consumer interest over the last three months. Potomac West is among the most "trafficked" areas of Alexandria.

Real Estate Searches



Source: Trulia Real Estate; February to March 2008.

Household trends indicate that the Potomac West area, while largely built-out, continues to grow. Potomac West's household growth accounted for just less than 8 percent of the City's household growth between 1990 and 2000. According to Claritas, Inc., a nationally recognized consumer research



company, between 2000 and 2007, Potomac West’s share of the City’s household growth increased significantly to 13 percent between 2000 and 2007.

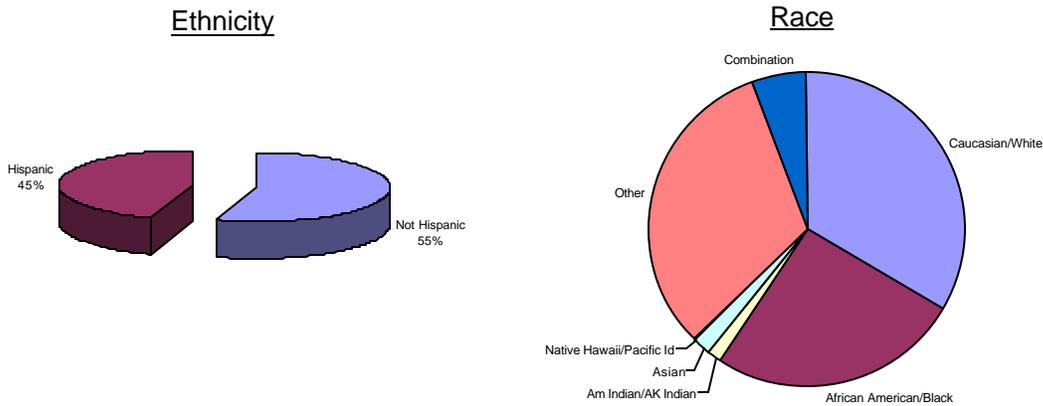
**Household Trends  
City of Alexandria and West Potomac  
1990, 2000, 2007**

	1990			1990-2000		2000-2007	
	1990	2000	2007	#	%	#	%
City of Alexandria	53,382	61,889	65,919	8,507	15.9%	4,030	6.5%
West Potomac	7,627	8,284	8,818	657	8.6%	534	6.4%
<i>West Potomac Share</i>				7.7%		13.3%	

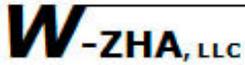
Source: Claritas, Inc.

***Arlandria Is Distinctively Diverse***

As the data below demonstrate, Arlandria is ethnically and racially diverse. Approximately 45 percent of the neighborhood’s households are Hispanic and two-thirds consider themselves non-White/Caucasian.



Arlandria is uniquely diverse when compared to the City and other areas of Potomac West and this uniqueness is recognized as a potential asset.



**Demographic and Economic Comparison  
Alexandria, Arlandria and Neighboring Zip Codes  
2007**

Census Tract	% Hispanic	% White/ Caucasian
<b>Alexandria</b>		
City	9%	67%
<b>Arlandria</b>		
2012.03	45%	33%
<b>Mount Vernon Avenue From West Glebe/East Reed to Hume Street</b>		
2012.02	8%	75%
2012.04	11%	51%
<b>Mount Vernon Avenue From Hume St. to East Braddock</b>		
2013	2%	86%
2014	4%	90%

Source: Claritas, Inc.

*The Area Around Arlandria Is Relatively Affordable*

According to the Washington Post, the median sale price for a home in the Arlandria ZIP code (22305) was the lowest in the City in both 2006 and 2007. Housing has been appreciating in the area, however. In 2006 the median value of a home in ZIP code 22305 was 77 percent of the City average. In one year, 2007, the median value increased to 82 percent of the City's average.

**Housing Sale Trends  
Alexandria Zip Codes  
2006 and 2007**

Zip Code	2006		2007		% Change	
	Homes Sold	Median Purchase Price	Homes Sold	Median Purchase Price	Homes Sold	Median Purchase Price
22301	250	\$564,500	242	\$570,000	-3%	1%
22302	106	\$752,500	97	\$690,000	-8%	-8%
22304	426	\$575,000	318	\$552,500	-25%	-4%
<b>22305</b>	<b>223</b>	<b>\$464,900</b>	<b>157</b>	<b>\$473,000</b>	<b>-30%</b>	<b>2%</b>
22311	62	\$581,250	53	\$535,000	-15%	-8%
22312	27	\$525,000	24	\$482,500	-11%	-8%
22314	553	\$695,000	408	\$620,000	-26%	-11%
<b>Total</b>	<b>1,647</b>	<b>\$599,000</b>	<b>1,087</b>	<b>\$577,500</b>	<b>-34%</b>	<b>-4%</b>

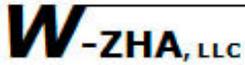
Source: Washington Post, "Housing Outlook, 2008"; W-ZHA



Rents among Arlandria's rental properties are below the City's average rent as well. For example, a one-bedroom apartment in *Glebe House* rents for approximately \$1,000 to \$1,180, while the City average is approximately \$1,350<sup>1</sup>.

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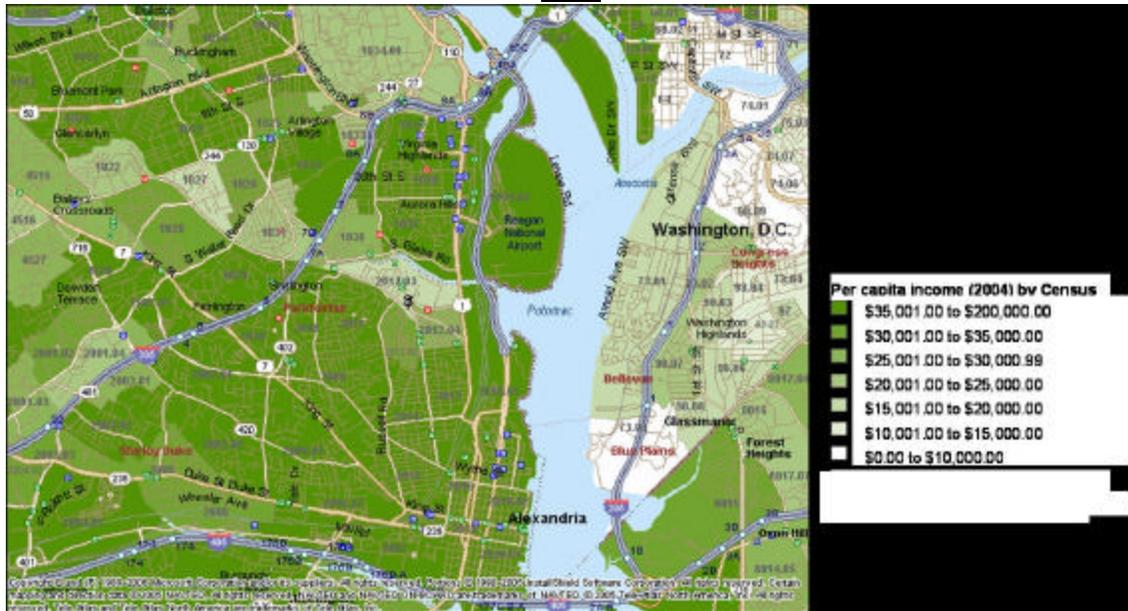
<sup>1</sup> *MyNewSpace* apartment database.



**Arlandria Is Surrounded By High-Income Neighborhoods**

The map below shows 2004 per capita income by census tract. Arlandria’s per capita income is low (as illustrated on the map by the light color); in 2007 income in Arlandria was estimated to be approximately \$21,000 per capita. The areas around Arlandria have high per capita incomes.

**Per Capita Income By Census Tract  
2004**



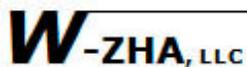
Source: Microsoft MapPoint

**Arlandria Has a Commercial District With Specialty Retail, a Nationally Recognized Entertainment Venue and Convenience Goods**

One of the key attributes of urban living is being able to walk to goods and services. Arlandria as a whole and the Subject Site specifically, offer this amenity. According to a retail study conducted in 2002, Arlandria possesses as much retail space as a conventional community shopping center. Unlike a conventional center, however, Arlandria contains many ethnic shops and restaurants and an organic food store. A nationally recognized entertainment venue, the Birchmere, is also located in Arlandria’s commercial district.

**The Subject Site Is A Gateway to the Neighborhood**

For those traveling to Arlandria, the Subject Site is prominent at the corner of Mount Vernon Avenue and West Glebe Road. If there were an ideal location for a landmark project in Arlandria, there is no question that this would be the site.



Challenges

*Arlandria Is an Enclave*

While Arlandria’s distinctiveness can be looked at as a market opportunity, it also may be looked at as a market challenge. While the neighborhood’s location is good, a number of factors suggest that Arlandria is cut off from the Potomac West neighborhood. As the table below illustrates it is distinctively different from areas to the south in terms of demographics and economics. It appears from the data, that incomes decrease and diversity increases as one moves north on Mount Vernon from East Braddock to Four Mile Run.

**Demographic and Economic Comparison  
Arlandria and Neighboring Zip Codes  
2007**

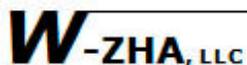
<b>Census Tract</b>	<b>Household Households</b>	<b>Household Growth 2000-07</b>	<b>Avg. Hshld Size</b>	<b>Per Capita Income</b>	<b>Median Income</b>	<b>% Hispanic</b>	<b>% White/Caucasian</b>
<b>Arlandria</b>							
2012.03	2,357	15.9%	3.07	\$20,978	\$50,678	45%	33%
<b>Mount Vernon Avenue From West Glebe/East Reed to Hume Street</b>							
2012.02	1,477	4.8%	2.28	\$37,907	\$70,164	8%	75%
2012.04	1,459	14.8%	2.25	\$27,950	\$52,301	11%	51%
<b>Mount Vernon Avenue From Hume St. to East Braddock</b>							
2013	1,338	-6.3%	2.08	\$45,821	\$73,538	2%	86%
2014	1,812	-0.4%	2.04	\$55,583	\$85,404	4%	90%

Source: Claritas, Inc.

Arlandria’s demographics are in such stark contrast to the remainder of Potomac West, there is some question as to whether (or how quickly) the market will be attracted to this location. The “market” in this case refers to businesses, households and retailers willing to pay the prices required of new development. Householders and retailers looking for an affordable location might certainly consider Arlandria. However, would the same householder looking at new space in Del Ray consider Arlandria?

*Arlandria’s Income and Income Growth Are Below Those of the Surrounding Area*

The median income in Arlandria has been growing at a faster rate than the City’s. Yet, the neighborhood’s median income is still well below the average for the City. Since 2000, the rate of income growth has been faster among the neighborhoods further south on Mount Vernon.



**Median Income Trends  
Arlandria and Surrounding Areas  
1990, 2000, 2007**

Location	1990	2000	2007	1990-2000		2000-2007	
				#	%	#	%
<b>City of Alexandria</b>	<b>\$41,522</b>	<b>\$56,685</b>	<b>\$67,595</b>	<b>\$15,164</b>	<b>36.5%</b>	<b>\$10,910</b>	<b>19.2%</b>
<b>Arlandria</b>							
2012.03	\$28,440	\$40,385	\$50,678	\$11,945	42.0%	\$10,294	25.5%
<b>Mount Vernon Avenue From West Glebe/East Reed to Hume Street</b>							
2012.02	\$44,159	\$57,632	\$70,164	13,472	30.5%	12,532	21.7%
2012.04	\$31,599	\$41,164	\$52,301	9,565	30.3%	11,137	27.1%
<b>Mount Vernon Avenue From Hume St. to East Braddock</b>							
2013	\$37,857	\$58,242	\$73,538	20,385	53.8%	15,296	26.3%
2014	\$40,518	\$65,199	\$85,404	24,681	60.9%	20,205	31.0%

Source: Claritas, Inc.

Retailers and service-office establishments are interested in area's where there is strong household growth and/or strong income growth.

***Limited Vehicular Access Also "Cuts Off" Arlandria***

As the 2002 Market Potentials Analysis states: "From a vehicular access standpoint Interstate 395 is close enough to provide some regional access to Arlandria, but not close enough to afford the visibility or direct access that would enhance opportunities for large, region serving destination uses. Mt. Vernon Avenue has a relatively minor role as a commuter route. Furthermore, the commercial district does not have exposure to South Glebe Road...Most people driving through Arlandria are either going there for a specific purpose or are merely taking a short-cut in their regular commute."<sup>2</sup>

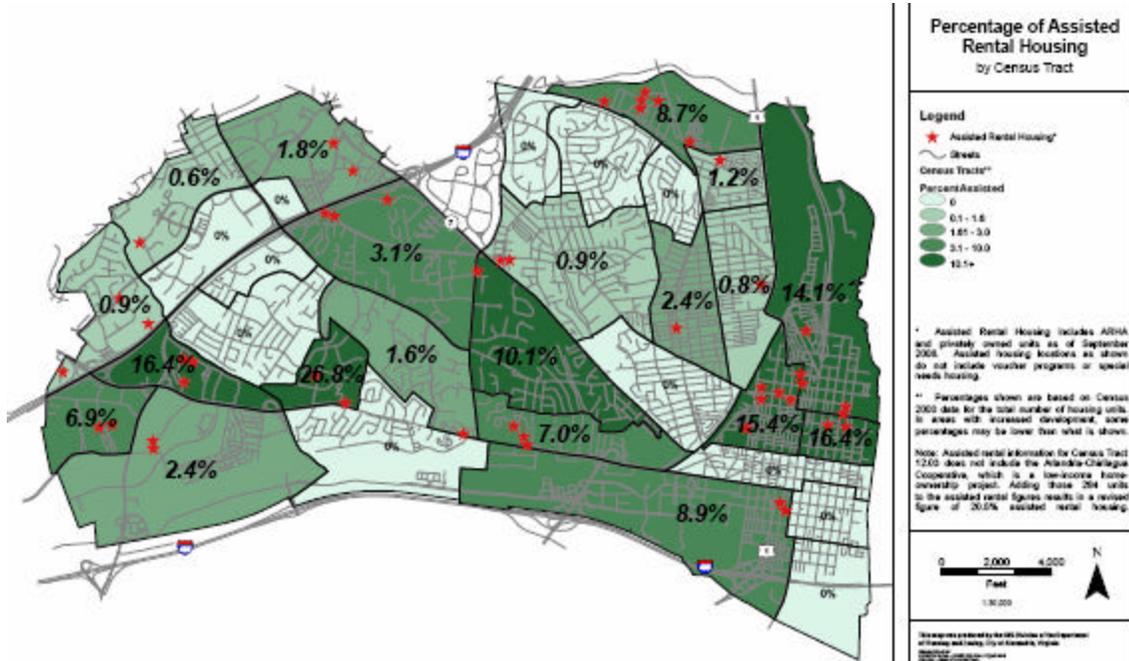
***Arlandria's Image***

While Arlandria is recognized as a unique place with its restaurants and the Birchmere, it also has an image of being unsafe. Crime has been significantly reduced in the neighborhood, but the perception that is unsafe still lingers.

As the map below illustrates, Arlandria also has one of the highest concentrations of low income housing in the City. This map does not include the Arlandria-Chirilagua Cooperative which is a low income homeownership project. With this project included, the share of total housing that is assisted increases to over 20 percent in Arlandria.

<sup>2</sup> Randall Gross/Development Economics, "Arlandria. Our place to be: Draft Market Potentials Analysis For The Arlandria/Upper Potomac West Retail District", 2002.

**Percentage of Assisted Rental Housing  
By Census Tract**



Source: City of Alexandria

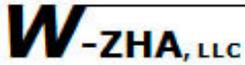
***The Subject Site’s Neighboring Land Uses Are Not Attractive***

A real challenge to the marketability of the Subject Site for mixed-use development is the character of the land uses surrounding it. Across West Glebe Road is a strip center built in 1964 with a Foodway grocery store, cleaners, and a shoe store. Across Mount Vernon Avenue is a carwash operation, a loan establishment, an automobile service station and low income housing. Immediately to the north of the Site are St. Rita’s Church and school.

The commercial uses on West Glebe Road and Mount Vernon Avenue surrounding the Site are automobile-oriented. The pedestrian environment and the quality of the buildings is poor. Neighboring land uses compromise the Site’s redevelopment potential.

***Urban Pioneers Rarely Pay Top Dollar To Locate in a Fringe Neighborhood***

As will be demonstrated in the following section, the rents and prices needed to support new construction on the Subject Site will be well above Arlandria’s rates now. In fact, the rents and prices required are comparable to those for newer projects on Interstate 395 and Potomac Yard. While the price of new construction may be warranted in lower Potomac West where market risk is becoming minimal, we question whether the developer or the buyer would invest in Arlandria’s given where it is in the revitalization process.



### Conclusion

The Subject Site is located in a unique community that is incredibly diverse. Arlandria has been growing and accounts for more and more of the City's household growth. Arlandria is well located, but it is not directly accessible or visible from major transportation routes like South Glebe, I-395 and Route 1. Arlandria is very different (both economically and socially) from the neighborhoods further south on Mount Vernon Avenue.

From a conventional real estate investor's perspective the social and economic profile of the community suggest that it is a "fringe" location. To develop in Arlandria would entail more risk than a number of locations relatively close by.

## **RESIDENTIAL MARKET OBSERVATIONS AND CONCLUSIONS**

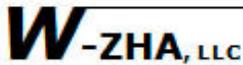
### Rent and Price Threshold

New construction on the Subject Site will require that a developer successfully market residential at a rent of at least \$2.81 per square foot per month or a sales price of \$360 per square foot. The benchmark rents and prices cover development costs only (hard and soft costs); land value is not included as a cost.

### The Condominium Housing Market

The condominium market was "hot" in Alexandria because low interest rates and liberal mortgage underwriting practices allowed households to own property in this highly valued location. Condominiums are most successful in locations where land values are very high (e.g. Old Town, near Metro) and where the land use mix is attractive to young singles and couples and empty nesters.

The condominium market has cooled down in Alexandria as it has in most places. Both the volume of condominium sales and the average purchase price for condominiums in Alexandria dropped from 2006 to 2007. The volume of condo sales dropped by over one-third in the City. Average sale prices dropped from \$308,000 to \$303,000 per unit or approximately 2 percent.



**Condominium Sales  
Washington Metro Area Jurisdictions  
2006 and 2007**

Area	2006		2007		% Change	
	Homes Sold	Median Purchase Price	Homes Sold	Median Purchase Price	Homes Sold	Median Purchase Price
D.C.	1,867	\$355,000	1,630	\$365,000	-13%	3%
Anne Arundel	913	\$271,000	571	\$270,000	-37%	0%
Calvert	43	\$292,000	16	\$291,328	-63%	0%
Charles	27	\$360,500	58	\$306,968	115%	-15%
Frederick	425	\$219,900	320	\$220,000	-25%	0%
Howard	876	\$280,000	795	\$285,000	-9%	2%
Montgomery	4,249	\$295,000	3,334	\$299,999	-22%	2%
Prince George's	3,012	\$197,000	2,072	\$204,000	-31%	4%
Arlington	941	\$350,000	1,353	\$385,000	44%	10%
Fairfax	4,786	\$304,900	3,066	\$292,263	-36%	-4%
Loudoun	873	\$300,000	524	\$280,000	-40%	-7%
Prince William	343	\$270,000	278	\$267,155	-19%	-1%
Alexandria	2,022	\$308,000	1,265	\$303,000	-37%	-2%
<b>Total</b>	<b>20,377</b>	<b>\$287,900</b>	<b>15,282</b>	<b>\$289,900</b>	<b>-25%</b>	<b>1%</b>

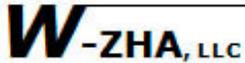
Source: Washington Post, "Housing Outlook, 2008"; W-ZHA

The condominium housing market is being hurt by three factors: 1) investors moving out of this investment product; 2) buyer trepidation; and, 3) tight credit markets for both potential buyers and developers. According to the Washington Post "2008 Housing Outlook," Alexandria and Arlington had the dubious distinction of having more condominium unit contracts canceled than sold in 2007. According to the Washington Post 30 percent of the cancellations were due to investors moving out of the condominium market. Investors are buyers who have no intention of living in the unit, but buy it for its investment value.

Prospective condominium buyers are hesitant to buy in a tumultuous market. Prospective buyers are interested in a fair price and strong potential for appreciation. They are also interested in the viability of the entire condominium complex because its maintenance is dependent on condominium fees. Only in prime downtown locations or locations next to a Metro station can such stability in the condominium market be offered at this time.

Like prospective buyers, lenders are hesitant to invest in condominiums at this time except in 100 percent locations. Many projects planned for condominium development have converted to rental units. The word on the street is that there is no capital available for financing condominiums except in extraordinary circumstances.

Another challenge facing condominium development at this time are the new rules being applied for mortgage underwriting. As a result of the sub-prime mortgage crisis, it is much more difficult for



households to obtain a mortgage than it was just five years ago. Both supply and demand factors are challenging the condominium market.

Evidence of the condominium market's troubles is reflected in the Potomac Yard project. Pulte Homes and Centex Homes have not commenced construction on the condominiums planned for that project as planned. Instead, they are marketing development parcels to other developers. The cash from parcel sales is needed to fund the infrastructure investment currently underway to support this project. Potomac Yard offers superior views, access, and locational cache as compared to the Subject Site.

The following factor's lead W-ZHA to the conclusion that condominium development on the Subject Site is not feasible at this time:

- The capital markets are generally not interested in financing condominiums at this time;
- The Subject Site is in a location that is untested from a condominium standpoint – there are no direct comparables;
- From a financier's perspective, the Site is in a "fringe" neighborhood– neighborhood demographics are relatively weak, there are perceived crime issues, there is no Metro Station, and the quality of the built environment surrounding the Site is marginal; and,
- There are superior sites available in the marketplace with plans to develop condominiums (Potomac Yard)

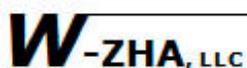
Over time, as the capital markets stabilize and recover from the sub-prime mortgage debacle, there may be condominium development potential on the Subject Site. This portion of Alexandria is in demand because of its central location, attractive housing stock, and relative affordability. As Del Ray/Potomac West continues to appreciate in value and condominiums are developed there as well as in Potomac Yard, Arlandria should become an increasingly attractive condominium location. The Subject Site is well positioned to capitalize on this value as it is the gateway to Arlandria.

### The Rental Housing Market

Apartment buildings in the 22305 ZIP code area range from garden apartments to high rise communities. With the one exception of *The Reserve At Potomac Yard*, the apartment complexes in ZIP code 22305 are old – all were built over 40 years ago. Rents are relatively low in most of these older apartment complexes. As would be expected with relatively low rents, occupancy exceeds 90 percent in all of the communities where occupancy data could be obtained.

The newest project in the 22305 ZIP code is *The Reserve at Potomac Yard* built in 2001. *The Reserve at Potomac Yard* is located on Route 1 directly across from the Potomac Yard Shopping Center. This project contains 588 mid-rise apartment units. *The Reserve at Potomac Yard* offers garage and covered parking, a free shuttle to Metro as well as a pool. Rents at the *Reserve at Potomac Yard* are relatively high for Arlandria at \$2.00 to \$2.10 per square foot for a one bedroom apartment. Occupancy is above 95 percent according to property management.

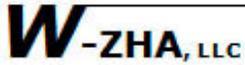
We do not consider *The Reserve at Potomac Yard* a comparable for the Subject Site. *The Reserve at Potomac Yard* is marketing its location at Potomac Yard, not its location in a multi-cultural community. It is sited prominently on a highway across from a new regional shopping destination, the Potomac Yard Shopping Center. *The Reserve at Potomac Yard* has locational, access, visibility, and branding characteristics that are altogether different from the Subject Site.



**Apartment Complexes  
Zip Code 22305**

Name	Type	Year Built	Units	Efficiencies	1 Bedrm	2 Bedrm	3+ Bedrm
Aspen House 3201 Landover St.	High Rise	1963	348	114	125	109	0
			Square Feet	650	800	974	983
			Monthly Rent	\$925 \$1,000	\$1,130 \$1,225	\$1,200 \$1,600	
			Rent /SF	\$1.42 \$1.54	\$1.41 \$1.53	\$1.23 \$1.63	
Calvert Apts 3110 Mt. Vernon Avenue	High Rise	1962	178	62	69	47	0
			Square Feet	500 535	627 828	1,140 1,160	
			Monthly Rent	\$901 \$1,105	\$1,188 \$1,978	\$1,488 \$2,263	
			Rent /S	\$1.80 \$2.07	\$1.89 \$2.39	\$1.31 \$1.95	
Glebe House 25 W. Glebe Rd	Garden	1954	211	159	52	0	0
			Square Feet	500	700		
			Monthly Rent	\$904 \$1,079	\$1,004 \$1,179		
			Rent /SF	\$1.81 \$2.16	\$1.43 \$1.68		
Lloyd Apartments 800 Tennessee Ave.	Garden	1948	299	0	142	157	0
			Square Feet		700	1,000	
			Monthly Rent		1,000	1,200	
			Rent /SF		\$1.43	\$1.20	
New Brookside 601 Four Mile Rd	Mid-Rise	1963	175	19	136	15	5
			Square Feet	444	697	977	1,100
			Monthly Rent	\$865	\$950 \$1,095	\$1,355	\$1,895
			Rent /SF (Utilities Inc.)	\$1.95	\$1.36 \$1.57	\$1.39	\$1.72
Portals of Alexandria East 511 Four Mile Rd	High-Rise	1965	196	56	112	28	0
			Square Feet	465	782	820	
			Monthly Rent	\$894 \$949	\$1,035 \$1,095	\$1,234 \$1,299	
			Rent /SF (Gas Inc.)	\$1.92 \$2.04	\$1.32 \$1.40	\$1.50 \$1.58	
Presidential Greens 3904 Executive Ave.	Mid-Rise	1938	397	0	374	23	0
			Square Feet		575 669	776	
			Monthly Rent		\$797 \$1,287	\$1,397	
			Rent /SF (Gas Inc.)		\$1.39 \$1.92	\$1.80	
Reserve @ Potomac Yard 3700 Jefferson Davis Highway	Mid-Rise	2001	588	0	352	236	0
			Square Feet		633 761	1,096 1,235	
			Monthly Rent		\$1,345 \$1,520	\$1,680 \$1,855	
			Rent /SF (Gas Inc.)		\$2.12 \$2.00	\$1.53 \$1.50	

Source: Property Management Interviews; City of Alexandria



The *Calvert* is located on Mount Vernon Avenue immediately south of Herbert Street. The *Calvert* is a high rise apartment community built in 1962. With 178 units, the *Calvert* commands relatively high rents (approximately \$1.90 to \$2.40 per square foot per month for a 1-bedroom) given its age and location. Unlike the Subject Site, the *Calvert* is in the Del Ray neighborhood.

Other newer projects in the area include the *Avalon @ Arlington Heights* at South Glebe Road and Interstate 395. This is a new, mixed-use project. Rent for a 1-bedroom ranges from \$2.00 to \$2.70 per square foot per month.

**New Apartment Complexes  
Near Arlandria**

Name	Type	Year Built	Units	Efficiencies	1 Bedrm	
Avalon @ Arlington Square 2350 26th Court St. Arlington	Twnhs	2002	842			
			Square Feet		650	980
			Monthly Rent		\$1,320	\$1,770
			Rent /SF		\$2.03	\$2.72
Name	Type	Year Built	Units	Efficiencies	1 Bedrm	
Camden @ Potomac Yards 3535 South Ball St.	High Rise	2005	379			
			Square Feet		540	684
			Monthly Rent		\$1,522	\$1,977
			Rent /SF		\$2.82	\$2.89

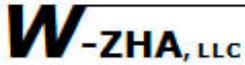
Source: Property Management Interviews; Apartments.com  
F:\80002 Weisburg\apartment comps.xls]Sheet3

Camden at Potomac Yard contains almost 380 units and reportedly has a relatively high vacancy rate. Rents for a 1-bedroom in this 12-story community range from \$2.80 to \$2.90 per square foot per month.

Planned Projects

Potomac Yard in Alexandria is an approved mixed-use development consisting of 1.9 million square feet of office space, 135,000 square feet of retail (in addition to the existing 600,000 square foot Potomac Yard Shopping Center), and 1,700 residential units. In 2005, Pulte Homes and Centex Homes jointly purchased the 165-acre site on the south side of Potomac Yard. As part of the approval process, the developers agreed to make off-site transportation improvements such as the construction of a new Monroe Avenue Bridge as well as constructing connections to Howell Avenue, Custis Avenue, Swann Avenue and East Glebe Road. While the land uses have yet to develop on the Potomac Yard site, the developers have commenced the infrastructure improvements.

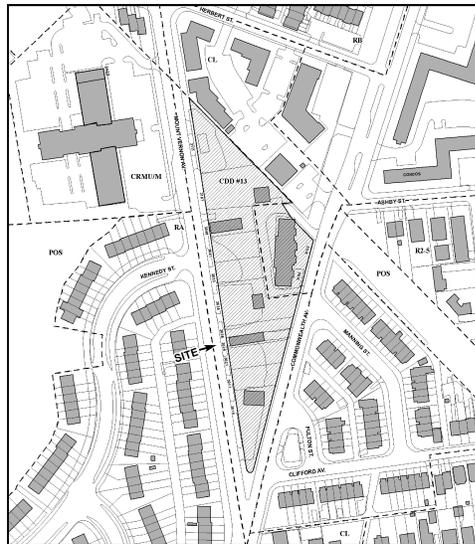
Potomac Yard offers the advantages of direct access to Route 1, proximity to regional shopping, and views. At some point in the near future, residential units will be developed at this location. To make the



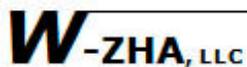
project work, a critical mass of residential will need to be developed. If the residential product is multi-family, these units will likely be rental.

The City has approved a 141-unit apartment community at the intersection of Mount Vernon and Commonwealth Avenues. This project is across from the Nicholas A. Colsanto Park. This project will be immediately north of Commonwealth Avenue. This project demonstrates an investor's trust that the market will move north on Mount Vernon Avenue. Because it is an extension of the Mount Vernon commercial district, it is a less risky development endeavor than what would be required at the Subject Site.

### **Planned Apartment Building Site**



How this project fares is very important to the Subject Site's redevelopment potential. If this new apartment complex commands high rents and achieves strong absorption, investors will likely look farther north on Mount Vernon Avenue for investment opportunities. This project will essentially fill in the land use gap on Mount Vernon Avenue between the Commonwealth Avenue intersection and the Calvert and the Mount Vernon Square office complex.



## Conclusions

In considering the redevelopment of the Subject Site for apartments, there should be concern that with Potomac Yard and the “triangle site”, there may be a lot of apartment units coming onto the market at the same time. If competitively priced Potomac Yard is well positioned to capture the broad market that is mostly looking for a convenient location in the Alexandria/Arlington area. The “triangle site” on Mount Vernon Avenue is better positioned than the Subject Site to attract those households looking for a more unique, walkable, urban environment.

We conclude that it is unrealistic to assume that an investor will be interested in redeveloping the Subject Site for apartments in the near term; the rent premium is well above any other comparable project in the vicinity. The investment threshold for rental residential is \$2.80 per square foot per month. The highest rent in an apartment complex in the Arlandria neighborhood is approximately \$2.00 per square foot. The premium for new construction would require that the market support rents 40 percent higher than they are today. The market fundamentals such as household and average income growth are simply not there yet in the Arlandria neighborhood.

If the “triangle site” is successful on Mount Vernon Avenue north of Commonwealth Avenue, the redevelopment potential of the Subject Site will be significantly enhanced. W-ZHA concludes that redevelopment further south on Mount Vernon Avenue is necessary before the Subject Site’s potential can be fully realized.

## **OFFICE MARKET OBSERVATIONS AND CONCLUSIONS**

### Rent and Price Threshold

New construction on the Subject Site will require that a developer successfully market office at a triple net rent over \$29.50 per square foot per year. This equates to a full-service rent of approximately \$38.00 per square foot.

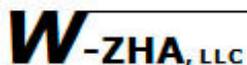
### Alexandria Multi-Tenant Office Market Overview

Multi-tenant office data from various sources indicate that the Alexandria office market is healthy and will continue to grow in volume and rental rate. The Base Realignment and Closure Act of 2005 (BRAC) could indirectly impact the Alexandria office market, however. Crystal City stands to lose 17,000 jobs as a result of BRAC which will cause office vacancy in this nearby market. Surplus supply in Crystal City could reduce Alexandria’s office absorption in the near term. The following paragraphs provide Citywide office market highlights.

### ***Alexandria Benefits From Being Inside The Beltway***

Rents are higher in sub-markets inside the Beltway. These areas are well accessed by public transit and are close to the economic hub, Washington, DC. The evolving value of transit is exemplified in MPRI’s recent lease at Braddock Place, a project that had been struggling.

Alexandria’s proximity to Washington, DC drives its multi-tenant office market. According to KAI/KLNB, a nationally recognized real estate brokerage firm, Alexandria possesses the fourth highest



concentration of professional association employment in the Country. The value of D.C. proximity is evidenced by the recent re-location of the U.S. Patent and Trademark Office (PTO) to Alexandria. An estimated 8,500 people work in this complex. This 2.5 million square foot tenant has acted as a catalyst and fueled additional office development in Alexandria's Eisenhower area.

Transwestern Commercial Services is the largest full service real estate firm serving the Baltimore/Washington region. Its 4<sup>th</sup> Quarter 2007 office report for Northern Virginia states that "Given current conditions, rents should rise by 1% to 2% in 2008 for Northern Virginia submarkets located inside the Beltway and edge down for submarkets located outside of the Beltway."<sup>3</sup> The "Outlook" is published quarterly by Delta Associates, the research affiliate of Transwestern Commercial Services.

***Because of Its Location, Alexandria Commands Relatively High Office Rents***

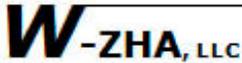
Alexandria's average rent (\$36.40 per square foot per year) is above the Northern Virginia average (\$34.04 per square foot per year). According to broker interviews, Alexandria office rents are highest in Old Town and lowest in the I-395 Corridor. Alexandria rents are similar to office rents in neighboring Crystal City/Pentagon City. This may change, however, as Crystal City will have to deal with job losses associated with the loss of the PTO and the Base Realignment and Closure Act of 2005 (BRAC). Crystal City stands to lose 17,000 jobs as a result of BRAC.

Average Rents Multi-Tenant Office Northern Virginia Submarket Mid-Year 2007		
	Square Feet	Avg. Rent /Yr
<b>Arlington County</b>	<b>30,677,292</b>	<b>\$37.24</b>
Rossalyn	7,548,380	\$43.17
Arlington Metro Corridor	4,741,570	\$34.73
Ballston	5,608,540	\$38.18
Crystal City/Pentagon City	11,759,270	\$36.06
Arlington Non-Metro	1,019,540	N/A
<b>Alexandria</b>	<b>12,909,040</b>	<b>\$36.43</b>
Old Town	8,263,330	\$37.42
I-395 Corridor	2,594,400	\$27.50
Huntington/Eisenhower	2,051,310	N/A
<b>Fairfax County</b>	<b>73,405,200</b>	<b>\$32.36</b>
<b>Loudoun County</b>	<b>3,101,610</b>	<b>\$28.19</b>
<b>Northern VA Average</b>	<b>120,093,140</b>	<b>\$34.05</b>

Source: Cushman & Wakefield, "Northern Virginia Office, Marketbeat Mid-Year 2007"

As the chart below demonstrates, Alexandria office rents have consistently increased since 2003 and vacancy has been declining.

<sup>3</sup> Transwestern, "Transwestern Outlook NOVA at Q407", December, 2007.



### Class A & B Rents and Vacancy Alexandria, VA Office Market



Source: Cushman & Wakefield, Mid-Year 2007.

#### ***Even With Growth Prospects, High Construction Costs Are A Concern***

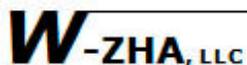
Transwestern's 4<sup>th</sup> Quarter 2007 office report for Northern Virginia states: "With construction costs on the rise, developing new projects has become an expensive task. At year-end 2007, to construct a suburban office project, the approximate rent needed is \$42.00 per square foot. Given easing market conditions, we expect development to ease over the next year, as inking leases at this high rate will become increasingly difficult."

In summary, all indicators suggest that there will be demand for new office space in Alexandria over the next five years. The question is whether the Subject Site can effectively compete as an office location and capture a portion of this demand.

#### Office Site Selection Criteria

Office space is typically occupied by companies within the business and personal service, other services (professional, religious, fraternal organizations), finance and real estate, information, and government industries. Given these tenant types, office developers typically evaluate a prospective site with these criteria in mind:

- Proven market competitiveness of the location
- Visibility to target market
- Identity and image of location
- Cost
- Ability to accommodate parking
- Proximity to transit
- Proximity to goods and services.



In the following paragraphs the Subject Site is evaluated in light of these criteria.

***Proven Market Competitiveness of The Location***

There is very little conventional office space in the vicinity of the Subject Site. Upper Potomac West is not recognized as a corporate office location. The offices that do exist in the commercial core of Arlandria appear to service the local population.

The office space at the Mount Vernon Square office complex is the highest quality space in the vicinity of the Subject Site. Located on the southeast corner of the Mount Vernon Avenue and Herbert Street intersection, this project contains approximately 30,000 square feet of condominium office space in a townhouse configuration. Each building is about 4,500 square feet. Tax records indicate that this project was developed in the late 1980's.

Occupancy appears to be high and recent sale transactions reflect relatively high prices at this location. The most recent sale in December 2000 commanded \$283 per square foot. Sales in 2006 ranged from \$234 to \$312 per square foot. Tenants in this complex are mostly membership organizations or professional service establishments.

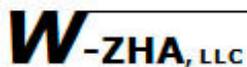
**Mount Vernon Square Condo Office  
Recent Sale Transactions**

<b>Address</b>	<b>Date of Sale</b>	<b>Sq Ft</b>	<b>Price</b>	<b>Price /SF</b>
3135 Mount Vernon Avenue	7/27/2006	2,100	\$655,000	\$312
3131 Mount Vernon Avenue	12/21/2007	1,942	\$550,000	\$283
	8/2/2002	4,419	\$800,000	\$181
3133 Mount Vernon Avenue	5/10/2002	1,959	\$680,000	\$347
3137 Mount Vernon Avenue	2/13/2006	1,883	\$440,000	\$234
3139 Mount Vernon Avenue	12/17/2004	4,277	\$916,000	\$214

Source: Virginia Tax Records; W-ZHA

There is 3,000 square feet of space in Mount Vernon Square available for rent at \$25 per square foot, full service. This is well below the office price threshold required by new construction -- \$38 per square foot, full service

Further south on Mount Vernon Avenue in the heart of Del Ray second-story office space is being marketed at \$28 per square foot.



There is no office space being marketed in the Arlandria neighborhood through conventional commercial leasing outlets. Arlandria has the Mount Vernon Professional Building with 10,000 square feet, but we were unable to obtain the average rent charged at this location.

In Del Ray, office rents and sale prices are fairly high for an older commercial area. While not as high as the City's average, there does appear to be demand for office space in Potomac West. The ability to market new space in Arlandria, however, is untested.

### ***Visibility to Target Market***

As compared to a Route 1 location or an I-395 location, visibility to the standard office tenant is weak at the Subject Site. The Site would be highly visible to a target market of ethnically oriented social and/or fraternal organizations, however.

### ***Identity and Image of The Location***

For a conventional office tenant seeking location cache, there are other locations far better positioned in the marketplace than Arlandria (like Potomac Yard or I-395). However, Arlandria would be an excellent location for a company whose corporate image and identity is linked to the Hispanic population and/or multi-culturalism.

### ***Cost***

The cost to construct an office building on the Subject Site will likely be as much or more than many of the competitive office locations. Potomac Yard and the Eisenhower possess greenfield characteristics; buildings can be built with conventional floorplates. The Subject Site is triangular which will force a less efficient, and potentially more costly, building design.

### ***Safety***

Safety is a very important factor in office siting. Prospective tenants are very concerned about the well-being of their employees. There is a perception that Arlandria is unsafe. This will greatly inhibit a developer's ability to command the prices necessary to support new construction at this location.

### ***Ability To Accommodate Parking***

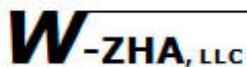
To realize the density envisioned by the community will require structured parking on the Subject Site. The Site's ability to accommodate a functionally efficient parking garage is unknown.

### ***Proximity to Transit***

Metro is not within walking distance to the Subject Site. The Site is on Mount Vernon Avenue, however, which reportedly has excellent bus service.

### ***Proximity to Goods and Services***

The Subject Site is within easy walking distance of a CVS, Organic Food Market, specialty restaurants and other specialty stores and neighborhood services. Having these goods and services within walking distance is a convenience to office employees, visitors and customers.



The commercial district is a convenience, however, only if employees, visitors and customers are comfortable with its eclectic character. Many employers would not consider the commercial district an asset given its tenant mix and physical conditions. Once again, the Site satisfies these criteria only for the “right” tenant, not the average tenant.

Given these evaluation criteria, it appears that the Site is not well positioned for the conventional, corporate office tenant.

#### Service-Office Demand

Service-office space is different from corporate office space in that service-office space is directly tied to the demographics within the community. Banks, insurance brokers, accountants and membership organizations follow growth and generate demand for what W-ZHA terms “service-office space.”

W-ZHA estimates that over the next five years household growth coupled with income growth will generate within “Upper Potomac West” (census tracts 2012.03, 2012.02 and 2012.04) a need for 20,000 square feet of additional office space to serve the population. Arlandria growth will drive most of this demand.

This magnitude of service-office demand would not justify the redevelopment of a site the size of the Subject Site. Furthermore, these tenants are typically price sensitive. They will likely occupy under-utilized existing commercial space.

#### Office Market Conclusion

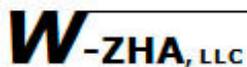
W-ZHA concludes that the Subject Site is not a competitive location for multi-tenant office targeting corporate clients. While there is service-office demand, it is not sufficiently large to justify the redevelopment of the Subject Site.

As a build-to-suit location, Arlandria’s distinct identity coupled with its location in Alexandria, eclectic commercial district and access to public transit could be attractive to the right business – one whose corporate image/identity is consistent with all that Arlandria has to offer. Consideration should be given to identifying target companies and marketing the Site to these prospects.

### **RETAIL MARKET OBSERVATIONS AND CONCLUSIONS**

#### Rent and Price Threshold

New mixed-use construction on the Subject Site will require that a developer successfully market retail at a rent of \$29.65 per square foot per year. At this rent level, retailers will need to achieve a sales volume of approximately \$400 per square foot.



## Existing Conditions

### ***There Is A Lot Of Retail In And Around Arlandria***

There are three shopping centers in Arlandria: The Foodway Shopping Center, the Mount Vernon Village Center and The Shops On The Avenue. The Foodway Shopping Center contains 30,000 square feet and contains a grocery store, cleaners and shoe store. The center is directly across the street from the Subject Site.

Mount Vernon Village Center is the largest center with 59,600 square feet. A My Organic Market and a CVS anchor this center. There is one vacant store in the center of 3,000 square feet. It is currently being advertised at a rent of \$28.00 per square foot per year.

With approximately 19,000 square feet, the Shops On The Avenue is fully occupied.

There are an additional 157,500 square feet of retail and service space in the Arlandria commercial district. Many of these establishments offer ethnic/multi-cultural cuisine, food and/or goods.

To the south of Arlandria is the Del Ray community and its commercial district on Mount Vernon. In 2002, this district contained approximately 100,000 square feet of restaurant and specialty retail space.<sup>4</sup> The Mount Vernon Avenue commercial district is upscale and “yuppie”. There is retail space advertised in a strip center for \$28.00 per square foot in this area.

Outside of Arlandria, but immediately, is the Arlington Ridge shopping center on South Glebe Road. This 84,500 square foot center is anchored by a Giant Food.

To the east of Arlandria on Route 1 is the Potomac Yard Shopping Center. This 590,000 square foot power center contains Target, Barnes and Noble, Hoyts Cinemas. Built in 1997, the Potomac Yard Shopping Center has been very successful.

### ***Arlandria’s Commercial Space Is Well Occupied***

A windshield survey revealed very little retail vacancy in Arlandria. It appeared essentially fully occupied.

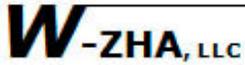
### ***Arlandria’s Tenant Mix and Environment Are Distinct***

Most of the retail in Arlandria can be categorized as “specialty retail.” A majority of the establishments cater to the Latino community. The organic grocery caters to the “foodies” and the Birchmere caters to small venue, live music enthusiasts.

The physical environment is fairly poor. The buildings are old and have not been refreshed. The streetscape seems dated. Arlandria’s environment is the polar opposite of the Mount Vernon Districts minutes down the street!

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<sup>4</sup> Robert Charles Lesser & Company, “Preliminary Retail Market Analysis For Mount Vernon Avenue Corridor”, 2002.



Retail Opportunities and Challenges

The Market Potentials Analysis for the Arlandria/Upper Potomac West Retail District (“Market Potentials Analysis”) was conducted in 2002. This analysis included an inventory of retail and service space in Arlandria. A survey was conducted that revealed the proportion of Arlandria’s retail sales coming from the Arlandria neighborhood (72 percent) as well as average retail sales per square foot (\$248). Data from this report is used to estimate existing conditions regarding the retail economy in Arlandria.

To the best of our knowledge, the supply of retail space has not changed significantly since 2002. According to the Market Potentials Analysis there were 209,800 square feet of retail space in Arlandria, excluding the Birchmere.

**Retail Inventory From Market Potentials Analysis  
Arlandria  
2002**

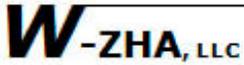
	<b>Square Feet</b>
Convenience Goods	69,735
Shoppers Goods	47,239
Eating & Drinking	26,528
Other	13,159
Vacant	<u>53,135</u>
Total Space	209,800
Birchmere	<u>56,000</u>
Total Space	265,800

Source: Randall Gross/Development Economics,  
"Arlandria.our place to be: Draft Market Potentials Analysis  
For The Arlandria/Upper Potomac West Retail District" (2002);  
W-ZHA

Unlike today, there was considerable retail vacancy in Arlandria in 2002. The Safeway building on the Subject Site was empty (estimated then to be 22,000 square feet) and another 21,000 square feet of retail space was vacant. Today, W-ZHA estimates the vacancy rate at no more than 5 percent.

The survey conducted for the Market Potentials Analysis revealed that 72 percent of the commercial district’s retail sales came from residents of Arlandria. The average sales-per-square-foot figure was estimated to be an impressive \$286 per square foot.

Given census data from 2000, W-ZHA estimated the commercial district’s capture of Arlandria’s retail spending potential excluding car sales, gas sales and non-store retail spending. W-ZHA estimates that the Arlandria commercial district captured 68 percent of the neighborhood’s spending potential.



**Commercial District's Capture of Arlandria's Retail Spending Potential  
2002**

	<b>Square Feet</b>
Occupied Square Feet <sup>/1</sup>	156,665
Avg. Sales Per Square Foot <sup>/1</sup>	\$286
Total Sales	\$44,806,190
Neighborhood Derived Sales <sup>/1</sup>	72% \$32,260,460
Est. Neighborhood Spending Potential 2002	\$47,229,020
Commercial District Capture of Neighborhood Spending Potential	68%

1. From Market Potentials Analysis.

Source: Randall Gross/Development Economics, "Arlandria.our place to be: Draft Market Potentials Analysis For The Arlandria/Upper Potomac West Retail District" (2002); W-ZHA

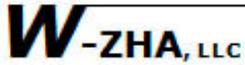
Given population and income projections from Claritas, Inc., the neighborhood's retail spending potential will increase by \$14.8 million over the next five years. If the District can continue to capture 68 percent there is the potential for existing retail to increase sales and for the market to support 16,100 square feet of new retail space assuming a sales volume of \$350 per square foot.

**Neighborhood-Derived Retail Development Potential  
Arlandria  
2007-2012**

Net New Neighborhood Spending Potential	\$14,820,800
Capture	68%
Supportable New Sales	\$10,123,560
Assume 10% Sales Increase To Existing Tenants	(\$4,480,619)
Net Sales	\$5,642,941
Supportable Square Feet @ \$350 Sales /SF	16,100

Source: W-ZHA

A sales volume of \$350 per square foot assumes a mix of low cost, one-story retail buildings and higher cost mixed-use type space. Retail in a quality mixed-use building with the investment threshold rent of approximately \$30.00 per square foot will require approximately \$400 per square foot in sales.



Additional retail demand can be expected from visitors to Arlandria. In 2002, these shoppers accounted for only 28 percent of the District’s sales. With My Organic Market well-established and Arlandria’s increasing notoriety as a good place to eat, the share of non-local sales should be higher today than it was in 2002. Assuming 35 percent of Arlandria’s retail sales are from non-neighborhood residents, by 2012, this market will create the demand for an additional 14,900 square feet of space.

**Non-Neighborhood-Derived Retail Development Potential  
Arlandria  
2007-2012**

	<b>2007-2012</b>
Projected Net New Neighborhood Related Sales	\$10,123,560
Neighborhood's Share of Arlandria's Total New Sales <sup>2</sup>	<u>66%</u>
Total Net New Arlandria Retail Sales	\$15,338,728
 Sales Derived From Outside The Neighborhood	 \$5,215,170
Assume 5% Sales Increase To Existing Tenants	<u>(\$2,240,310)</u>
Net Sales	\$2,974,861
Supportable Square Feet @ \$350 Sales /SF	8,500

Source: W-ZHA

It is important to note that the visitor market is projected to continue to be the secondary market in Arlandria.

There is no question in our minds that Arlandria’s improving demographics and popularity will generate sufficient demand to warrant additional retail space. In terms of the Subject Site, however, the issue is whether the tenant-types best positioned to capitalize on the neighborhood’s retail potential are interested in locating in high cost, mixed use space. Both the neighborhood and visitors value the funky, independent operators, yet independent operators typically cannot afford to locate in newly constructed space. Credit tenants targeting the low to middle income household (Dollar Tree) may be willing to pay high rent for access, but such uses may not be suitable for a Gateway location.

Retail Conclusion

There is retail potential in Arlandria. From a market perspective, the near term opportunity is greatest for additional one-story, inexpensive space, however. Because this type of space is inexpensive it is attractive owner-operated, specialty retail; the type of retailers attracted to Arlandria’s eclectic character.