PENN DAW MARKET FEASIBILITY ANALYSIS
EXECUTIVE SUMMARY

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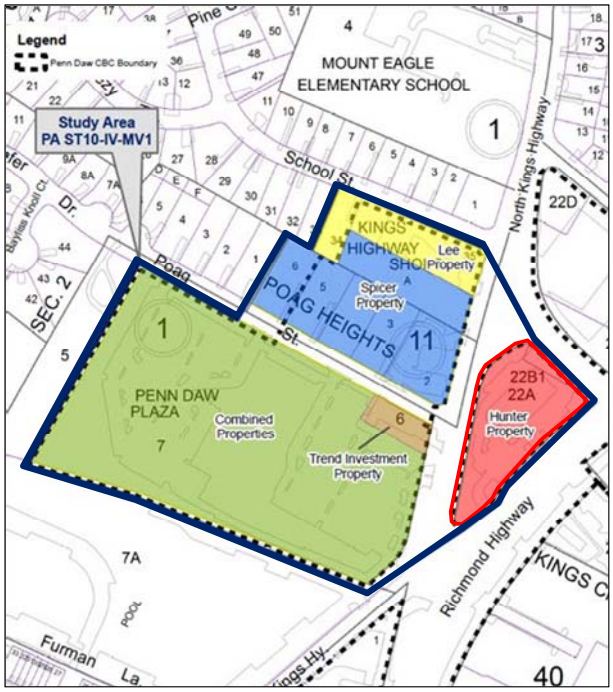
Background

The Penn Daw Special Study originated from deferred Area Plan Review (APR) nomination 09-IV-22MV. The APR nomination proposed to replan an 11-acre portion of the study area for residential, retail, and/or office uses at an intensity of up to 1.5 floor-area ratio (FAR). The land area of the study was expanded by the Board to approximately 17.25 acres to include adjacent property and allow for a more holistic review of the area. Below is a diagram depicting the Penn Daw Site. A task force with representatives from the Lee and Mt. Vernon Districts has been established to assist with the Penn Daw Study ("Penn Daw Site"). The task force developed two land use alternatives for the study area. Each option also has an alternative roadway configuration that realigns Kings Highway to create a grid of streets and four developable blocks. Property owners of the subject area also have provided a land use alternative for consideration.

Figure 1. Penn Daw Site



Source: Fairfax County

Study Purpose

The Penn Daw Site is located in the Richmond Highway corridor in southeastern Fairfax County. The site, which includes a shopping center property, as well as several adjacent parcels, could become the site of a mixed-use redevelopment that would include residential units along with offices and retail space. The purpose of this study is to assess the development feasibility of scenarios that have emerged from community discussions.

Figure 2. Summary of Development Concepts

Development Option	SFD Units	TH Units	MF Units	Retail SF	Office SF	Total Non-Res. SF	Total Res. Units
Current Zoning	24	0	0	221,341	0	221,341	24
Current Comp. Plan	3	0	0	194,270	57,792	252,062	3
Task Force Option 1	4	20	300	130,000	0	130,000	324
Task Force Option 2	4	20	500	90,000	0	90,000	524
Developer Option	0	36	780	70,000	0	70,000	816

Source: Fairfax County

The feasibility assessment process establishes "reasonable" retail and residential development parameters so that the amount of retail and residential space added as part of the Penn Daw redevelopment is in line with foreseeable market demand.

Background

Richmond Highway is a strategic asset in light of its proximity to Washington, DC. Richmond Highway offers direct access to Fort Belvoir—one of the region's largest military installations—as well as major tourist destinations, including Mount Vernon.

Richmond Highway is a venerable commercial corridor in Fairfax County. Piecemeal development over many decades has resulted in an uncoordinated assortment of commercial uses intertwined with residential neighborhoods.

Over time, Richmond Highway has become a major commuter corridor with links to Interstate 495 near the Woodrow Wilson Bridge. The Huntington Metro stop is located near the Study Area and long-range plans call for an expansion of transit in the Richmond Highway corridor.

Fairfax County's Comprehensive Plan established the general concept of "Community Business Centers" (CBCs). Penn Daw is one of several designated CBCs in the Richmond Highway corridor. These commercial nodes encourage a mix of uses at a community scale in order to promote pedestrian activity and economic stability. The Penn Daw redevelopment has been discussed

and influenced by the following planning principles as expressed in the Comprehensive Plan and specific studies of the Richmond Highway corridor:

- Encourage appropriate in-fill development which is compatible in use, type and intensity with surrounding uses
- Limit commercial encroachment into stable residential neighborhoods and establish well-defined edges between commercial and residential uses
- Allocate an appropriate mix of land uses and intensities in Community Business Centers
- Encourage pedestrian access to commercial areas and improve the appearance/image of Richmond Highway

Residents of the Lee and Mt. communities have participated in visioning meetings with representatives of county government (staff and elected officials), as well as representatives of the property owners and a potential developer. Requests and suggestions have been compiled into a "wish list" and several development options.

A specific proposal by Insight for a mixed-use development on a portion of the Penn Daw site may trigger interest among the several property owners in aggregating their contiguous parcels. Similar infill redevelopment opportunities may occur elsewhere along the Richmond Highway corridor as demand grows for close-in housing with transit access. Increased density can be expected as a function of economic pressure and market demand. Rising land values will force land use changes, especially where buildings are reaching functional obsolescence and where existing development density is low. The Comprehensive Plan anticipates increased density. Prudent development requires an evaluation of feasibility for various project elements as specific developments are proposed.

The overall pattern of retail development in the Richmond Highway corridor can be characterized as disjointed with areas of viable contemporary retailing along with pockets of blighted or obsolete retail space. The Richmond Highway corridor lacks a sense of organizational structure; this is typical of unplanned development that has occurred over a span of many years. This high traffic volume corridor contains many auto-dependent businesses that literally "turn their backs" to adjacent residential areas.

The corridor's retail base evolved over several decades, beginning at a time when organized shopping centers were not the norm. Much of the retail base is situated on shallow lots that are bordered by residential uses. Parcel size and configuration were not supportive of traditional shopping center development.

Prevailing conditions include:

- Mix of commercial and residential uses
- No unifying architectural or landscape theme
- Various levels of property maintenance from "blighted" to superior
- High dependence upon automobile access to businesses

- “Sharp edges” where residential and commercial uses meet
- Low density lot coverage (FAR)
- A large number of curb cuts and parking lots serving individual businesses
- Little consideration given to pedestrian access or cross-patronage by foot (no sidewalks in some areas)
- Uneven parking inventory
- Shopping centers with suburban setbacks from Richmond Highway
- Inconsistent feeder road system
- Minimal community identification at gateways or along corridor

The retail content of the Richmond Highway corridor reflects a broad mix of business types. There are organized shopping centers as well as freestanding stores and restaurants. There are several concentrations of “shoppers’ goods” retailing. The corridor’s center of retail gravity is located midway between the Beltway and the Fairfax County Parkway where the greatest retail density currently exists. Retailers here have excellent access to residents of the Gum Springs, Mount Vernon, Fort Hunt, Penn Daw, Belle Haven, Belleview, Groveton, and Hybla Valley.

Major retail locations include:

- Walmart Super Center (Gum Springs)
- Mt. Vernon Crossroads (Home Goods)
- Mt. Vernon Plaza (The Home Depot, T.J. Maxx, Bed Bath & Beyond, PetSmart, Shoppers Food & Pharmacy, Staples, Michael’s Crafts)

Retail Conclusions and Recommendations

The shopping center portion of the Penn Daw site lost its core reason for being when Shoppers Food & Pharmacy departed in anticipation of competition with a new Walmart. It is doubtful that another supermarket will back-fill the former Shopper’s Food & Pharmacy space in light of the competition from Walmart, which is located across the street.

The Penn Daw Site is constrained and compromised by the path of Kings Highway and access points from Richmond Highway. Roadway improvements could enhance access from Richmond Highway, but it is unlikely that any realignment of Kings Highway would benefit the Penn Daw site, unless the roadways are realigned so as to provide direct frontage to Richmond Highway. Otherwise, because of its traffic volume, Kings Highway will continue to divide the Penn Daw redevelopment site and isolate the front parcel (between Kings Highway and Richmond Highway) from the remainder of the site.

A series of community meetings generated a “wish list” of commercial uses and a set of parameters based, in part, on concerns about integrating new development into existing residential neighborhoods. A series of four conceptual massing studies were prepared that reflected community input. These proposed concept plans incorporated 90,000 to 130,000 square feet of retail space in a mixed-use development with residential units and office space.

These design options are conceptual only and would need to be reviewed with an experienced retail site planner.

The developer proposal has 70,000 square feet of retail space in a mixed-use development containing a total of 816 residential units. The addition of new residential units as part of a mixed-use development at Penn Daw will support only a modest amount of new retail and restaurant space even when aggressive "capture rates" are applied. Assuming that new residents have household incomes that are comparable to the average for the area surrounding Penn Daw, the addition of 816 new residential units will support up to 20,100 square feet of retail space. This modest amount of space is less than the amount of retail space programmed by the developer and in the four conceptual plans prepared following community discussions. Development of more than approximately 20,000 square feet will require support from a surrounding residential trade area with inflow from transient motorists.

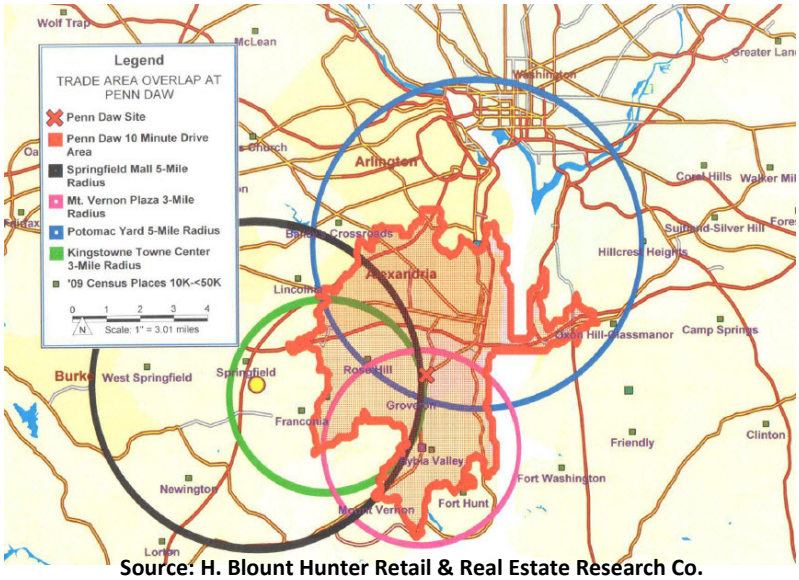
Figure 3. Supportable Retail Square Footage at Penn Daw from New Residential Units

SUPPORTABLE RETAIL SQUARE FOOTAGE AT PENN DAW FROM NEW RESIDENTIAL UNITS			
New Residential Units	335	524	816
Total New Household Income	$33,500,000 - $41,875,000	$52,400,000 - $65,500,000	$81,600,000 - $102,000,000
Supportable Retail Square Footage	8,187 – 10,233	12,805 – 16,007	16,106 – 20,132

Source: H. Blount Hunter Retail & Real Estate Research Co.

The probable trade area to be served by the Penn Daw Site is a 5- to 10-minute drive radius. Residents of this trade area will generate demand to support up to 200,000 square feet of retail/restaurant space by 2015. The Penn Daw site is not likely to attract anchor tenant(s) that would enable a retail development of this scale. Factors inhibiting the site include its dimensions, the intrusiveness of Kings Highway, and weak exposure and access from Richmond Highway.

Figure 4. Retail Trade Area Overlap at Penn Daw



Source: H. Blount Hunter Retail & Real Estate Research Co.

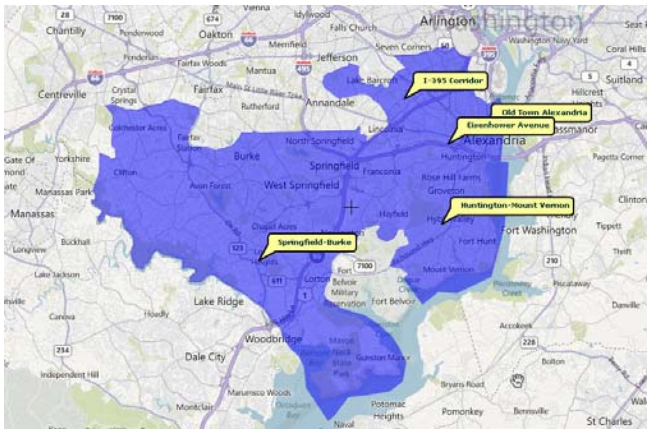
Aside from these physical problems, the list of probable anchor candidates is short. Obtaining at least one anchor tenant will be required if the amount of retail space is to exceed 40,000 square feet. Absent anchor uses, the recommended amount of retail space to be programmed in the Penn Daw redevelopment is 15,000 to 40,000 square feet. This amount of square footage is consistent with the typical size of convenience centers and could be assembled without an anchor tenant. Few strong anchor prospects emerged from a market coverage analysis of Southeast Fairfax County; however, if one or more anchor tenants can be secured, the recommended amount of retail space at Penn Daw could be approximately twice the square footage of that of the anchor tenant(s). All of the development options (including the developer's proposal) contain excessive amounts of retail space unless anchor tenant(s) can be secured. Leasing 70,000 to 130,000 square feet of unanchored retail space at this site is highly improbable. The developer would be wise to canvass the market for anchor candidates before extensive site planning begins. An initial evaluation of store coverage of the most likely mid-box and large-format retailers did not identify any strong anchor candidates.

Re-using the Penn Daw Site for a new use or combination of uses is a rare opportunity. However, the site is not compelling solely as a retail site. Retailers seeking locations in the Richmond Highway corridor will naturally gravitate to the existing "critical mass" of retailing near Mount Vernon Plaza or can be expected to respond positively to opportunities to join future developments that have better Richmond Highway access and exposure, larger amounts of surface parking, and fewer site constraints.

Multifamily Conclusions and Recommendations

The multifamily analysis included a market assessment of apartments, townhouses and condominiums in the Penn Daw area. The predominant market area for multifamily at Penn Daw are residents in the Mt. Vernon and Lee Districts (the Huntington-Mt. Vernon area). Secondary market areas for multifamily at Penn Daw include the I-395 Corridor, Old Town Alexandria, Eisenhower Avenue and Springfield-Burke. Capture rates from these areas are estimated to be significantly less than those from the Huntington-Mount Vernon area. Below is a map depicting the potential market area for multifamily at Penn Daw.

Figure 5. Potential Market Area for Multifamily at Penn Daw



Source: ESRI

The total stock of existing apartment units in the Southeast Fairfax County submarket, which includes Penn Daw, numbers approximately 35,000. Vacancy, at approximately 4.0%, reflects a strong demand for apartment housing in the area, with Southeast Fairfax County outperforming both the broader DC Metro area and the national multifamily market as a whole. The apartment properties studied include a mix of garden-style and mid- to high-rise apartments. The majority of properties within the immediate vicinity of Penn Daw are of an older (pre-1970) vintage, with some exceptions. In general, newer multifamily properties among those studied have a tendency for higher density configurations. Although there is a cluster of properties located near the Braddock Road Metro Station, and to a lesser extent, near the Huntington Metro Station, there appears to also be a market appetite for properties not within immediate proximity of fixed public transportation; this may be a function of availability of parking, which seems to be a near-universal option for tenants at the properties studied.

The Washington, DC, regional economy, less affected by the recent economic downturn than most other markets in the nation, has supported a recovery of the condominium market throughout the region's submarkets. However, increased sales activity and a decrease of inventory of available condo units has been due, at least in part, to downward re-pricing as developers have worked to offload both new construction and apartment conversion condos. Additionally, a "shadow market" of planned condominiums currently being rented as multifamily apartments, is difficult to define (i.e. to determine whether current owners will keep the assets as rental apartments indefinitely or reposition them once attractive sales prices are believed to be attainable) and could discourage substantial development of new condo product. The Fairfax/Falls Church condo submarket, which includes the Penn Daw study area, is roughly on par with DC Metro averages in terms of its inventory-to-sales ratio. However, both within this and adjacent submarkets and within the region as a whole, an apparent preference exists for condo developments located in close proximity to fixed public transportation and with significant amenities exists. Given Penn Daw's location, it is likely that only a portion of the proposed multifamily units under the Task Force or developer scenarios would be supportable.

The townhouse style of owner-occupied single family housing is popular throughout the Washington, DC, Metro region. In addition, large populations of individuals thought to have a preference for townhouses, particularly baby-boomers on the cusp of retirement, have driven development of townhouses throughout the region, with the Southeastern Fairfax County region being no exception. However, those relocating into townhouses tend to prefer transit-oriented, amenity-rich living environments. Therefore, proximity to convenient transportation, especially rail, carries a significant premium in the valuation of townhouses. Within the vicinity of Penn Daw, this is demonstrated by the appreciably higher asking prices of townhouses near the Huntington Metro Station versus townhouses a mile or more away. Even more telling, listings for townhouses at the very edge of practical walking distance still generally advertise themselves as Metro accessibility. In addition to easy access to transportation, local amenities differentiate top-flight townhouse communities from others in terms of pricing. The competitive position of townhouses developed in the Penn Daw vicinity would vary greatly depending on the developer's willingness and ability to compensate for a lack of community amenities (walkable streets, fixed rail access) with amenities that will be made available to residents and the overall quality of design and construction; however, townhouses in Penn Daw would likely still be out-priced by competing developments in more amenity-rich areas, such as near the Huntington Metro, Old Town Alexandria, or within the District of Columbia. Therefore, although a townhouse development could succeed in Penn Daw, to do so would require a proper balance of pricing, design, and project-funded amenities in order to attract sufficient buyers.

Feasibility analyses of the multifamily development portions of Task Force Option 1 (300 units), Task Force Option 2 (500 units), and the Developer Option (780 units) indicate that a monthly rental rate range of $1,400-$2,150 will be necessary to achieve acceptable returns. This rental rate range represents the upper end of possible rental rates for a new multifamily development on the Penn Daw site. This rental rate range prices out certain income levels, thereby reducing the base of potential users. The estimated supportable units under a rental rate range of $1,400-$2,150 are 748, based on a capture rate analysis, which falls slightly short of the developer option. Below is a summary of multifamily feasibility based on number of units and rental rate range. Areas shaded in red indicate insufficient or negative returns. Areas shaded in yellow indicate potentially acceptable returns. The area shaded in green (500 units at $1,400-$2,150 monthly rental rate range) indicates the highest estimated return and sufficient units capture.

Figure 6. Multifamily Feasibility Summary

		Monthly Rental Rate Range		
		$1,000 - $1,750	**$1,200 - $1,950**	**$1,400 - $2,150**
Number of Multifamily Units	**300**	IRR: -9.30% Units Capture: 872	IRR: 3.07% Units Capture: 814	IRR: 11.92% Units Capture: 748
	500	IRR: -8.74% Units Capture: 872	IRR: 3.49% Units Capture: 814	IRR: 12.28% Units Capture: 748
	780	IRR: -8.45% Units Capture: 872	IRR: 3.71% Units Capture: 814	IRR: 10.39% Units Capture: 748

Office Conclusions and Recommendations

The unmet demand for office space, both in the immediate vicinity of Penn Daw and throughout the Springfield office submarket, is low, with little market appetite for new Class B/C office space, and virtually none for new Class A office space. The most probable users of office space developed at the study area would be tenants who tend to utilize smaller Class B/C office stock. Among that group, medical office space is one of the strongest candidates for uses within this property type. The likely tenants would be sole proprietorships or small groups of primary care physicians and/or specialists, dentists/optometrists, and ophthalmologists. Other potential tenants are small-scale professional service providers, such as certified public accountants and independent financial advisors. In addition matching appropriate office space with suitable tenants, the positioning of these types of practices and businesses within the Penn Daw neighborhood would increase the availability of local amenities that residents may currently have to travel greater distances to access.

Development Scenarios Summary

The current Comprehensive Plan and current zoning both include an excessive amount of retail space for viability at this time. In addition, the unmet demand for office space, both in the immediate vicinity of Penn Daw and throughout the Springfield office submarket, is low, with little market appetite for new Class B/C office space, and virtually none for new Class A office space.

Absent anchor uses, the recommended gross leasable area (GLA) to be programmed in the Penn Daw redevelopment is 15,000 to 40,000 square feet as this reflects reasonable sales capture and sales inflow expectations for a convenience center serving residents within a .5 mile radius. A mix of retail shops, services, and food service uses can be anticipated. Task Force Option 1 contains 130,000 square feet of retail space, an excessive amount unless anchor tenant(s) can be secured and the Task Force Option 2 contains 90,000 square feet of retail space, also an excessive amount unless anchor tenant(s) can be secured. The Developer Option contains 70,000 square feet of retail space, an amount that could be considered ambitious without anchor tenant(s). This amount of space is roughly equal to the amount of occupied space in the Penn Daw Site as of September, 2011. It is possible to envision scenarios in which several key current tenants depart the shopping center. Replacing these “anchors” with other large merchants is likely to prove difficult; the spaces these tenants depart could be reconfigured for small users although massing more than 40,000 square feet without anchor(s) will be challenging. Should anchor(s) be identified, the recommended size of the retail element would be twice the square footage of the anchor(s). This reflects industry benchmarks and is consistent with shopping center development patterns in Fairfax County and vicinity.

The 300 multifamily units under Task Force Option 1 appear to be feasible, but may not generate optimal returns to encourage redevelopment. The 500 multifamily units under Task Force Option 2 appear to be feasible, and generate the highest estimated return of the options studied. The 780 multifamily units under the Developer Option may be slightly more units than is supportable based on a capture rate analysis.