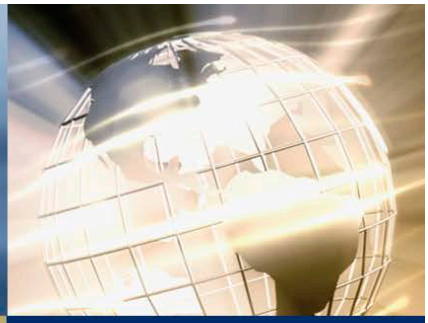
FINAL REPORT

Update of Laurel Hill Adaptive Reuse Area Master Plan Financial Assessment



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MARCH 11, 2013

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March 11, 2013

Mr. Chris Caperton and Ms. Leanna O'Donnell
Fairfax County Government
Department of Planning and Zoning
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FINAL REPORT
Laurel Hill Adaptive Reuse Area
Master Plan Financial Assessment Update

Dear Mr. Caperton and Ms. O'Donnell:

Alvarez & Marsal Real Estate Advisory Services, LLC, (A&M) is pleased to submit this Final Report of our firm's financial assessment of the proposed master development plan for the Laurel Hill Adaptive Reuse Area in Lorton, Virginia. The Final Report outlines our approach, our findings, and our recommendations as to the validity and sustainability of the project, and incorporates feedback received from the County in response to our Draft Report.

As outlined in the following report, the methodology used by the Alexander Company to estimate the financial gap of the master development plan is based upon reasonable financial assumptions and sound real estate fundamentals. The findings of the assessment are supported by specific comments and recommendations.

Should you have any questions, please call me at (202) 729-2110.

Very truly yours,

Jay Brown
Managing Director
Alvarez & Marsal Real Estate Advisory Services, LLC

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1.0 Approach and Overall Findings

1.1 Background

Fairfax County retained the Alexander Company in May 2008 to prepare a master development plan for the adaptive reuse of the former Lorton Reformatory and Penitentiary site, also known as the Laurel Hill Adaptive Reuse Area. Under the scope of their contract with the County, the Alexander Company was tasked with creating a financially feasible plan for a unique mixed use development that preserves the historic elements of the site. In addition, the Alexander Company was asked to develop a plan that minimizes the burden on the taxpayer and takes advantage of innovative funding mechanisms as necessary. The Madison, Wisconsin-based firm is experienced in adaptive reuse and historic preservation with regional experience as the developer for the National Park Seminary site in Silver Spring, Maryland.

In July 2009, The Fairfax County Department of Planning and Zoning (DPZ) hired Alvarez & Marsal Real Estate Advisory Services, LLC (A&M) to review the financial aspects of the Alexander Company's proposed master development plan. A&M's recommendations included updating market and construction data to reflect current conditions and requesting that the Alexander Company prepare its analyses of the development and operating periods of the project in one consolidated model.

In May 2010, the Fairfax County Board of Supervisors approved a Master Plan for the reuse of the site. Subsequently, in November 2011, Fairfax County and the Alexander Company entered into an interim agreement that designates the Alexander Company as its agent for pursuing land use entitlement approvals for the site. The interim agreement also reflects that, following adoption of the Master Plan, the Alexander Company entered into an arrangement with Elm Street Development/Elm Street Communities ("Elm Street") to assist them with portions of its development activities related to the market rate residential portions of the project. For purposes of clarity, references to the development team in this report refer to the "Alexander Company" as master developer.

In October 2012, Fairfax County hired A&M to update its 2009 review of the financial aspects of the Alexander Company's proposed development plan for the Laurel Hill Adaptive Reuse Site.

1.2 Approach

The financial assessment of the Laurel Hill Master Plan was organized around the following topics:

1. Project Viability
2. Financial Assumptions
3. Financing Options

The financial assessment included evaluating the reasonableness of the following information provided in the developer's financial model and gathered from discussions with individuals from the Alexander Company, its sub-contractors, and the County:

1. Project Viability
    a. Assess the viability and sustainability of the proposed density of residential, commercial, and retail development.
    b. Assess the viability of the projected commercial and retail lease rates for the project.
    c. Assess the short-term and mid-term viability of the proposed residential rental and owner-occupied units, office space, and retail uses.
2. Financial Assumptions
    a. Assess the reasonableness of the master plan financial projection and assumptions, and their use in determining a potential financial commitment range from county.
    b. Assess the reasonableness of the costs associated with the rehabilitation and maintenance of historic structures and the impact on residential and commercial tenants.
3. Financing Options
    a. Assess the feasibility of a special tax district or tax increment financing to help close the project's financial gap.
    b. Identify financial risks that may accrue to the County through implementation of the project or associated financial tools.
    c. Evaluate the reasonableness of cost-benefit impact of the proposed project as it relates to net tax gain, potential bond impact, and County liabilities.
    d. Provide advice on the appropriate form of public financing on investment to achieve County goals.

The assessment included the following activities:

1. **Meeting with County personnel**. An initial meeting and follow-up teleconference provided the project background, access to County information, and the documentation prepared by the Alexander Company. In addition, a site visit and tour of the immediate area around the site was conducted with the County and Alexander Company representatives.
2. **Review of public background material, Master Plan documents and the financial analysis prepared by the Alexander Company.** This activity began with a review of materials analyzed as part of the 2009 analysis as a baseline for this exercise. The review of the financial models included a review of the accuracy and reasonableness of costs to develop the proposed development concept and the estimated financial gap.
3. **Financial Inquiries.** After reviewing the financial models and third party market research, A&M met with the Alexander Company to discuss the modeling methodology, changes from the 2009 analysis, and the derivation of specific financial assumptions.
4. **Review of Real Estate Market Data.** Market data from several reputable published real estate and economic/demographic data sources was referenced for information regarding the current market and projections for the future. Specifically, data and reports from CBRE, Real Estate Research Corporation (RERC), ESRI, and the Multiple Listing Service (MLS) were used to capture a comprehensive outlook of the market for all use types programmed for the site.

1.3 Overall Findings

The assessment of the Alexander Company development budget and associated proposed development program found the analysis to be based upon reasonable market assumptions and reflective of sound

real estate fundamentals and decision making with an appropriate level of detail given the current stage of negotiations with Fairfax County. Research to validate the market and financial assumptions utilized by the Alexander Company supports the appropriateness and conservativeness of those assumptions. Overall, assumptions related to the development and operating phases of this project are reasonable and the development plan is financially viable assuming support by the County to fund a portion of the infrastructure cost.

Following a brief summary of the Project Background, the Overall Findings are supported in Sections 2 - 4 by specific comments for each principle assessed during the assessment of the model.

1.4 Project Background

The Adaptive Reuse Area is owned by the Fairfax County Board of Supervisors and is comprised of the now vacant Lorton Prison Reformatory and Penitentiary Buildings. The approximately 80-acre parcel, part of the larger Laurel Hill property, was purchased by Fairfax County and transferred from the Federal Government in 2002. The County Re-Use Plan, prepared at the time of transfer, included a commitment that the County preserve and reuse the majority of the buildings associated with the Adaptive Reuse Area.

The Fairfax County Board of Supervisors, Fairfax County staff, and a series of citizen task forces, including the Laurel Hill Adaptive Reuse Citizens Advisory Committee (CAC), have extensively studied the reuse of the parcel, culminating in the *Recommendations for the Adaptive Reuse Areas within Laurel Hill* completed in 2004. The publication documents the Committee's two-year process of soliciting input from community stakeholders and working with planning professionals to create a plan for Laurel Hill.

The *Recommendations for the Adaptive Reuse Areas within Laurel Hill* described the redevelopment of the former Penitentiary and Reformatory sites into a mixed-use development. The recommended uses included residential (with a magnet housing component), professional office, educational, and retail in a village center concept. The Recommendations were adopted as an amendment to the Fairfax County's Comprehensive Plan in May 2006. The table below represents the density and uses called for in the Comprehensive Plan in 2006 as compared to the Master Plan. The Comprehensive Plan was amended in December 2012 to remove the 2004 recommendations and to reflect the recommendations of the Master Plan.

Figure 1. Comprehensive Plan Programmatic Summary

Land Use Type	Total Square Footage (SF) of Development or Number of Units
Housing (Magnet and Market Rate Apartments and Condominiums/Lofts)	50 - 155 units
Commercial (Neighborhood Retail and Office)	40,000 - 60,000 SF
Education	50,000 - 125,000 SF

For comparative purposes, the figure below outlines the land uses and densities included in the master plan proposed by the Alexander Company.

Figure 2. Proposed Master Plan Programmatic Summary

Land Use Type	Total Square Footage (SF) of Development or Number of Units
Housing :	
Single-family Townhomes	181 units
Market Rate Apartments	118 units
Affordable Apartments	53 units
	352 units
Commercial – Neighborhood Retail and Mixed Use[1]	81,400 SF
Office	50,000 SF

[1]Includes 20,000 SF of retail pad space and 20,000 SF of space in the chapel building

As described further in Section 2.1 of this report, the proposed land use and density of the redevelopment have changed only marginally since the 2009 master plan. The figure below summarizes the proposed development program.

Figure 3. Current Proposed Development Program Summary

Land Use Type	Total Square Footage (SF) of Development or Number of Units
Housing :	
Single-family Townhomes	160 units
Single-family Detached Homes	21 units
Market Rate Apartments	118 units
Magnet Apartments	53 units
	352 units
Specialty Retail	50,100 SF
Office	51,000 SF
Chapel (no anticipated income)	20,000 SF
Power Plant (no anticipated income)	8,000 SF

2.0 Project Viability

2.1 Density Viability

Assess the viability and sustainability of the proposed density of residential, commercial, and retail development.

The current Laurel Hill Adaptive Reuse Area development scenario retains a significant portion of the master plan recommendations submitted by the Alexander Company in 2009. The overall proposed density is slightly lower than the 2009 recommendations. This change is attributable primarily to a reduction in the amount of commercial (retail and office) space proposed for the site; the 2009 recommendations called for 131,400 SF, whereas the current development budget proposes 129,100 SF (both figures combine historic adaptive reuse and new construction). The residential composition of the proposal is relatively consistent with the 2009 recommendations. 181 for-sale residential units were proposed in 2009. This number is unchanged, however the proposal currently calls for 160 townhomes and 21 single-family detached homes. The rental residential (historic adaptive reuse) component has is also unchanged, calling for 171 units (118 market rate and 53 rent-restricted) as in the 2009 recommendations.

Despite these minor changes in the proposed scope of the redevelopment, the overall density, use types, and overall layout of the project remain consistent with the 2009 master plan recommendations and the overall goals for the project. The amount of proposed retail space, in particular, is believed to be sufficient to attract appropriate tenants to support the neighborhood retail concept. Residential tenants and buyers are likely to view the planned retail component as a positive attribute when considering living on the redeveloped site. The ability to attract office tenants is likely the largest challenge to supporting the proposed density at the site. The office component of this project is driven by Master Plan requirements, rather than market fundamentals. This analysis concludes, however, that office-related risks are well mitigated through conservative assumed rental rates and a phased approach to investment in the associated structures' stabilization and renovation.

2.2 Commercial and Retail Viability

Assess the viability of the projected commercial and retail lease rates for the project.

The 2009 master plan prepared by the Alexander Company incorporated commercial rental rates sourced from a financial feasibility analysis prepared by subcontractor BBPC Associates ($25/SF NNN retail, $20/SF gross office). In its latest development budget, the Alexander Company utilizes a blended average retail and commercial office rental rate of $16.43/SF NNN, with $5/SF assumed for common area maintenance (CAM) charges. This constitutes an overall reduction in the anticipated rental rates for the commercial portion of the development. Based on market research and conversations with Alexander Company representatives, this downward revision is appropriate for two reasons:

1. The office space within the commercial portion of the redevelopment is expected to face a challenging leasing environment due to the age of the space, the atypical footprints and layouts of the associated buildings, and the small overall size of the space and maximum available contiguous area. These challenges are not viewed as prohibitive to a successful office portion of the redevelopment; however, the more conservative commercial rental assumptions are believed to account for the market realities listed above.
2. Effective rents for a retail anchor will need to include sufficient concessions to attract an appropriate tenant. Although net rents of $25/SF (per 2009 analysis) may be achievable, this analysis concludes that the reduction in average anticipated commercial rents appropriately and conservatively reflects the possibility of rent concessions that may be required to fill the space with quality retail tenants.

The tenant improvement (TI) allowance allotted for commercial tenants is $30/SF. This compares to $20/SF for office and retail as per the 2009 analysis. This 50% increase in anticipated TI should provide for greater flexibility in the lease negotiation process while increasing the likelihood that project performance will meet or exceed pro forma expectations.

2.3 Short-Term and Mid-Term Viability

Assess the short-term and mid-term viability of the proposed residential rental and owner-occupied units, office space, and retail uses.

Retail. Following a bottoming out in 2009, the Metro DC retail market has performed well relative to most other markets in the nation. Current market-wide projections call for market fundamentals to continue to strengthen through the immediate future based largely on positive employment trends anticipated to exceed national averages. Within the Southeast Fairfax County submarket, fundamentals are anticipated to continue their recovery from the 2009 crash, with positive absorption anticipated from 2013 through 2021, as well as stable availability rates and healthy rent inflation. Based on current conditions and forecasted trends in this submarket, the blended commercial rental rate and vacancy assumptions utilized by the Alexander Company conservatively reflect the concessions that may be required to attract an anchor tenant, as well as anticipated challenges associated with leasing the office portion of the project (described further below). The figure below summarizes historical, current and forecasted trends within the submarket that contains the Laurel Hill Adaptive Reuse Area.

Figure 4. Southeast Fairfax Retail Submarket Overview 2004-2021 (Forecasted)

Year	Completions (SF)	Net Absorption (SF)	Availability Rate	Asking Rent (PSF, Net)	Rent Inflation
2004	-	-	2.5%	$28.39	-
2005	27,000	93,000	2.5%	$25.73	-9.4%
2006	223,000	250,000	1.8%	$24.02	-6.6%
2007	13,000	-35,000	2.4%	$24.27	1%
2008	-	-82,000	3.3%	$27.66	14%
2009	6,000	-309,000	6.9%	$26.05	-5.8%
2010	-	95,000	6%	$25.68	-1.4%
2011	-	69,000	5.4%	$27.66	7.7%
2012	13,000	-98,000	6.6%	$28.23	2.1%
2013	17,000	75,000	6%	$29.22	3.5%
2014	62,000	95,000	5.5%	$30.65	4.9%
2015	75,000	88,000	5.3%	$32.27	5.3%
2016	86,000	74,000	5.4%	$33.70	4.4%
2017	92,000	70,000	5.6%	$35.00	3.9%
2018	92,000	62,000	5.9%	$36.12	3.2%
2019	92,000	56,000	6.2%	$37.06	2.6%
2020	90,000	52,000	6.5%	$37.89	2.2%
2021	87,000	52,000	6.8%	$38.66	2%

Source: CBRE-EA 3Q2012

This analysis also researched the current level of retail leakage within the vicinity of the Laurel Hill site. Retail leakage refers to conditions under which residents of a defined area spend money outside of the boundaries of that area. According to 2010 data provided by ESRI, the area defined as a one-mile radius from the Laurel Hill Adaptive Reuse Site (2010 population of 4,693) experienced a retail leakage of over $75M in all spending categories that comprise retail trade and food & drink. This constitutes a leakage factor of 73.5 (out of 100), which suggests that residents are allocating a significant portion of their retail spending outside of this area. The area defined as a three-mile radius from the site (2010 population of 59,689) experienced a retail leakage of over $415M in those same spending categories. Although the associated leakage factor of 28.3 is not as high as the corresponding figure within a one-mile radius, this analysis concludes that the immediate vicinity of the Laurel Hill Adaptive Reuse area is currently underserved by retailers. Potential retail tenants analyze these types of metrics among other factors. Such a high amount of retail leakage, especially within a one-mile radius of the site, is anticipated to drive additional retail tenant demand for the site, which further supports the Alexander Company's ability to operate the retail portion of the project at or above pro forma expectations.

Office. Across the DC Metro office market, challenges faced nationwide over the last several years have largely been avoided due to the stability of the regional economy, with rents and vacancies deteriorating

only slightly starting in 2009. Although projected office-using employment growth over the next several years is projected to lag behind the area's long-term average, that growth is anticipated to be sufficient to foster improving vacancy rates and rent growth, particularly in 2014 and later years.

The office space programmed for the Laurel Hill Adaptive Reuse Area is atypical of the predominant stock currently available in the Springfield office submarket. Although the site's proximity to I-95 does offer a locational advantage, the age of the buildings, relatively small maximum contiguous floorplans, and the absence of nearby major office-using tenants together screens from the potential pool of tenants those who would seek large blocks of space in modern, Class A buildings. However, the office space programmed for Laurel Hill could provide an alternative for small office-using tenants who wish to avoid paying premium rents for space in larger Class A buildings. The overall assessment for the Springfield office submarket is somewhat bleak. Vacancy rates approaching or greater than 20% are projected for the majority of the next decade, with stagnant or negative rent growth forecast during the same period. However, an aggressive and tailored leasing strategy (including appreciable discounts compared to Class A rents in the area) for unique office space like that proposed at Laurel Hill, could allow the project to achieve lower office vacancy rates than the submarket as a whole. Overall, this analysis concludes that the Alexander Company's average blended commercial rental rate sufficiently factors in this leasing environment. The figure below summarizes historical, current and forecasted trends within the submarket that contains the Laurel Hill Adaptive Reuse Area.

Figure 5. Springfield Office Submarket Overview 2004 to 2021 (Forecasted)

Year	Completions (SF)	Net Absorption (SF)	Vacancy Rate	Effective Rent (PSF, Gross)
2004	448,000	586,000	7%	$26.75
2005	556,000	368,000	10.7%	$29.18
2006	347,000	213,000	12.9%	$31.18
2007	-	98,000	10.7%	$31.19
2008	403,000	341,000	10.9%	$32.38
2009	223,000	-45,000	15.8%	$30.91
2010	-	223,000	11.3%	$29.85
2011	331,000	-35,000	17.7%	$30.20
2012	-	-96,000	19.3%	$30.95
2013	593,000	105,000	25.5%	$29.98
2014	-	126,000	23.4%	$28.99
2015	22,000	111,000	21.9%	$28.49
2016	31,000	73,000	21%	$28.32
2017	40,000	56,000	20.6%	$28.22
2018	44,000	50,000	20.4%	$28.10
2019	44,000	48,000	20.2%	$27.90

Year	Completions (SF)	Net Absorption (SF)	Vacancy Rate	Effective Rent (PSF, Gross)
2020	44,000	48,000	20%	$27.64
2021	43,000	45,000	19.8%	$27.34

Source: CBRE-EA 3Q2012

Apartments. The DC Metro rental multifamily market has experienced a strong performance over the past few years despite challenges faced in the multifamily sector nationwide. By way of example, per data provided by CBRE, the recent peak of market-wide multifamily vacancy rates was only 5.4% in 2009. The strength of the DC multifamily market can be attributed to stable employment trends within the primary sectors that drive the regional economy, strong underlying demographic characteristics, and a shift (especially among younger generations) away from purchasing homes with a preference for the flexibility afforded by renting. Market-wide forecasts for the multifamily sector indicate that this strong performance is expected to continue.

The rental projections for the market-rate rental housing portion of the Laurel Hill redevelopment appear to be realistic and defensible based on market conditions. The average market-rate rent per unit per the Alexander Company's budget is approximately $1,560, which is reasonable based on the prevailing rent trends within the South Fairfax County submarket. The Alexander Company also utilized a projected stabilized vacancy rate of 7%, which is viewed as very conservative based on appreciably lower recent historical and forecasted vacancy rates. The figure below summarizes historical, current and forecasted trends within the submarket that contains the Laurel Hill Adaptive Reuse Area.

Figure 6. South Fairfax County Apartment Submarket Overview 2004 to 2017 (Forecasted)

Year	Completions (Units)	Net Absorption (Units)	Vacancy Rate	Avg. Effective Rent per Unit (Gross)
2004	-	408	5%	$1152.36
2005	-	218	2.6%	$1232.06
2006	81	-146	3%	$1276.93
2007	-	-65	4.2%	$1294.99
2008	35	-346	4.5%	$1360.39
2009	-	264	5.9%	$1358.33
2010	148	353	4.2%	$1387.43
2011	114	139	4.1%	$1471.34
2012	104	-71	4.1%	$1522.55
2013	328	271	4.8%	$1542.63
2014	208	260	4.6%	$1579.70
2015	143	167	4.4%	$1634.02

Year	Completions (Units)	Net Absorption (Units)	Vacancy Rate	Avg. Effective Rent per Unit (Gross)
2016	168	185	4.2%	$1692.02
2017	192	179	4.2%	$1754.92

Source: CBRE-EA 3Q2012

The Alexander Company currently programs 53 multifamily units to be rent-restricted, allowing the project to receive funding through Low Income Housing Tax Credits (LIHTC). This analysis notes that projected rents for the income-restricted units are significantly lower (approximately $50-80 per month when utility expenses are accounted for) than the 2011 statutory maximums associated with the LIHTC program in this location. Although income-restricted housing in general, and project located in DC in particular, generally achieve strong occupancies, this anticipated discount to maximum allowable rents should further ensure strong occupancy levels within the 53 income-restricted units.

For Sale Townhomes. The Alexander Company projects sales prices in the upper $400k's for the 160 townhomes and in the low $600k's for the 21 single-family detached homes. This analysis concludes that those anticipated sales prices are achievable, provided that the units are built to a level of quality sufficient to entice buyers to pay a premium for new construction. To assess the reasonableness of the Alexander Company's projected sales prices, this analysis reviewed Multiple Listing Service (MLS) completed single-family home transactions within a one-mile radius of the site and within a three-mile radius of the site for townhomes (a larger area was analyzed for townhomes due to an insufficient number of comparable townhome transactions within a one-mile radius of the site). Those transactions were screened to include only homes/townhomes constructed in 2008 or later, and only those transactions completed since January 2010. Townhome transactions meeting these criteria averaged approximately $500,000. Single-family detached home transactions meeting these criteria averaged approximately $675,000. Although these comparable transactions were not screened in-depth to ensure consistency with the expected characteristics of the new construction at Laurel Hill, this analysis concludes that the projected sales prices are consistent with the prevailing trends in the market and are believed to be achievable.

3.0 Financial Assumptions

3.1 Development Budget Financial Projections

Assess the reasonableness of the development budget financial projection and assumptions, and their use to determine potential financial commitment range from county.

Development Gap Estimate. The Alexander Company summarized their financial analysis in the form of a table that lists the estimated costs associated with each land use type as well as site and entitlement costs. The table also lists the estimated surplus or gap associated with each cost type. The overall financial gap of the project, which carries with it a potential financial impact on the County, is estimated by summing the sources and uses for each cost type. The sum of all sources and uses for the project results in the estimated development gap of $11.14M.

The chart below is a summary of the proposed land uses at the Laurel Hill Adaptive Reuse Site and an overview of how the overall estimated financial gap is attributable to each aspect of the development program.

Figure 7. Alexander Company Redevelopment Budget Summary

LAUREL HILL REDEVELOPMENT			
BUDGET SUMMARY			
09/24/12			
Use	Estimated Cost	Est. Surplus (Gap)	Notes
Buildings			
Retail / Office	$ 21,713,230	$ (1,615,634)	Incl Pen wall/tower repair & cell block demo
MF - Residential	$ 41,561,191	$ 396,000	Incl Sale od Guards Q's @ $66,000/Unit (shell)
Townhomes	$ 68,000,000	$ 16,344,000	$425,000 / Townhome x160 Units
SF Homes	$ 11,550,000	$ 3,321,150	$550,000 / SF Home x21 Units
Site / Entitlements			
Infrastructure	$ 23,100,000	$ (23,100,000)	
Site Design / Engineering	$ 3,700,000	$ (3,700,000)	
Demo / Stabilization	$ 2,185,000	$ (2,185,000)	
County Fees	$ 600,000	$ (600,000)	
Total	$ 172,409,421	$ (11,139,484)	(16,8M) if State Credit is taxable

The Alexander Company utilized a reasonable methodology and defensible assumptions to determine the viability of the project. For example:

- In estimating the capital budget, the Alexander Company has previously used experience in past projects and estimates from a local general contractor (BE&K), civil engineer (Walter Phillips), and traffic engineering firm (Wells & Associates) to determine the construction and

infrastructure costs. Generally, the costs in the current development budget did not deviate significantly from the 2009 estimates. Overall, anticipated construction costs increased, which is consistent with general trends in the region.

- The Alexander Company revised its original assumption that the project would be developed in a single-phase. The project is now envisioned as having three phases: 1) Renovation of the reformatory buildings for historic residential, 2) Construction of the single-family homes and townhomes as part of the so-called "3rd Campus," and 3) Renovation of the penitentiary buildings and new construction for commercial (retail and office) uses.

The biggest driver of the gap is the high costs associated with renovating space that is not income producing. This includes the infrastructure costs of rehabbing historic structures and working in and around them in order to create viable space that is attractive to the market. Nevertheless, these costs must be captured in the methodology and assumptions used in the financial models to estimate the financial gap. In addition, as described throughout this report, the underlying assumptions regarding real estate market fundamentals and construction costs are reasonable and provide a sound basis for the estimate of the financial gap.

The following four sections discuss components of the Development Plan's financial analysis, specifically the level of private investment, tax credit equity, land sales proceeds, and overall construction cost estimate.

Private Investment. The Alexander Company estimated the amount of private investment (in terms of private equity and permanent financing) and tax credit equity the project would attract. The level of permanent financing available to the project was based on the estimated net operating income. Net operating income was calculated using stabilized rent and expense projections from the third party market research. Overall the projections appear reasonable. The Alexander Company has modeled the development with the inclusion of approximately $4.4M of private equity being contributed toward the commercial and rental multifamily portions of the project.

Tax Credit Equity. The Alexander Company also estimated how much state and federal tax credit equity (from both historic and low income housing tax credits) the project would likely earn from investors. These estimates are based upon published methods for calculating tax credit eligibility and their experience in similar projects around the county. Specifically, given the qualified expenditures in the renovation budget, it is estimated that the project could receive approximately $21.56M in equity from investors in Federal and State Historic Tax Credits. In addition, the project's 66 units of planned Magnet Housing are potentially eligible for about $4.55 in equity through the Low-Income Housing Tax Credit Program.

Regarding the certainty of gaining these tax credits, the state and federal agencies responsible for administering these programs cannot commit to project eligibility or what level of expenditures qualify for eligibility until after design progresses to a level of detail beyond the master planning phase.

However, the Alexander Company's estimates are based on the proper application of the policies governing the tax credit programs. In addition, the Alexander Company has achieved these tax credits on several other historic and low income housing projects. Therefore, their extensive experience in this type of development and the technical approach of their analysis suggest their tax credit estimates for the gap analysis are reasonable.

Land Sale Proceeds. The Alexander Company's analysis of the townhome and single-family detached home sites did not include full development pro formas to estimate the economics of these uses. Instead, the Alexander Company assumed that these uses would be parceled off and sold in a land sale to other builders (i.e., Elm Street) since the Alexander Company does not specialize in single-family home or townhome development. Townhome and single-family detached land sale proceeds were based on a percentage of estimated gross sale proceeds of completed townhomes. According to an experienced local residential developer (per 2009 analysis), builders will likely pay about 15% of the gross sale proceeds for the raw land. Assuming the average completed townhome would sell for about $475,000, each parcel would sell for about $71,250 resulting in total land sale proceeds of approximately $11.4M for all 160 parcels. Assuming the average completed single-family detached home would sell for about $600,000, each parcel would sell for about $90,000 resulting in total land sale proceeds of approximately $1.9M for all 21 parcels.

Overall Construction Costs. Based on a review of the overall construction costs and their derivation, and a detailed conversation with representatives of the Alexander Company, the overall construction cost assumptions utilized by the Alexander Company in the development budget appear to be reasonable. Construction cost estimates for both new construction and historic buildings have increased since the 2009 analysis of the Alexander Company's master planning effort. The increases during this period are attributable to a return to normal conditions following a severely depressed market at the time of the previous analysis. At this time, the estimates utilized are anticipated to remain valid absent unforeseen events in the construction market. Further, the Alexander Company applies a 10% contingency to construction hard costs, which is viewed as reasonable and adequately reflective of uncertainty in future conditions.

Site development costs also appear to be reasonably sources and sound overall. For many of the line items, the Alexander Company received estimates from three experts in the field: Site Development Services, William A. Hazel, and S.W. Rodgers. These estimates suggest a more precise analysis than the 2009 exercise, and the overall land development budget has increased to approximately $23.1M compared to $19.5M as estimated in 2009.

It should be noted that for stabilization costs associated with the historic chapel and power plant, the Alexander Company used placeholders in the absence of industry-sourced assumptions. Although these placeholders appear to err on the side of overestimating the related costs, increases above the figures currently in the budget could result in a widening of the financial gap associated with the project.

3.2 Historical Costs

Reasonableness of costs associated with historic structures and impact on residential and commercial tenants.

Analysis of the costs associated with historic structures was based in large part on the similar effort performed as part of the assessment of the Alexander Company's 2009 master planning efforts. Based on a conversation with Alexander Company representatives, a similar methodology to 2009 was employed for derivation of the current historic cost estimates. In particular, Alexander Company estimates were informed by take-off estimates from BE&K, with BE&K referring to its rehabilitation of the Lorton Arts Foundation (LAF). For example, for replacing and re-pointing brick work they calculated the surface area of the bricked buildings of the site and multiplied that number by the same actual unit costs required for similar brick work at the LAF. They applied this methodology for all historic rehab requirements and for the shell of the building. In addition, BE&K applied the lessons learned from LAF when estimating the costs of difficult to price items such as custom-built windows.

All work within the walls of the historic buildings was priced using current market data from the cost estimates on their construction projects of new space. There was no notable premium for mechanical, electrical, and plumbing (MEP), a safe assumption considering the proximity of existing utilities and the level of infrastructure work included in the overall cost estimate.

For estimates that were not easily comparable to past or current projects such as grading and utility work, BE&K applied the average cost per acre of site work at LAF to estimated total acres of site work at the Adaptive Reuse Site. BE&K noted that unforeseen issues regarding utilities and below grade conditions can easily result in the budget doubling for those line items. However, this is generally the case for most projects—new or historic—and is why a contingency should be included in the project budget. The Alexander Company's analysis carries a healthy hard cost contingency of about 10% for all use types which is reasonable for the scope of this project.

It should be noted that the County Re-Use Plan (codified in the Comprehensive Plan) outlines the County's intent to preserve and maintain the majority of the over 130 historic structures on the site. Procedures and guidelines for the review of development plans, any proposed demolition, and agency coordination are outlined in the Memorandum of Agreement (MOA) executed with the General Services Administration (GSA). The lack of a development partner and a viable development project will result in the County funding the preservation (i.e., stabilization and maintenance) of the historic elements of the site until such time that a partner is found, or until the property is converted to parkland and loses its income-producing potential. The historic elements include components such as the wall and the guard towers which have no future income-producing value. The Adaptive Reuse construction costs outlined by the Alexander Company include the preservation of all historic elements, income-producing or not.

Overall, as was concluded in 2009, this analysis finds that the cost estimates associated with historic buildings are reasonable and based on a sound methodology.

4.0 Financing Options

4.1 Financing Tools

Assess the feasibility of a special tax district or tax increment financing to help close the project's financial gap.

The County can leverage two main public tools to address the project's financial gap: a special tax district administered by a Community Development Authority (CDA) and Tax Increment Financing (TIF).

Community Development Authority and Special Tax District. CDAs are authorized to acquire, establish, construct, equip, operate, and maintain certain infrastructure improvements within the boundaries of the authority and to issue revenue bonds to pay the costs associated with such improvements. A CDA may be used with or without tax increment incentives. In instances where a CDA is used without tax increment incentives, the CDA must pay all of the debt service associated with the revenue bonds through a special tax or special assessment levied on property owners receiving a "special benefit" from the improvements. This special tax or special assessment could be a one-time event or be assessed annually to service a bond to fund the improvements.

The basic calculations outlined in the chart below illustrate the estimated amount of funds an ad valorem tax of one cent per $100 of assessed value would generate annually if applied to the Laurel Hill development. In summary, one penny of ad valorem tax can support a debt capacity of about $117,000. As an example, a $0.10 tax could support about $1.17M in debt. The statutory maximum limits a special ad valorem tax to $0.25. At that rate, an ad valorem tax could support approximately $2.93M in debt. The rationales and sources for assessed values are described in the notes to this chart.

Figure 8. Funds Generated per $0.01 of Special Tax

Estimated Assessed Value	
Commercial Property[1]	$14,032,542
Rental Multifamily[2]	29,066,821
Townhomes[3]	68,000,000
Single-Family Detached Homes[4]	11,550,000
Total Assessed Value	**122,649,363**
Special Tax Rate per $100 Ad Valorem	$ 0.01
Total Annual Special Tax	**$ 12,265**
Special Assessment Bond assumptions:	
Term (years)[5]	20
Interest Rate[6]	6.0%
1.20 debt service coverage ratio	1.20
Maximum Bond Amount Supported by Special Tax	**$117,232**

[1]Estimated value from the Alexander Company's models
[2]Stabilized NOI divided by 5.6% cap rate per RERC
[3]Assumes estimated value of $425,000 per townhome
[4]Assumes estimated value of $550,000 per single-family detached home
[5]Per the County's Priciples for Public Investment, the max term is 20 years
[6]Interest rate of proposed SA Bonds for the Mosaic at Merrifield

Tax Increment Financing. The proposed development on the 80-acre Laurel Hill site would provide a substantial increase in revenue to the County in terms of additional taxes, especially considering the site does not currently generate any tax revenue. Therefore, another method to close the financial gap of the project is through the use of TIF. TIF is a common technique used by counties and municipalities to finance capital projects from the future gains in tax revenue generated by those improvements. TIF is designed to channel funding toward improvements in distressed or underdeveloped areas where development might not otherwise occur. In the case of the development at Laurel Hill, the County could commit a portion of the increase in tax revenues (in the form of bonds) to finance infrastructure improvements (utilities, lighting, repaving streets, etc.) that would encourage the desired commercial and residential development on site. The increase in tax revenue generated by these uses would go toward the debt service of the TIF bonds. Feedback from County representatives suggests that the County would prefer to not utilize the TIF structure for this project; however, this analysis is presented for illustrative purposes.

A CDA can also be used in conjunction with TIF to provide a minimum tax guarantee. In this arrangement, debt service is first paid through tax increment revenues. In the event that tax increment revenues are sufficient to cover debt service, no special taxes are collected. If, however, tax increment revenues fall short of the required debt service in any bond year, the special tax is collected.

Based on the Alexander Company's financial feasibility analysis, the commercial and residential uses of the project could generate over $1.7M in new tax revenue annually for the County. This includes approximately $560,000 in property taxes associated with the commercial portion of the project, approximately $980,000 in property taxes associated with the residential portions of the project (this analysis does not distinguish between rental and owner-occupied), and over $200,000 in sales taxes and other fees.

A first step in determining the effectiveness of using TIF is to determine the debt capacity that results from the incremental tax increase. Using the Mosaic development at Merrifield as a guide, preliminary calculations suggest that it is potentially feasible for the project to service a $10 million bond with a term of 20 years and coupon rate of 6%, as illustrated in the following chart.

Figure 9. New Tax Revenues vs. Maximum TIF Bond Capacity

New Annual Tax Revenues	
Commercial property tax revenues[1]	559,374
Residential property tax revenues[1]	976,487
Sales Tax, BPOL and Other Tax Revenues[1]	208,538
Total New Annual Revenues	**$ 1,744,399**
TIF Bond assumptions:	
Term (years)[2]	20
Interest Rate[3]	6.0%
1.20 debt service coverage ratio	1.20
Maximum Bond Amount Supported by New Tax Revenue	**$ 16,673,433**

[1]Estimated real property taxes and other tax revenues from A&M's fiscal impact analysis (see Sec. 4.3 of this report).

[2]Per the County's Priciples for Public Investment, the max term is 20 years

[3]Interest rate of proposed TIF bonds for the Mosaic at Merrifield

From this approach it seems reasonable to assume the overall project could service a $16M+ TIF after the stabilization of the commercial properties and all townhomes are sold.

4.2 Financial Risks

Identify financial risks that may accrue to the County through implementation of the project or associated financial tools.

Commercial real estate development is a complex and risky activity, but it often results in extraordinary benefits for all stakeholders when risks are managed appropriately. It is evident that the County is aware of the risks involved with the development of Laurel Hill and has the staff and guidelines in place to mitigate these risks. Furthermore, the County has a comprehensive list of principles used to evaluate revitalization and reinvestment opportunities—the Principles for Public Investment in Support of Commercial Redevelopment ("16 Principles"). These 16 Principles call out specific measures the County can take to promote responsible development while limiting its risk.

The tables below list the primary project risks and financing risks involved with this type of development and briefly discusses some of the issues the County has or may consider as the project moves forward.

Figure 10. Project Risks of Typical Development Projects

Risk Factor	Description	Discussion
Entitlement Risk	• Risk of obtaining appropriate land entitlements, construction permits and zoning approvals.	• The County should be able to mitigate most of this risk through continued involvement in the project. Coordination with the General Services Administration (GSA) is required, per the stipulations off the MOA. GSA has stated their support for the 2012 updates to the Comprehensive Plan (Re-Use Plan). • Alexander Company has stated that the project could be in peril if the State Historic Preservation Office declines to grant approval for the removal/lowering of portions of the penitentiary wall. This analysis concurs, based on the likelihood that no retail tenants would select to locate on the site due to visibility and access concerns should alterations to the wall not be allowed. The County should advocate to the State Historic Preservation Office to underline the criticality of that specific approval to the overall project, and the resultant ability to preserve the majority of a historic site.
Construction Risk	• Materials pricing– risk that the cost of materials may vary from the original construction estimates. • Scheduling– risk that planned construction completion could be prolonged due to weather delays, labor disputes, material delivery delays, etc.	• The cost and schedule risks associated with the new and historic rehab aspects of the development are manageable and steps have been taken to mitigate these risks: 1) the project costs were estimated by the contractor with experience on similar historic structures at the Lorton Arts Foundation, 2) the master plan was prepared by the Alexander Company, a developer with extensive experience in historic rehab projects and

		3) the budget includes a construction cost contingency of about 10% which is commonly recommended for projects of similar scope. • The County and the selected developer should maintain an open dialogue throughout the design and construction process with the Virginia Department of Historic Resources and the National Park Service to minimize the amount and cost of any scope changes needed to achieve the historic tax credits.
Leasing/Sales Risk	• Risk that forecasted absorption (leasing or unit sales) volume will not be realized. • Risk of a market-driven restructuring of leasing or sales commission rates.	• Pre-leasing for the residential and retail portions of the development should mitigate leasing risk associated with the project. • Leasing expectations for the office portion of the development persists due to the characteristics of the site. However, conservative assumptions utilized regarding rental rates should help prevent this portion of the development from performing below pro forma.
Operating Expense Risk	• Risk of a significant change in one or more fixed or variable expense categories such as insurance, real estate taxes, etc.	• Operating expenses for the commercial and rental residential portions of the site appear to include a premium adequate to account for inefficiencies associated with historic properties.
Credit Risk	• Risk that pre-lease tenants and/or tenants' industry segment is negatively impacted during development.	• Broadly positive economic conditions and forecasts in the region should help mitigate credit risk associated with the project.
Event Risk	• Risk of a physical, economic, or other event occurring that materially impacts asset operations value. Weather, discovery of previously unknown environmental contamination, exodus of major employment providers, and terrorism comprise a sampling of such events.	• Consider a full utility mapping survey of the Adaptive Reuse site to reduce the risk of uncovering subsurface issues. • The residential market outlook for the Lorton area is notably influenced by the expected Ft. Belvoir BRAC expansion. As a result, unforeseen policy changes to BRAC plans could negatively impact the Lorton market.

Figure 11. Primary Financial Risk Factors

Risk Factor	Description	Discussion
Partnership Risk	• Risk that accompanies any ownership less than 100% due to a myriad of factors regarding control, revenue distributions, etc.	• The County can mitigate this risk by carefully drafting a development agreement that address each partner's economic interests and how disagreements will be handled throughout the duration of the project.
Capital Market Risk	• Interest Rates–risk of a change in interest rates during the development period that results in increased financing costs. This could affect cost of construction or, in the case of townhome sales, the buyer's	• Interest rates are at historic lows and the Fed will likely face pressure to combat inflation over the next few years. As a result, the County should consider how rising rates will impact the different financing options.

	ability to obtain suitable purchase price financing. • Alternative investment risk–risk that investor allocations or rates of return for alternative investments will change resulting in shifts in capitalization and discount rates.	• The alternative investment risk must be factored into the feasibility of financing a TIF bond; private institutional investors may price the bonds at a rate that cannot be supported by the incremental tax revenues.
Valuation Risk	• Risk that a lack of applicable, current market data exists to accurately value the subject property especially due to the unique nature of the site.	• The valuation of the property will influence the size of the permanent ("take-out") loan available to the project and the overall financial gap.
TIF Risk	• Risk of default on bonds—risk that the TIF investment does not spur enough private development required to create the tax increment needed to service the bonds. • Political Risk—risk that elected officials do not approve TIF because of public opposition.	• Per the guidance of the 16 Principles, the TIF bonds can be structured such that the County's general fund and bond rating are not impacted in the event of a default. • The tax revenue of the project is highly dependent on the real property tax generated by completed townhomes. Market factors could force the home builder to sit on the vacant land for several years delaying the collection of a major source of incremental tax revenue. • Transparency and public input is critical to gaining public support and ensuring elected officials make the best decision regarding public financing.
CDA Risk	• Risk of default in the development start-up phase. • Risk of insufficient sales to fee bond repayment revenue stream. • Risk that property value declines reduce the bond repayment revenue stream. • Economic downturn could hurt the prices or sale of property within the CDA.	• Per the guidance of the 16 Principles, any special assessment bonds created under the CDA can be structured such that the County's general fund and bond rating are not impacted in the event of a default. • In addition, the 16 Principles address these risks through guidance related to the negotiation and structure of the development agreement.

4.3 Cost Benefit Impact

Evaluate the reasonableness of cost-benefit impact of the proposed project as it relates to net tax gain, potential bond impact, and County liabilities.

An Input-Output model with data from IMPLAN indicates that $172,409,421 in new project construction expenditures spread between 2013 and 2014 will create jobs and tax revenues directly and indirectly as money is spent. 100% of estimated property tax revenues are assumed to go to local governments as well as fractions of other tax categories according to averages from the Census of Governments for the state of Virginia. Based upon the Census of Governments, approximately 3.85% of state general revenues are projected to be transferred to Fairfax County local governments. These impacts are expected to be one-off during the construction process, with revenues accruing during 2013-2014.

Figure 12. Construction Period Fiscal Impact Estimate

Construction	Direct	Indirect	Induced	Total
Sales Taxes	$335,077	$278,553	$172,890	$786,520
Property Taxes	$1,531,677	$1,266,235	$784,205	$3,582,117
Other Taxes & Fees	$270,360	$203,494	$121,154	$595,008
Assumed Transfers	$94,940	$61,874	$35,128	$191,942
Total Fiscal Impact	$2,232,054	$1,810,155	$1,113,377	$5,155,586
Employment Change				2141

The creation of new retail and office space as part of the redevelopment can be expected to bring new businesses to the area which will provide a stream of revenues each year upon project completing and occupancy. Estimates of total economic activity associated with commercial tenants of Laurel Hill are based upon the commercial property value and average capital to output ratios for a basket of retail and office-using subsectors. Some portion of commercial property use may be the result of relocation from within the county or reallocation of local demand from existing businesses, so the impact estimates that follow should be taken as an upper bound.

Figure 13. Operating Period Fiscal Impact Estimate (Commercial Tenants)

Commercial Tenants	Direct	Indirect	Induced	Total
Sales Taxes	$123,428	$13,564	$21,993	$158,985
Property Taxes	$559,374	$61,862	$99,759	$720,995
Other Taxes & Fees	$85,056	$10,525	$15,413	$110,995
Assumed Transfers	$23,281	$3,579	$4,470	$31,329
Total Fiscal Impact	$791,139	$89,530	$141,635	$1,022,304
Employment Change				209

New residential developments can be expected to bring in new residents to the area, who will spend money and pay taxes in Fairfax County each year beginning in 2014. Estimates are based upon an assumption of 7% vacancy for both multi-family and single-family units, with an average household income of $54,000 for residents in multi-family low-income housing and an average household income of $108,000 for residents in market multi-family units and single-family units. Induced effects are the result of new consumer spending; direct property tax effects are based upon expected valuation of Laurel Hill units at the real estate tax base rate of 1.075%. As with commercial property use, some residential property demand may result from relocation within the county so impact estimates should be taken as an upper bound.

Figure 14. Operating Period Fiscal Impact Estimate (Residential Tenants)

Residential Tenants	Direct	Indirect	Induced	Total
Sales Taxes			$77,452	$77,452
Property Taxes	$976,487		$351,229	$1,327,716
Other Taxes & Fees			$54,023	$54,023
Assumed Transfers			$15,537	$15,537
Total Fiscal Impact			$498,241	$1,474,728
Employment Change				99

4.4 Public Financing

Provide advice on the appropriate form of public financing on investment to achieve County goals.

The Alexander Company's analysis illustrates that there will be a financial gap associated with the Laurel Hill development. As a result, the project will not proceed unless there is a sufficient level of public financing. However, a brief analysis suggests that it is possible to use one or more forms of public financing to close the gap and spur private development of the site.

Per the County's 16 Principles, a development entity such as CDA which includes a self-tax is the preferred funding method for this type of project. Therefore, maximizing the use of a CDA ad valorem tax or special assessment should be considered before assessing the use of TIF as a supplement to close the remaining gap. The statutory maximum and the terms of a development agreement will dictate the required amount of each source of financing.

As previously stated, use of TIF is not the preferred strategy in the eyes of the County. However, funding through a CDA is not anticipated to be sufficient to close the financial gap associated with this project, absent combination with a TIF. Depending on the County's ability to reallocate these funds, the use of the approximately $208,000 annually that is currently provided to secure the site could cover most or all of the debt service associated with bonds issued to close the financial gap. Use of these funds would not involve the establishment of a CDA, and could be politically defensible based on the amount of anticipated new tax revenue anticipated from the redevelopment. Further analysis is required to determine if such a strategy would impair the County's bond rating or debt capacity.

Regardless of which public financing mechanism or mechanisms are employed it is beneficial to evaluate the project through the lens of the County's 16 Principles for Public Investment. The table below briefly discusses how the project measures up to these Principles and identifies areas that may require additional attention.

Figure 15. County's Principles for Public Investment

Principle Summary	Discussion
1. Project located in an area of strategic importance.	Board of Supervisors establishment of a task force and PAC to oversee the development of the project demonstrates the importance of Laurel Hill.
2. The project is deemed to be a "Pioneer Project" that results in area wide benefits.	In addition to providing neighborhood amenities to the community, the development of the Adaptive Reuse Site will have a positive impact on the area by making the site an enjoyable destination and reducing the stigma associated with Lorton due to the former prison site.
3. The project is consistent with County's Comprehensive Plan.	The recommendations of the master plan are incorporated into the Comprehensive Plan.
4. Public purpose and benefits defined as measurable.	Much of the infrastructure costs associated with the development of the site are needed regardless of the development program to maintain and preserve the historic buildings per the agreement with the GSA.
5. Fund of public facilities.	There are infrastructure costs in the master plan that call for public civic space and amenities available to the general public.
6. No negative impact on the County's bond rating.	Public investment could be structured through a CDA so that the bond is not folded into the County's general obligation base; institutional bond investors shoulder the risk.
7. The CDA has sufficient debt capacity.	A Laurel Hill CDA is projected to have the debt capacity using a special tax, special assessment and TIF, if necessary, to close the financial gap.
8. No direct or indirect liability to the County.	Based on the Merrifield example, bonds can be structured such that there will be no recourse to the County.
9. Financial feasibility.	Preliminary analysis of the master plan indicates that the development is viable with around $11 million of outside funding.
10. CDA self-tax should be used if any TIF is proposed.	Additional analysis must be conducted to determine how much self assessment the project could sustain and remain economically feasible.
11. CDA assumes risk for insufficient tax increment revenues.	Per the Merrifield example, the CDA could impose an obligation on the developer for any shortfall in tax increment revenues and a special tax could be implemented if the special assessment revenue is insufficient.
12. Minimum period to repay TIF bonds.	Preliminary calculations suggest the incremental increase in tax revenue of the project could repay at least $10 million in bonds within 20 years assuming a coupon rate of 6%.
13. Reasonable return to the County.	More analysis and a MOU of the terms are needed to make this determination, but initial analysis suggests this is achievable.
14. County to receive tangible benefits.	The use of a CDA and TIF will permit a development in an underutilized part of the County and allow the County to meet its obligation to preserve the historic elements of the site.

15. CDA remains in existence to repay incremental taxes.	The MOU must contain the provisions necessary to ensure the repayment of incremental tax loss to the County's General Fund.
16. Developers grant full access to records.	The Alexander Company or other developer selected for the project must grant full access to financial information for the project. The Alexander Company has been cooperative in this regard, and it should be anticipated that that cooperation would continue with execution of the Master Development Agreement.

As demonstrated above, an initial review of the proposed Laurel Hill project suggests that the County's 16 Principles are within being adhered to, which would support a decision to invest public funds in the redevelopment project.

5.0 Conclusions and Recommendations

The assessment of the Alexander Company's Financial Feasibility Analysis found the study to be based upon reasonable market assumptions and reflective of sound real estate fundamentals and decision making. The assumptions for the analysis are based on extensive market research in the local area and generally well supported by third party studies and prior experience with similar development projects. The analysis logically sums the estimated financial surplus or gap for each use with the infrastructure and other costs of the overall development to estimate the overall financial gap of the project.

The recommendations listed below refer to next steps the County should consider as the project nears a final agreement between the Alexander Company and the County.

Separate Office and Retail Pro Formas. Although the office and retail pro formas are necessarily somewhat intertwined due to the common funding source of historic tax credits, their current treatment in the Alexander Company's model does not allow for a distinction between the performance of the two separate property types. Although the blended assumptions currently utilized appear to sufficiently reflect market realities, it would be beneficial to analyze two separate cash flow statements associated with each use. Such distinction would better facilitate, for example, analysis of a scenario under which office leasing challenges are greater than expected.

Conduct Sensitivity Analyses. Although the Alexander Company's analysis used reasonable and available data for its financial assumptions, there is a great deal of uncertainty about these variables over the next few years. Fairfax County should request that the Alexander Company perform sensitivity analyses on key assumptions to determine the potential impact on project performance and the overall financial gap. Alternately, Fairfax County could request that the Alexander Company provide a fully functional version of the model for that purpose.

Finalize Outstanding Assumptions. Prior to execution of any agreement, the Alexander Company should provide Fairfax County with final estimates for all assumptions currently included as placeholders. Although significant deviation from the current placeholder figures is not anticipated, such certainty is required before entering into a final agreement.

Finalize Infrastructure Cost Assessment. Prior to execution of any agreement, Fairfax County should finalize its assessment of the Alexander Company's estimates for various site-related costs associated with the project.

Determine Ability to Reallocate Funds. As previously stated, the County is currently spending approximately $208,000 to secure that Laurel Hill Adaptive Reuse Area. Bonds issued against all or some portion of this annual expenditure could partially or wholly close the financial gap associated with this project without the need for establishment of a CDA. The County should explore the ability to reallocate these funds, and any resulting impact on its bond rating or debt capacity.