FINAL REPORT

Penn Daw Market Feasibility Analysis

LEADERSHIP • PROBLEM SOLVING • VALUE CREATION

OCTOBER 20, 2011

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October 20, 2011

Barbara Byron
Director
Fairfax County Office of Community Revitalization and Reinvestment
12055 Government Center Parkway, Suite 1048
Fairfax, VA 22035

FINAL REPORT
Penn Daw Market Feasibility Analysis

Dear Ms. Byron:

Alvarez & Marsal Real Estate Advisory Services, LLC, (A&M) is pleased to submit this Final Report of the Penn Daw Market Feasibility Analysis. The Final Report outlines our approach and findings.

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

Very truly yours,

Alvarez & Marsal Real Estate Advisory Services, LLC

Jay Brown
Managing Director

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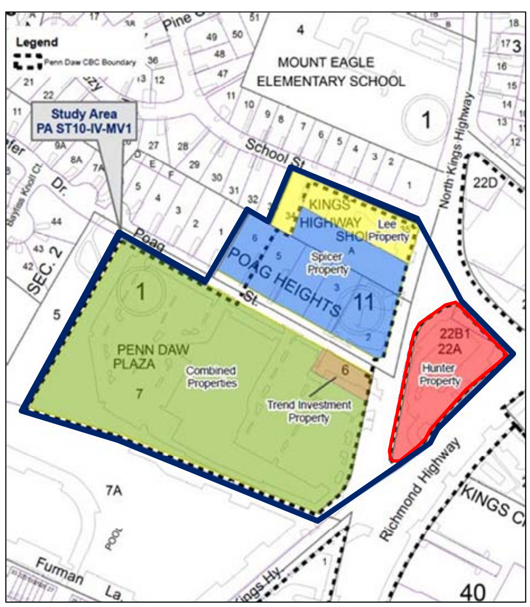
EXECUTIVE SUMMARY

Background

The approximately 17-acre study area is located in the Richmond Highway corridor in southeastern Fairfax County. The Penn Daw study area is located at the intersection of Richmond Highway and South Kings Highway, and consists of parcels under ownership by five distinct entities. The majority of the study area is fully developed, with existing utilities including water, sewer, and natural gas service. The study area includes a shopping center property, the Penn Daw Plaza, as well as several adjacent parcels. With the exception of the unoccupied Rite Aid pharmacy, all of the structures within the study area were built in 1960 or earlier. The surrounding area is characterized by retail and multifamily housing along and in close proximity to Richmond Highway, with single family detached housing further removed from Richmond Highway.

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 of Supervisors 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 study area. A task force with representatives from the Lee and Mt. Vernon Districts has been established to assist with the Penn Daw Study. 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 Study Area



Source: Fairfax County

Study Purpose

The Penn Daw study area 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. Below is a summary of the development options under consideration.

Figure 2. Summary of Development Options

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 market demand for the next three to five years.

Overview

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 CBCs
- Encourage pedestrian access to commercial areas and improve the appearance/image of Richmond Highway

Residents of the Lee and Mt. Vernon 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 as summarized in Figure 2.

A specific proposal by a developer for a mixed-use development on a portion of the Penn Daw study area 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 within the Richmond Highway corridor include a mix of commercial and residential uses that have no unifying architectural or landscape theme. Businesses along the corridor are highly dependent upon automobile access as there has been a large number of curb cuts and parking lots serving individual businesses with little pedestrian access or cross-patronage by foot.

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:

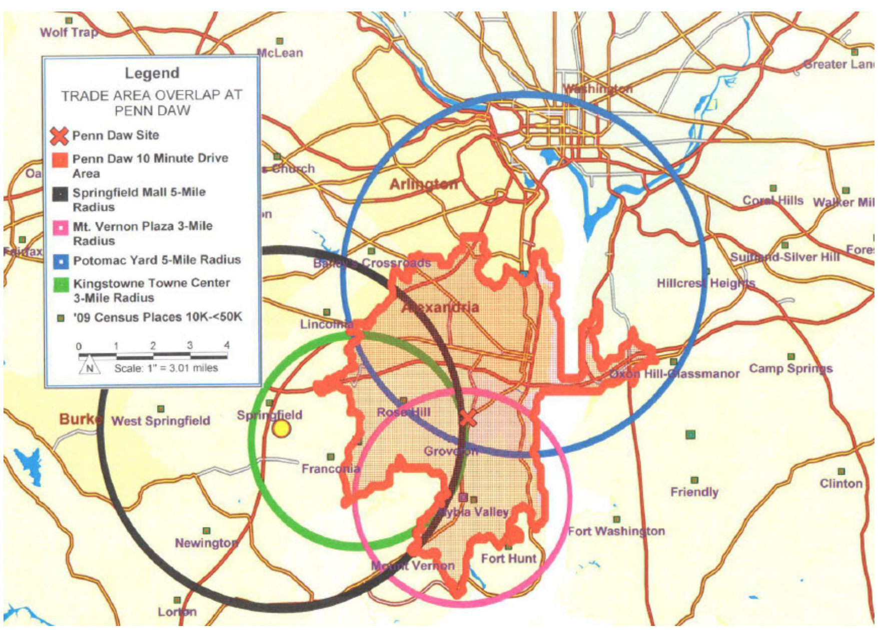
- Walmart Super Center (Gum Springs)
- Mt. Vernon Crossroads (Home Goods)
- Mt. Vernon Plaza (The Home Depot, T.J. Maxx, Bed Bath & Beyond, PetSmart, Shoppers Food & Pharmacy, Staples, Michael's Crafts)

Retail Conclusions and Recommendations

The shopping center portion of the Penn Daw study area lost its core reason for being when Shoppers Food & Pharmacy departed prior to the opening of 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 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. Constraints include the site's dimensions, the intrusiveness of Kings Highway, and weak exposure and access from Richmond Highway. In addition, retail sites exist that have trade areas that overlap Penn Daw's probable trade area, as shown in Figure 3.

Figure 3. Retail Trade Area Overlap at Penn Daw



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

The Penn Daw study area 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 from a retail perspective, 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.

The Comprehensive Plan incorporates 220,000 square feet of retail in the Penn Daw study area. While this amount of space in the general vicinity of Penn Daw can be supported by residents within a 10-minute drive, it is unlikely that the Penn Daw study area itself will attract retail development of this magnitude because of site constraints and the availability of superior site alternatives. The Comprehensive Plan may need to be changed to allow for a scale of retail development that matches the realities of the market including competitive alternative sites that could tap into the 200,000 square feet of supportable retail space identified within Penn Daw's probable retail trade area.

A series of four conceptual massing studies were prepared that reflected community input. These four concept plans represent two development options for retail space: 90,000 and 130,000 square feet. While these amounts of retail space are below the level projected as supportable by residents of the trade area, the concept options contain physical design flaws and should be reviewed by an experienced retail site planner. These concepts need to be able to accommodate one or more anchor tenants to proceed with 90,000 to 130,000 square feet of retail space. The recommended ratio of anchor space to small tenant space is 1-to-1.

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. Below is a summary of supportable retail square footage from new residential units.

Figure 4. 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 - $42 million	$52 - $66 million	$82 - $102 million
Supportable Retail Square Footage	8,200 – 10,200	12,800 – 16,000	16,100 – 20,100

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

Development of more than approximately 20,000 square feet will require support from a surrounding residential trade area with inflow from transient motorists. This proposed scope of retail development is "feasible" in that it is less than the level of supportable retail space associated with the probable retail trade area. From a practical perspective, leasing 70,000 square feet of space will require at least one anchor tenant. 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. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet. With or without anchor(s), the developer is likely to treat the retail element of the project as an amenity that will support the strategy of generating above-market rents.

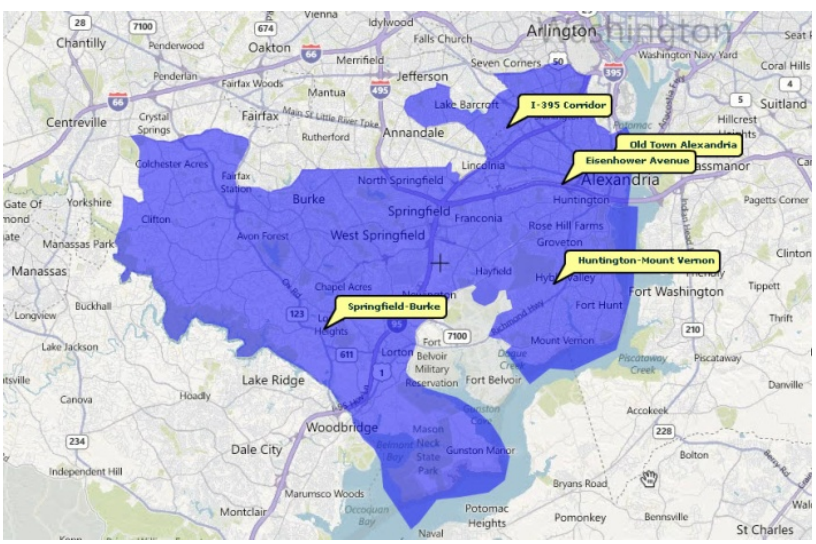
Leasing 70,000 to 200,000 square feet of unanchored retail space at this site is highly improbable. The list of probable anchor candidates is short. Obtaining at least one anchor tenant will be necessary if the amount of retail space in any of the development options exceeds 40,000 square feet.

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. A site option meeting these criteria exists across Richmond Highway from the study area to the north of the Walmart-anchored center.

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: Environmental Systems Research Institute (“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 condominium submarket, which includes the Penn Daw study area, is roughly on par with DC metropolitan 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. Given Penn Daw's location, only limited condominium development 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 accessible. 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 to matching appropriate office space with suitable tenants, the positioning of these types of practices and businesses within the Penn Daw vicinity would increase the availability of local amenities that residents may currently have to travel greater distances to access.

Development Scenarios Summary

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 0.5 mile radius. A mix of retail shops, services, and food service uses can be anticipated. The current Comprehensive Plan and current zoning both include an excessive amount of retail space for viability at this time.

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 retail space in the study area 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.

FEASIBILITY ASSESSMENT OF DEVELOPMENT OPTIONS

Market Viability of Each Development Option

Summary of Development Options

A joint task force with representatives from Mount Vernon and Lee Districts established to assist with the Special Study of the Penn Daw site developed two land use scenarios, as alternatives to the Comprehensive Plan and zoning for the study area. Additionally, the task force developed an alternative roadway configuration that realigns Kings Highway to create a grid of streets and four developable blocks – two with direct frontage on Richmond Highway. Property owners of the subject area also have provided a land use alternative for consideration, referred to as the “Developer Option”. The figure below summarizes the development options under consideration.

Figure 7. Summary of Development Options

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

Market Viability Under Current Zoning

Current zoning for the Penn Daw study area allows for 24 single family detached (SFD) units and 221,341 square feet of retail space. Current zoning includes an excessive amount of retail space for viability at this time. The list of probable anchor tenants is short. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet.

Market Viability Under Current Comprehensive Plan

The current Comprehensive Plan for the Penn Daw study area allows for 3 single family detached (SFD) units, 194,270 square feet of retail space, and 57,792 square feet of office. The current Comprehensive Plan includes 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.

Market Viability of Task Force Option 1

Task Force Option 1 contains an excessive amount of retail space unless anchor tenant(s) can be secured. Attempting to lease 130,000 square feet of unanchored retail space is highly improbable. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet. The multifamily portion of Task Force Option 1 (300 units) appears to be feasible. A feasibility analysis of the multifamily portion of Task Force Option 1 generates an estimated internal rate of return of 11.92%, assuming a monthly rental rate range of $1,400-$2,150 (upper end of the rental rate range for a new multifamily development at Penn Daw). Lower rental rate ranges generate estimated negative or low single-digit returns. See Appendix 4.1 for details. A 20-unit townhouse development as proposed under Task Force Option 1 could succeed, but would require a proper balance of pricing, design, and project-funded amenities in order to attract sufficient buyers.

Market Viability of Task Force Option 2

Task Force Option 2 contains an excessive amount of retail space unless anchor tenant(s) can be secured. Attempting to lease 90,000 square feet of unanchored retail space is not likely to succeed. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet. The multifamily portion of Task Force Option 2 (500 units) appears to be feasible and appears to generate the highest of the development options studied. A feasibility analysis of the multifamily portion of Task Force Option 2 generates an estimated internal rate of return of 12.28%, assuming a monthly rental rate range of $1,400-$2,150 (upper end of the rental rate range for a new multifamily development at Penn Daw). See Appendix 4.1 for details. Lower rental rate ranges generate estimated negative or low single-digit returns. A 20-unit townhouse development as proposed under Task Force Option 2 could succeed, but would require a proper balance of pricing, design, and project-funded amenities in order to attract sufficient buyers.

Market Viability of Developer Option

The Developer Option contains 70,000 square feet of retail space, an excessive amount unless anchor tenant(s) can be secured. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet. The multifamily portion of the Developer Option (780 units) appears to be feasible. A feasibility analysis of the multifamily portion of Developer Option generates an estimated internal rate of return of 10.39%, assuming a monthly rental rate range of $1,400-$2,150 (upper end of the rental rate range for a new multifamily development at Penn Daw). See Appendix 4.1 for details. The estimated IRR is lower than that estimated for the Task Force Option 2 multifamily development due to a higher estimated vacancy rate for the Developer Option. The higher estimated vacancy rate is based on an analysis of supportable multifamily units at the Penn Daw site. This analysis indicates that approximately 748 units are supportable for the site given a monthly rental rate range of $1,400-$2,150, short of the 780 units under the Developer Option. A 36-unit townhouse development as proposed under the Developer Option could succeed, but would require a proper balance of pricing, design, and project-funded amenities in order to attract sufficient buyers.

Retail Conditions in the Richmond Highway Corridor

The overall pattern of retail development in the Richmond Highway corridor can be characterized as disjointed with areas of viable contemporary retailing as well as pockets of blighted or obsolete retail space. The Richmond Highway corridor lacks a sense of organizational structure that 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 sizes and configurations are 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) as mandated by prior zoning regulations
- A large number of curb cuts and parking lots serving individual businesses
- Little consideration given to pedestrian access or cross-patronage by foot
- Uneven parking inventory
- Shopping centers with suburban setbacks from Richmond Highway
- Inconsistent feeder road system
- Inconsistent pedestrian access options (no sidewalks in some areas)
- Minimal community identification at gateways or along corridor

The Richmond Highway corridor has a broad mix of business types in shopping centers and freestanding buildings. Retailers in the corridor have excellent access to residents of the Gum Springs, Mount Vernon and Fort Hunt areas as well as residents in the northern neighborhoods of Penn Daw, Belle Haven, Belleview, Groveton, and Hybla Valley. The center of retail gravity in the Richmond Highway corridor is located midway between the Beltway and the Fairfax County Parkway. Key retailers in this area 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)

The arrivals of Target and Walmart Supercenter demonstrated the viability of southeast Fairfax County as a consumer base for mass merchandisers while Mt. Vernon Plaza's significant redevelopment in 2006 provided evidence that retailers and restaurant operators were willing to respond to a site opportunity where a developer created appropriate space in a shopping center with centralized merchandising and management.

Retail development located closer to Penn Daw includes:

- Beacon Mall (Lowe's, Marshall's, Giant Food, Office Depot, Petco)
- Mt. Vernon Square (Safeway)
- Target
- Walmart

In October, 2010, Walmart opened an 80,000 square foot "combination" store featuring a full-service supermarket and a limited-assortment general merchandise store on a site formerly occupied by Kmart. This store is located across Richmond Highway from the Penn Daw study area. Shoppers Food & Pharmacy departed Penn Daw Shopping Center in anticipation of negative sales impact by Walmart.

The corridor's existing merchandise assortment is consistent with the offering of "shoppers' goods" that would be expected in a community-oriented retail mix. Richmond Highway hosts virtually all of the national mid-box and big-box retail chains that are active throughout the Washington, DC region as well as many small format retailers and restaurants that serve neighborhood- and community-scaled trade areas. The pending addition of Costco Wholesale Club will add a use that is noticeably absent. Most of the mid-box and large-box retailers that are absent from this corridor tend to seek sites with greater regional trade areas—often in nodes anchored by a regional shopping center with multiple department stores.

Retailers and restaurants that are not present in the corridor are those that require large bases of upper-income consumers to achieve threshold sales volumes and retailers that generally pursue "mall-based" location strategies.

There are signs of business turn-over in the Richmond Highway corridor. Some of the most obvious turn-over is a function of changes in industry sectors rather than poor sales performance attributable to the consumer base in Southeast Fairfax County:

- The corporate architecture of Pier 1 remains visible in the corridor following the retailers' relocation to Kingstown Town Center. Several fast food establishments occupied by local operators retain corporate design elements unique to their original occupants.
- National Amusements vacated a 10-screen multiplex theater near the intersection of Richmond Highway and Sherwood Hall Lane in response to shifts in film distribution zones created by movie theater openings at Carlyle in Alexandria and at Kingstowne

Towne Center. The theater that closed was an obsolete facility because it lacked state-of-the-art features including stadium seating, lobby amenities, and technological enhancements to the sound system; it could not compete with newer theaters for film distribution rights or audiences.
- Chain pharmacies (CVS, Rite Aid, and Walgreens) have transitioned from in-line stores in shopping centers to freestanding stores with drive-through lanes. In their haste to expand store coverage and dominate the industry, these pharmacies may be over-building. More vacated stores such as the former Rite Aid at Penn Daw should be expected as this industry races toward two dominant competitors.

Richmond Highway Assessment from Retail Perspective

As a retail site, the Richmond Highway corridor possesses a mix of strengths and weaknesses.

Strengths

- High traffic volume and exposure
- On tourist path to Mount Vernon and major commuting route
- Growing employment base at Fort Belvoir
- Strategic location near Washington Beltway, Ronald Reagan Washington National Airport, and major employment centers
- Existing Metro station at Huntington with potential for more transit options
- Stable/escalating residential demand is altering land values in favor of increased density

Weaknesses

- Direct freeway access only at northern end where I-495 intersects with Richmond Highway
- Deteriorating commercial building inventory
- High percentage of freestanding commercial buildings on shallow lots with limited ability to aggregate parcels with sufficient depth to accommodate large retail users or new shopping centers
- Poor pedestrian environment despite proximity of neighborhood consumer support
- Disjointed commercial nodes not well positioned to stimulate cross-patronage without auto movement
- No areas for social gathering in a commercial context

Penn Daw Shopping Center Evaluation

The Penn Daw shopping center, known as the Penn Daw Plaza, is an L-shaped open-air strip center originally developed in 1983. Shoppers Food & Pharmacy provided the impetus for development of the shopping center. The center has approximately 128,000 square feet of gross leasable space. Shoppers Food & Pharmacy occupied approximately 54,000 square feet.

Site topography enables the center to accommodate Alexandria Lanes bowling center as a first floor use accessible from the rear of the shopping center.

The Penn Daw Plaza is currently occupied by convenience-oriented neighborhood shops and services including several fast food/take-out restaurants, an auto supply store, CVS pharmacy, dentist, furniture/appliance rental store, and a book store.

The Penn Daw Plaza is commercial property that is approaching functional obsolescence. Its site has serious constraints from the perspective of potential retail tenants; the lack of frontage on Richmond Highway is its most basic site flaw; the unusual traffic access pattern caused by Kings Highway is another site constraint.

Having lost its grocery store anchor, it is an asset with no reason for being. The October, 2010, opening of a Walmart offering a full grocery store and a limited assortment of general merchandise makes it unrealistic to assume that a traditional supermarket replacement can be secured to occupy space formerly leased by Shoppers Food & Pharmacy in the Penn Daw Shopping Center. Walmart's pricing structure makes it such a strong competitor that no conventional grocery stores would be willing to back-fill the space formerly occupied by Shoppers Food & Pharmacy to engage in direct competition with the new Walmart directly across the street.

Blockbuster Video closed its location at the Penn Daw Plaza in a corporate bankruptcy caused by massive changes in the video rental market. And while there are no public indications of additional pending tenant departures, the Penn Daw Plaza is "at risk" of losing other key merchants. CVS Pharmacy may not be a viable long-term tenant since drug stores (nationally and locally) have been abandoning in-line locations at shopping centers in favor of end cap locations or freestanding buildings with drive-through lanes for prescription pick-up. The existing Books-A-Million store is a converted Crown Books store; this unit is small by current store standards for Books-A-Million, and the location—independent of a broad assortment of supportive merchants—is not typical of site selections made by Books-A-Million in recent years.

The owner of the Penn Daw Plaza may face a downward spiral in occupancy as well as a decline in the quality and stability of its income stream. Subdividing the former supermarket space into smaller retail spaces will involve significant capital investment that may not result in new leases with qualified merchants. While the center may continue to attract independent businesses, leases with entrepreneurs lack the credit standing of leases with national chain merchants. Securing strong credit tenants is likely to become more difficult because of site constraints and superior site options in the Richmond Highway corridor. As a marginal commercial site, this shopping center will increasingly appeal to tenants that cannot afford high-quality commercial space.

The Penn Daw Plaza site has strengths and weaknesses from the perspective of retail site selectors:

Strengths:

- Proximity to residential consumer base
- Site depth allows for conventional shopping center design with parking lot in front of retail storefronts
- Site dimensions can accommodate a large-format anchor store if full depth of site is utilized
- Retail node recently reinforced by opening of Walmart across Richmond Highway; Walmart can be considered the “anchor” of an emerging retail node at Penn Daw

Weaknesses:

- Entry from Richmond Highway is difficult due to alignment of Kings Highway; access requires complicated U-turn at School Street/Kings Highway or challenging set of turns from Richmond Highway onto Kings Highway at southern end of site
- East-west access is weak; site lacks direct access to residential areas located to the east of Richmond Highway
- Shopping center itself is set back from Richmond Highway; visibility from Richmond Highway is compromised by development on frontage parcel
- Proximity to Walmart will be a deterrent to many potential retail tenants
- Surrounding residential street system does not provide direct access from nearby residents
- Site topography creates subterranean use on rear side of building that can only be appreciated by unique user

Background Considerations in Assessing Retail Development Feasibility

Assessing retail development feasibility encompasses many background considerations that become parameters or conditions for success. An overview of important background considerations is warranted before supportable retail square footage is calculated.

Retail development in suburban settings is driven by business fundamentals that must be acknowledged and considered when assessing retail development feasibility. An overview of the fundamentals of retailing is presented in Appendix 1. Highlights pertinent to the Penn Daw development assessment include:

1. ***Most retailers have established criteria for site selection. The most basic question that chain retailers ask when they evaluate a new site is “Who can I serve from this location that I’m not already serving with my existing stores?” On an increasing basis,***

retailers maximize profitability by operating the fewest stores possible. Example retailer site requirements for selected non-apparel, apparel and anchor retailers can be found in Appendix 1.4.

2. ***Chain retailers have a limited number of prototypical store formats that they are willing to operate; deviating from these established formats is done only as a last resort in circumstances when demand for a location by the merchant is high.***
3. ***Clustering of compatible retailers has become the norm in American retailing—especially in many categories of "shoppers' goods."***
4. ***Independent, entrepreneurial retailers are a "fragile" form of business in a world of increasingly large chain merchandisers. Because independent merchants are seldom viewed as "credit tenants," developers seeking financing for new projects cannot rely on a high proportion of independent merchants.***

Retailers specify certain site criteria including traffic counts, population/household density within specified distances, required household income levels (see Appendix 1.4 for details). Retailers may have co-tenancy preferences and requirements. In general, site criteria protect retailers from risk associated with selecting sites for new stores. Real estate decisions also reflect the biases and perspectives of executives who are accustomed to having to select from competing sites.

The modern shopping center industry was born approximately 60 years ago. A hierarchy of shopping centers has evolved based upon shopping center functionality. Functionality is related to size and content. The hierarchy reflects the evolution of retailers and development economics. Existing shopping centers in the Richmond Highway corridor fall into one of three categories:

1. Convenience shopping center
2. Neighborhood shopping center
3. Community shopping center

Shopping center types are described in detail in Appendix 1.3. The Penn Daw Plaza has traditionally been a neighborhood shopping center. After losing Shoppers Food & Pharmacy, its status as a neighborhood shopping center is threatened.

The shopping center industry has benchmarks that guide new development. Most critical among shopping center development standards is the balance of anchor(s) and small tenants:

- Convenience shopping centers are small and seldom have "anchors."
- Neighborhood shopping centers typically have a ratio of small shops to anchor tenant space of 1:1 meaning that there is 1 square foot of specialty tenant space for each square foot of anchor store space.
- The ratio of small tenant space to anchor space in community shopping centers is 1:1 to 1:1.5 depending upon the merchandise sold by the anchors.

The ratio of anchor space to small tenant space is illustrated by several shopping centers in suburban Washington, DC with a variety of formats:

- At Penn Daw, Shoppers Food & Pharmacy accounted for 42 percent of retail space. This is the lowest proportion of anchor space among the ten selected shopping centers, as shown in Figure 8.
- The percentage of retail gross leasable area (GLA) occupied of anchor tenants in "lifestyle" centers with significant elements of public space is similar to the 1-to-1 industry benchmark for neighborhood and community shopping centers. Some of the selected retail centers (including Mt. Vernon Plaza) have significantly less than 1 square foot of small tenant space for every foot on anchor tenant space.

Figure 8. Anchor Space at Selected Retail Centers

Anchor Space at Selected Retail Centers	
Penn Daw (1999)	42%
Clarendon Commons	44%
Rockville Town Square	44%
Bethesda Row	44%
Tysons Corner Center	47%
Springfield Mall (1999)	52%
Fashion Centre at Pentagon City	58%
Mt. Vernon Plaza	60%
Pentagon Row	64%
Potomac Yard	86%
NOTE: Penn Daw anchor calculation based on Shoppers Food only.	

Sources: H. Blount Hunter Retail & Real Estate Research Co.; *Shopping Center Directory*, National Research Bureau

SUMMARY:

Chain retailers have sales thresholds they must believe they can achieve before considering a new store location. While many site selection criteria are objective, others are subjective. These subjective (and perhaps unwritten) criteria may be more important than the objective criteria. Shopping center development is highly formula-driven. Financing requirements and proforma economics have profound impact on the content of retail developments.

Calculations of Supportable Retail Square Footage

Three levels of analysis have been performed:

1. Supportable retail space based solely on on-site demand by new residential units (micro level)
2. Supportable retail space based upon presumption of convenience shopping center serving residents within 0.5 mile of Penn Daw (intermediate level)
3. Supportable retail space based upon probable trade area extending for 10-minute drive (macro level)

Four development scenarios are included:

- Comprehensive Plan (220,000 SF retail)
- Developer proposal (70,000 SF retail)
- Task Force Option 1 (90,000 SF retail)
- Task Force Option 2 (130,000 SF retail)

A “leakage analysis” identifying “surpluses” in retail spending categories in the Penn Daw trade area has also been performed. The leakage analysis has not been used toward assessing retail development feasibility for reasons outlined in Appendix 5.4.

Supportable Retail Square Footage from On-Site Demand Generated by New Residential Units (Micro Level)

Micro analyses were performed to quantify the amount of supportable retail space that would be generated by varying numbers of new residential units in the Penn Daw redevelopment proposals by the task force and the developer. These micro-level analyses do not suggest that on-site demand will represent the bulk of demand for retailers and restaurants at Penn Daw. Rather, these analyses were performed to illustrate the extent that any retail development at Penn Daw will be dependent upon tapping into consumer spending by residents in surrounding neighborhoods.

The first step in the analysis is to calculate total household income of the new residential units proposed for development at the Penn Daw site. The second step is to calculate spending potential for key merchandise categories. Consumers spend an average of 27.1 percent of total household income on four categories of predictable retail spending, based on the *Census of Retail Trade*. This spending will be translated into supportable retail space.

- **Food Away from Home**: This category includes fast food, limited service and full service restaurants as well as establishments selling alcoholic beverages. Households spend an average of 4.7 percent of their annual incomes on food away from home.
- **Convenience Retail Goods:** This category includes groceries; packaged alcoholic beverages; soaps, detergents and household cleaners; paper and related products; pet foods and pet supplies. Households spend an average of 9.7 percent of their incomes on

these items. Groceries and "food at home" account for 5.0 percent of personal income; spending on other convenience goods accounts for 4.7 percent of personal income.

- **Personal Services**: This category covers hair, nail and skin care services; dry cleaning and laundry services; footwear and leather goods repair. They account for 0.7 percent of household income.
- **Shoppers' Retail Goods**: This category includes a wide variety of merchandise that typically involves comparison shopping including apparel and accessories; cosmetics; jewelry; furniture; flooring and floor coverings; curtains, draperies and other window coverings; kitchenware and home furnishings; large and small appliances; televisions, musical instruments, audio and video equipment; computer hardware and software; books; toys, hobby goods and games; photographic equipment and supplies; sewing, knitting and needlework goods; and optical goods. Consumers spend 12.0 percent of household income on shoppers' retail goods.

The third step is to apply "capture rates" that represent the share of potential spending that the retail space at Penn Daw can be expected to "capture." "Capture rates" must realistically reflect the performance of similar shopping centers. A shopping center's capture rate is determined by internal factors such as quality of tenancy and overall size as well as external competitive factors. In this analysis, the amount of supportable square footage of "shoppers' goods" space has been calculated assuming capture rates at the high end of the scale for a neighborhood shopping center or a community shopping center. The "capture rates" shown in Figures 9 through 11 would be considered to be aggressive by industry standards and result in projected amounts of supportable space that may be ambitious.

The final step is to translate projected spending by merchandise category based upon typical levels of sales productivity in these merchandise categories. Even after assigning aggressive "capture rates," the amount of supportable retail space attributable to new residents is quite modest.

Figures 9 through 11 present calculations of supportable retail square footage associated solely with on-site residential units in various development options.

The amount of retail space that can be supported by new residents ranges from approximately 8,200-10,200 square feet assuming 335 new residential units to 16,100-20,100 square feet assuming 816 new residential units. Just as the existing Penn Daw Plaza is dependent upon patrons from beyond its immediate area, new retail space in amounts envisioned by the Comprehensive Plan, the developer, and the task force options must derive significant support in addition to on-site demand from new residential units.

As shown in Figure 9, various "capture rates" have been applied to five categories of retail spending in order to project the amount of supportable retail square footage that can be sustained by 335 new housing units. At this level of residential development, supportable retail square footage ranges from 8,200 to 10,200 square feet.

Figure 9. Supportable Retail Square Footage at Penn Daw – 335 New Residential Units

SUPPORTABLE RETAIL SQUARE FOOTAGE AT PENN DAW 335 NEW RESIDENTIAL UNITS			
NEW RESIDENTIAL UNITS		335	335
AVG. HOUSEHOLD INCOME		$100,000	$125,000
TOTAL NEW HOUSEHOLD INCOME		$33,500,000	$41,875,000
SPENDING FACTORS			
Shoppers' Goods	12.0%	$4,020,000	$5,025,000
Convenience Goods	4.7%	$1,574,500	$1,968,125
Food at Home	5.0%	$1,675,000	$2,093,750
Food Away from Home	4.7%	$1,574,500	$1,968,125
Services	0.7%	$234,500	$293,125
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$250		
Convenience Goods	$250		
Food at Home	$500		
Food Away from Home	$400		
Services	$250		
NEW SQUARE FOOTAGE – 100 PERCENT CAPTURE			
Shoppers' Goods	100%	**16,080**	**20,100**
Convenience Goods	100%	**6,298**	**7,873**
Food at Home	100%	**3,350**	**4,188**
Food Away from Home	100%	**3,936**	**4,920**
Services	100%	**938**	**1,173**
		30,602	**38,253**
NEW SQUARE FOOTAGE – VARIOUS CAPTURE RATES			
Shoppers' Goods	15%	**2,412**	**3,015**
Convenience Goods	25%	**1,575**	**1,968**
Food at Home	75%	**2,513**	**3,141**
Food Away from Home	25%	**984**	**1,230**
Services	75%	**704**	**879**
		8,187	**10,233**

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

As shown in Figure 10, various "capture rates" have been applied to five categories of retail spending in order to project the amount of supportable retail square footage that can be sustained by 524 new housing units. At this level of residential development, supportable retail square footage ranges from 12,800 to 16,000 square feet.

Figure 10. Supportable Retail Square Footage at Penn Daw – 524 New Residential Units

SUPPORTABLE RETAIL SQUARE FOOTAGE AT PENN DAW 524 NEW RESIDENTIAL UNITS			
NEW RESIDENTIAL UNITS		524	524
AVG. HOUSEHOLD INCOME		$100,000	$125,000
TOTAL NEW HOUSEHOLD INCOME		$52,400,000	$65,500,000
SPENDING FACTORS			
Shoppers' Goods	12.0%	$6,288,000	$7,860,000
Convenience Goods	4.7%	$2,462,800	$3,078,500
Food at Home	5.0%	$2,620,000	$3,275,000
Food Away from Home	4.7%	$2,462,800	$3,078,500
Services	0.7%	$366,800	$458,500
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$250		
Convenience Goods	$250		
Food at Home	$500		
Food Away from Home	$400		
Services	$250		
NEW SQUARE FOOTAGE – 100 PERCENT CAPTURE			
Shoppers' Goods	100%	**25,152**	**31,440**
Convenience Goods	100%	**9,851**	**12,314**
Food at Home	100%	**5,240**	**6,550**
Food Away from Home	100%	**6,157**	**7,696**
Services	100%	**1,467**	**1,834**
		47,867	**59,834**
NEW SQUARE FOOTAGE – VARIOUS CAPTURE RATES			
Shoppers' Goods	15%	**3,773**	**4,716**
Convenience Goods	25%	**2,463**	**3,079**
Food at Home	75%	**3,930**	**4,913**
Food Away from Home	25%	**1,539**	**1,924**
Services	75%	**1,100**	**1,376**
		12,805	**16,007**

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

As shown in Figure 11, various "capture rates" have been applied to five categories of retail spending in order to project the amount of supportable retail square footage that can be sustained by 816 new housing units. At this level of residential development, supportable retail square footage ranges from 16,100 to 20,100 square feet.

Figure 11. Supportable Retail Square Footage at Penn Daw – 816 New Residential Units

SUPPORTABLE RETAIL SQUARE FOOTAGE AT PENN DAW 816 NEW RESIDENTIAL UNITS			
NEW RESIDENTIAL UNITS		816	816
AVG. HOUSEHOLD INCOME		$100,000	$125,000
TOTAL NEW HOUSEHOLD INCOME		$81,600,000	$102,000,000
SPENDING FACTORS			
Shoppers' Goods	12.0%	$9,792,000	$12,240,000
Food at Home	5.0%	$4,080,000	$5,100,000
Food Away from Home	4.7%	$3,835,200	$4,794,000
Services	0.7%	$571,200	$714,000
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$250		
Food at Home	$500		
Food Away from Home	$400		
Services	$250		
NEW SQUARE FOOTAGE – 100 PERCENT CAPTURE			
Shoppers' Goods	100%	**39,168**	**48,960**
Food at Home	100%	**8,160**	**10,200**
Food Away from Home	100%	**9.588**	**11,985**
Services	100%	**2,285**	**2,856**
		59,201	**74,001**
NEW SQUARE FOOTAGE – VARIOUS CAPTURE RATES			
Shoppers' Goods	15%	**5,875**	**7,344**
Food at Home	75%	**6,120**	**7,650**
Food Away from Home	25%	**2,397**	**2,996**
Services	75%	**1,714**	**2,142**
		16,106	**20,132**

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

Community shopping centers tend to capture 5 to 15 percent of "shopper's goods" potential within their trade areas. Higher capture rates were applied to "convenience goods," services, and "food at home" since these are neighborhood-oriented categories that people usually "consume" in close proximity to home. Restaurant purchasing (i.e. "food away from home") is less convenience-based as reflected in a 25 percent capture rate assumption. Achieving these illustrative rates of sales capture would be predicated upon a well-conceived merchandising plan and a well-executed leasing program.

The addition of new residential units as part of a mixed-use development at Penn Daw will support 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 residential units could support up to 20,100 square feet. Plans with fewer residential units will support less retail space. The addition of 524 units may support approximately 12,800-16,000 square feet of space, while adding 335 units may support approximately 8,200 to 10,200 square feet of space.

These analyses illustrate the limitations of on-site demand that can be anticipated from new residential development on the Penn Daw study area. Sustaining the amounts of retail space proposed in the Comprehensive Plan, by the developer and in the task force options will require access to a broader residential trade area, which is not seen as feasible at this time.

Supportable Retail Square Footage Within .5 Mile Radius (Intermediate Level)

Convenience shopping centers serve "spontaneous" purchasing needs associated with busy areas such as high-volume highway corridors and transit hubs. Penn Daw's capacity as a convenience center primarily serving patrons residing within a one-half mile radius was calculated as a more realistic alternative to the evaluation of supportable square footage based solely on on-site demand from new residential units. This alternative assumes no capture of spending on groceries, so the amount of supportable retail space excludes a supermarket. This is consistent with the definition of a convenience center.

Convenience shopping centers tend to capture a low percentage of "shopper's goods" potential within their trade areas. These centers capture higher shares of spending on "convenience goods," services, and restaurant purchasing (i.e. "food away from home"). Achieving these illustrative rates of sales capture would be predicated upon a well-conceived merchandising plan and a well-executed leasing program.

- In 2010, Penn Daw could support approximately 24,000 square feet of retail space as a convenience center with a core trade area equal to a .5-mile radius. (See Figure 12). This assumes 25 percent sales inflow. Sales inflow is defined as sales from residents beyond the trade area and transient motorists.
- Assuming the addition of 816 new housing units by 2015, Penn Daw could support approximately 40,000 square feet as a convenience center serving a core trade area equal to a .5-mile radius. (See Figure 13). Again, this assumes 25 percent sales inflow.

Figure 12. Supportable Retail Square Footage at Penn Daw, Convenience Center Pedestrian Trade Area – 2010 (No Supermarket)

SUPPORTABLE SQUARE FOOTAGE AT PENN DAW CONVENIENCE CENTER PEDESTRIAN TRADE AREA 2010 – NO SUPERMARKET			
TOTAL HOUSEHOLD INCOME		**.25 MILE RADIUS**	**.5 MILE RADIUS**
Households		183	2,573
Average Household Income		$89,241	$86,742
Total Household Income		$16,331,103	$223,187,166
SPENDING FACTORS			
Shoppers' Goods	12.0%	$1,959,732	$26,782,460
Convenience Goods	4.7%	$767,562	$10,489,797
Food Away from Home	4.7%	$767,562	$10,489,797
Services	0.7%	$114,318	$1,562,310
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$300		
Convenience Goods	$250		
Food Away from Home	$400		
Services	$250		
CAPTURE RATES		**.25 MILE RADIUS**	**.5 MILE RADIUS**
Shoppers' Goods		5.0%	5.0%
Convenience Goods		25.0%	25.0%
Food Away from Home		10.0%	10.0%
Services		25.0%	25.0%
TRADE AREA SALES "CAPTURED"			
Shoppers' Goods		$97,987	$1,339,123
Convenience Goods		$191,890	$2,622,449
Food Away from Home		$76,756	$1,048,980
Services		$28,579	$390,578
SALES INFLOW (25 PERCENT)			
Shoppers' Goods		$24,497	$334,781
Convenience Goods		$47,973	$655,612
Food Away from Home		$19,189	$262,245
Services		$7,145	$97,644
SUPPORTABLE SQUARE FOOTAGE		**TRADE AREA + INFLOW**	**TRADE AREA + INFLOW**
Shoppers' Goods		**408**	**5,580**
Convenience Goods		**959**	**13,112**
Food Away from Home		**240**	**3,278**
Services		**143**	**1,953**
TOTAL		**1,750**	**23,923**

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

Figure 13. Supportable Retail Square Footage at Penn Daw, Convenience Center Pedestrian Trade Area – 2015 (No Supermarket)

SUPPORTABLE SQUARE FOOTAGE AT PENN DAW CONVENIENCE CENTER PEDESTRIAN TRADE AREA 2015 – NO SUPERMARKET			
TOTAL HOUSEHOLD INCOME		**.25 MILE RADIUS**	**.5 MILE RADIUS**
Households		1,001	3,459
Average Household Income		$104,450	$105,390
Total Household Income		$104,544,450	$364,544,010
SPENDING FACTORS			
Shoppers' Goods	12.0%	$12,546,534	$43,745,281
Convenience Goods	4.7%	$4,914,059	$17,133,568
Food Away from Home	4.7%	$4,914,059	$17,133,568
Services	0.7%	$731,881	$2,551,808
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$300		
Convenience Goods	$250		
Food Away from Home	$400		
Services	$250		
CAPTURE RATES		**.25 MILE RADIUS**	**.5 MILE RADIUS**
Shoppers' Goods		5.0%	5.0%
Convenience Goods		25.0%	25.0%
Food Away from Home		10.0%	10.0%
Services		25.0%	25.0%
TRADE AREA SALES "CAPTURED"			
Shoppers' Goods		$627,327	$2,187,264
Convenience Goods		$1,228,515	$4,283,392
Food Away from Home		$491,406	$1,713,357
Services		$182,970	$637,952
SALES INFLOW (25 PERCENT)			
Shoppers' Goods		$156,832	$546,816
Convenience Goods		$307,129	$1,070,848
Food Away from Home		$122,851	$428,339
Services		$45,743	$159,488
SUPPORTABLE SQUARE FOOTAGE		**TRADE AREA + INFLOW**	**TRADE AREA + INFLOW**
Shoppers' Goods		**2,614**	**9,114**
Convenience Goods		**6,143**	**21,417**
Food Away from Home		**1,536**	**5,354**
Services		**915**	**3,190**
TOTAL		**11,207**	**39,075**

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

Supportable Retail Square Footage by Probable Retail Trade Area (Macro Level)

A macro-level analysis of retail development potential at Penn Daw is based upon the assumption that a new retail mass could draw patrons from residential areas surrounding the Penn Daw site and also serve transient consumers using a busy commercial corridor. The drawing power of an individual retailer or a shopping center is influenced by a combination of factors:

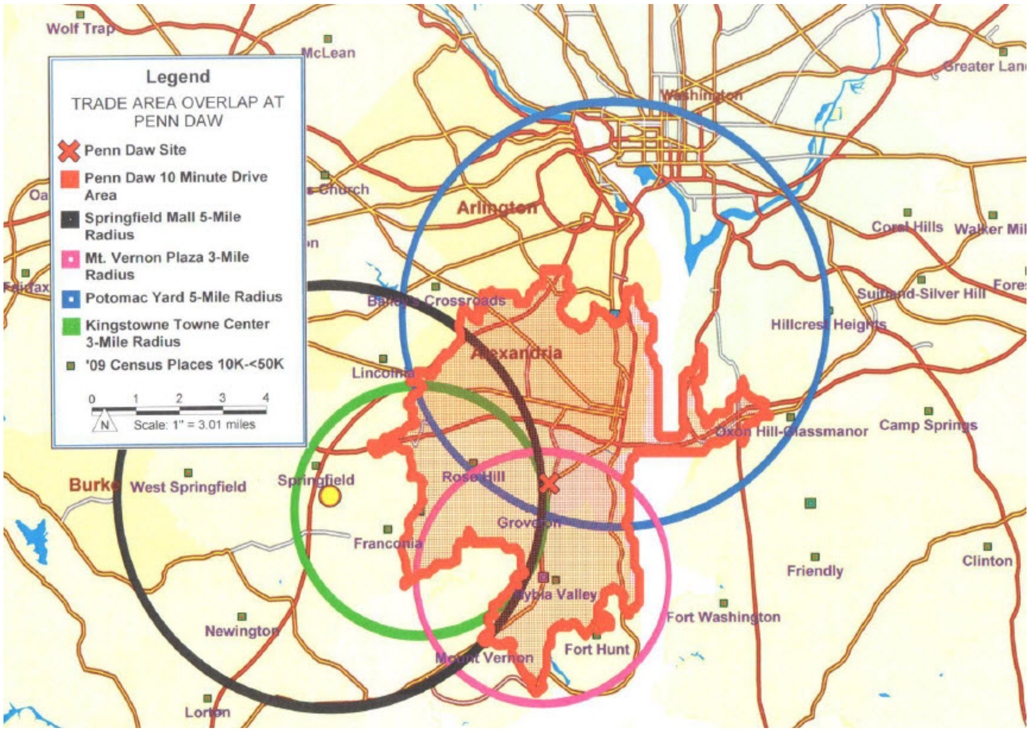
- Access patterns (typically highway access by automobiles but may also include pedestrian and transit access patterns)
- Drive times from home location of consumers
- Spatial alignment of competing retailers or retail nodes
- Type of merchandise (or services) offered and normal purchasing frequency
- Uniqueness of merchandise offering or experience
- Popularity of anchor(s)
- Physical and/or geographic barriers
- Psychological or emotional barriers

A shopping center's trade area is determined by its content and its competitive context. A shopping center's ability to establish a merchandising/leasing strategy is based upon demographics of surrounding consumers and its competitive context.

The opening of Walmart across Richmond Highway from the Penn Daw study area established a retail trade area that could apply to retail development on the Penn Daw study area or any nearby site. For the purposes of this analysis, Penn Daw's probable trade area is defined as the residential area within a 10-minute drive. The trade area has been divided into a "core market" corresponding to a 5-minute drive and an "outer market" extending out to the boundaries of a 10-minute drive. The 5-minute drive "core market" will include on-site demand generated by any new housing units that are developed at Penn Daw since the "core market" reflects a projected increase of approximately 1,600 housing units between 2010 and 2015.

Figure 14 depicts Penn Daw's probable retail trade area in the shaded area. This is a competitive retail area. No trade areas have been indicated for Old Town or Landmark Mall because the focus of the map is shopping centers anchored by discount department stores and large-box/mid-box anchor retailers.

Figure 14. Retail Trade Area Overlap at Penn Daw



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Penn Daw's 10-minute drive trade area falls within one or more trade areas of existing retail centers. This illustrates the challenge facing Penn Daw since many of the major retailers located in competing retail centers would feel they already have adequate coverage of Penn Daw's probable trade area.

- The rings around the Springfield Mall node and Potomac Yard have been set at 5 miles. When Springfield Mall is redeveloped, its probable drawing power will be extended.
- The rings around Kingstowne Towne Center and Mt. Vernon Plaza have been set at 3 miles. These centers have less drawing power than Potomac Yard and the Springfield Mall node.
- This depiction of trade area overlap has been simplified by omitting representations of trade areas for regional/super-regional shopping centers (Fashion Centre at Pentagon City, Tysons Corner Center) and other destinations including Landmark Mall and Bailey's Crossroads.

"Sales inflow" can be expected from beyond the residential trade area since Richmond Highway is a busy corridor for commuters and other transient motorists. "Sales inflow" has been set at 10 percent to coincide with the 5 to 15 percent estimated "sales inflow" provided by the store manager at the nearby Walmart store.

- In 2010, the “core market” portion of Penn Daw’s probable trade area consisted of 23,240 households with an average income estimated at $100,503. By 2015, the “core market” is projected to have 24,817 households with average household income of $119,194. Over this five year period, the “core market” is projected to gain 1,577 housing units. This analysis assumes that this net increase includes new residential units at Penn Daw. Therefore, on-site demand that will be generated by Penn Daw redevelopment is already factored into supportable retail square footage calculations.
- In 2010, the “extended market” portion of Penn Daw’s probable trade area had 94,186 households with an average income of $95,307. By 2015, the “extended market” is projected to have 97,749 households with average household income of $110,572. Over this five year period, the “extended market” is projected to gain 3,563 residential units.

Figure 15. 5- and 10-Minute Drive Times – Penn Daw Retail Trade Area

PENN DAW RETAIL TRADE AREA 5- AND 10-MINUTE DRIVE TIMES		
5-Minute “Core Market”	**2010**	**2015**
Population	50,357	53,251
Households	23,240	24,817
Average Household Income	$100,503	$119,194
5 to 10-Minute “Extended Market”	**2010**	**2015**
Population	223,991	232,902
Households	94,186	97,749
Average Household Income	$95,307	$110,572

Sources: ESRI; H. Blount Hunter Retail & Real Estate Research Co.

Calculating supportable retail square footage requires projecting total (aggregate) household income within Penn Daw’s probable trade area and applying spending ratios to key retail categories as well as reasonable “capture rates.” An “inflow” factor is assigned to account for sales generated by transients and others from outside of the probable trade area.

Penn Daw’s probable trade area had total household income estimated at $11.3 billion in 2010. By 2015, total household income within Penn Daw’s probable trade area is projected to reach $13.7 billion. Any retail development at Penn Daw will compete with other stores, restaurants, and services for a share of this income as shown in the charts on the following pages. Capture rates must be applied to each trade area sector to establish the amount of square footage that may be supportable by 2015.

- As shown in Figures 16 and 17, total household income within Penn Daw’s “core market” was estimated at $2.3 billion in 2010. By 2015, total household income within the “core market” is projected to increase to more than $2.9 billion.

- Total household income within Penn Daw's "extended market" was estimated at $8.9 billion in 2010. By 2015, total household income within the "core market" is projected to increase to $10.8 billion.

Total household income is used to estimate spending in key merchandise categories for 2010 and 2015. These analyses exclude spending on grocery items since it is unrealistic to assume a traditional supermarket will be an element of any retail development at Penn Daw.

- As shown in Figures 16 and 17, spending factors ranging from 0.7 percent to 12.0 percent have been applied to total household income in order to project spending in key merchandise categories.
- Estimated "capture rates" and typical sales productivities by merchandise category have been used to derive amounts of supportable retail space in 2010 and 2015.

As shown in Figures 16 and 17, Penn Daw's probable trade area could have supported as much as 162,500 square feet of new pace in 2010 based upon critical assumptions about capture rate and sales productivity. From 2010 to 2015, growth in the number of households within the trade area combined with escalating household income results in a "natural increase" of approximately 37,000 square feet of supportable space. By 2015, the designated trade area could support up to 200,000 square feet of new retail space (excluding supermarket space). Penn Daw's probable trade area, which includes areas outside of the study area, is capable of supporting the amount of retail space that was programmed in the four development scenarios.

Figure 16. Supportable Retail Square Footage at Penn Daw – 2010 (No Supermarket)

SUPPORTABLE SQUARE FOOTAGE AT PENN DAW PROBABLE RETAIL TRADE AREA (5- TO 10-MINUTE DRIVE) 2010 – NO SUPERMARKET			
TOTAL HOUSEHOLD INCOME		**5-MINUTE DRIVE**	**5- TO 10-MINUTE DRIVE**
Households		23,240	94,196
Average Household Income		$100,503	$95,307
Total Household Income		$2,335,689,720	$8,977,538,172
SPENDING FACTORS			
Shoppers' Goods	12.0%	$280,282,766	$1,077,304,581
Convenience Goods	4.7%	$109,777,417	$421,944,294
Food Away from Home	4.7%	$109,777,417	$421,944,294
Services	0.7%	$16,349,828	$62,842,767
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$300		
Convenience Goods	$250		
Food Away from Home	$400		
Services	$250		
CAPTURE RATES		**5-MINUTE DRIVE**	**5- TO 10-MINUTE DRIVE**
Shoppers' Goods		2.5%	1.0%
Convenience Goods		5.0%	1.0%
Food Away from Home		5.0%	2.5%
Services		5.0%	2.5%
TRADE AREA SALES			
Shoppers' Goods		$7,007,069	$10,773,046
Convenience Goods		$5,488,871	$4,219,443
Food Away from Home		$5,488,871	$10,548,607
Services		$817,491	$1,571,069
SALES INFLOW (10 PERCENT)			
Shoppers' Goods		$1,778,011	
Convenience Goods		$970,831	
Food Away from Home		$1,603,748	
Services		$238,856	
SUPPORTABLE SQUARE FOOTAGE		**TRADE AREA + INFLOW**	
Shoppers' Goods		**65,194**	
Convenience Goods		**42,717**	
Food Away from Home		**44,103**	
Services		**10,510**	
		162,523	

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

Figure 17. Supportable Retail Square Footage at Penn Daw – 2015 (No Supermarket)

SUPPORTABLE SQUARE FOOTAGE AT PENN DAW PROBABLE RETAIL TRADE AREA (5- TO 10-MINUTE DRIVE) 2015 – NO SUPERMARKET			
TOTAL HOUSEHOLD INCOME		**5-MINUTE DRIVE**	**5- TO 10-MINUTE DRIVE**
Households		24,817	97,749
Average Household Income		$119,194	$110,572
Total Household Income		$2,958,037,498	$10,808,302,428
SPENDING FACTORS			
Shoppers' Goods	12.0%	$354,964,500	$1,296,996,291
Convenience Goods	4.7%	$139,027,762	$507,990,214
Food Away from Home	4.7%	$139,027,762	$507,990,214
Services	0.7%	$20,706,262	$75,658,117
SALES PRODUCTIVITY (Sales Per Square Foot)			
Shoppers' Goods	$300		
Convenience Goods	$250		
Food Away from Home	$400		
Services	$250		
CAPTURE RATES		**5-MINUTE DRIVE**	**5- TO 10-MINUTE DRIVE**
Shoppers' Goods		2.5%	1.0%
Convenience Goods		5.0%	1.0%
Food Away from Home		5.0%	2.5%
Services		5.0%	2.5%
TRADE AREA SALES			
Shoppers' Goods		$8,874,112	$12,969,963
Convenience Goods		$6,951,388	$5,079,902
Food Away from Home		$6,951,388	$12,699,755
Services		$1,035,313	$1,891,453
SALES INFLOW (10 PERCENT)			
Shoppers' Goods		$2,184,408	
Convenience Goods		$1,203,129	
Food Away from Home		$1,965,114	
Services		$292,677	
SUPPORTABLE SQUARE FOOTAGE		**TRADE AREA + INFLOW**	
Shoppers' Goods		**80,095**	
Convenience Goods		**52,938**	
Food Away from Home		**54,041**	
Services		**12,878**	
		199,951	

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

These projected amounts of supportable square footage are not specific to the Penn Daw study area. They apply to any retail development in the general vicinity of the Penn Daw study area that is able to achieve the assumed “capture rates” and inflow based upon location, accessibility, format, and merchandising strategy.

The calculations support as much as 200,000 square feet of new retail space by 2015; however, development is subject to industry benchmarks relating to the ratio of anchor space that is necessary under most circumstances as well as key site selection considerations used by retailers as they make real estate location decisions.

In reality, it is likely to be difficult to aggregate more than 25,000 square feet of small merchants without an anchor in any of the four development options. It would be virtually impossible to amass 90,000 to 200,000 square feet of unanchored retail space in the Penn Daw study area.

The Richmond Highway corridor can theoretically absorb this amount of space over the next five years based upon anticipated population growth, projected increases in household income, migration of new businesses to the corridor, and relocation of existing businesses to higher quality space. The Penn Daw study area may not be able to attract retail development of this scale because of serious site constraints related to Kings Highway and access from Richmond Highway. The amount of space that can be programmed on the Penn Daw study area – either by repositioning the existing shopping center or within an entirely new structure – depends upon the ability of the developer to attract one or more anchor tenants with broad customer appeal. For every square foot of anchor tenant space, the development can accommodate 1 square foot of small tenant space.

The four options as presented are “feasible” since the amounts of retail space are less than or equal to the amount of supportable square footage that Penn Daw’s probable trade area can support. However, from a development and/or leasing perspective, these development options are viable only if they can secure anchor(s). In order for a large scale retail development to proceed, the Penn Daw retail development must have at least one anchor use with general appeal throughout the trade area. Multiple anchors would give the project a greater chance for success. A supermarket is not required; however, anchors will optimally sell general merchandise, family apparel, or other “shoppers’ goods” that generate cross-shopping synergy with specialty retail shops. Single-purpose “destination” anchors such as home improvement stores, sporting goods stores, and office supply stores do not spin-off shoppers to adjacent stores at levels similar to anchors selling consumer goods with more general appeal. Anchors can be traditional uses including mid-box retail stores, large restaurants, and a health club. Anchors can also be public facilities such as a library or recreation center.

There are important conditions for enticing anchor tenant(s):

- The project must have excellent visibility from Richmond Highway. Highway access to the site must be improved so that patrons can easily turn into the development from Richmond Highway.
- The anchors must have a void in market coverage in the Penn Daw trade area; they must believe the Penn Daw trade area is capable of supporting a store at a profitable level without a damaging level of sales transfer from nearby stores
- There must be ample, free parking with shopper parking set aside from parking for residents and office tenants. Parking must be oriented to retail/restaurant space to facilitate convenient access to storefronts. Parking capacity must be located on the site in a manner that matches the parking demand for individual project sectors while also remaining convenient for patrons accessing any portion of the retail component.
- The retail development must reflect contemporary site design principles and typical space dimensions to appeal to a variety of end users. The physical format of the retail project can contribute to its drawing power through unique features such as outdoor dining, areas for community events, and space for social interaction and gathering.

If anchor(s) cannot be accommodated in the site designs, the amount of retail space should be reduced. Without an anchor, the recommended amount of retail space at Penn Daw is 15,000 to 40,000 square feet as shown in Figure 13. This amount of square footage is consistent with the typical size of convenience centers and could be assembled without an anchor tenant. A mix of retail shops, services, and food service uses can be anticipated. Under some circumstances, this small amount of space could be programmed as a restaurant cluster; restaurants may be grouped around public space to create opportunities for outdoor seating and social gatherings if Kings Highway's impact as a busy through street can be mitigated. Creating a "sense of place" destination as a virtual anchor and backdrop for a substantial cluster of restaurants is best suited for areas with large office worker populations to support lunch business.

The catalyst retail tenant under each of the development concepts analyzed consists of one or more anchor retail tenants that would serve two functions: 1) occupy a significant proportion of the retail space available for lease, underpinning the financial viability of the development; and 2) attract additional smaller in-line retail tenants to the development.

Several categories of traditional anchor retail tenants can be ruled out as a potential anchor tenant for the Penn Daw study area. Richmond Highway and other areas in its immediate vicinity already host a variety of major retailers who act as anchors at existing retail centers. Due to those retailers' concerns regarding cannibalization of existing sales, a decision to invest in another location at the Penn Daw study area is highly unlikely. Significantly, the majority of national apparel retailers with activity in the Mid-Atlantic have existing locations too close to Penn Daw to consider the site for another store. The two leading companies in the building materials category – Home Depot and Lowe's Home Improvement – both have existing locations on Richmond Highway within a 10-minute drive of the site. The same holds true for several varieties of large format specialty stores, with Best Buy, PetSmart, Petco, Staples, Michael's Crafts, and Bed Bath & Beyond, among others, all represented within or close to the Penn Daw trade area. Although major chain pharmacies such as CVS, Walgreens and Rite-Aid, have a tendency to locate along routes such as Richmond Highway, concern within that retail segment regarding overexpansion would likely temper desire to install another location in Penn Daw. Finally, in the mass merchandisers category, the representation of Target and Walmart will likely discourage duplicate locations or serious competition.

The presence of Walmart, directly across Richmond Highway from the Penn Daw Plaza, also complicates the possibility of securing a supermarket tenant for that site. In fact, Shoppers Food & Pharmacy, the previous anchor tenant of the existing Penn Daw Plaza, declined to renew its lease, at least in part, due to Walmart's decision to open a location in such close proximity. In all likelihood, any other major supermarket chain would experience the same trepidation regarding the Penn Daw study area. The remaining options for a catalyst anchor tenant at Penn Daw include a specialty supermarket, such as an Asian or Hispanic market, or a nontraditional anchor such as a public library of a health club. Due to the potential availability of locations at other, more-established retail centers, it is unclear whether any retailers in those categories would elect to open a store at Penn Daw.

REALISTIC OPTIONS FOR PENN DAW RETAIL DEVELOPMENT

Pre-leasing efforts will ultimately determine anchor tenant interest in the Penn Daw study area. The probability of securing one or more anchor retailers is uncertain but is considered to be low based upon a competitive location analysis of mid-box or big-box retailer tenants. 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 GLA at Penn Daw would be approximately twice the square footage of the anchor tenant(s). This is consistent with the industry standard of 1 square foot of specialty tenant space for every square foot of anchor space. With one or more anchors, the retail space at Penn Daw could function as a neighborhood center and could also attract "inflow" because of its location in the Richmond Highway corridor.   The Penn Daw development opportunity is likely to assume the form of a convenience shopping center or neighborhood shopping center, rather than another type of shopping center.

- Convenience shopping centers serve "spontaneous" purchasing needs associated with busy areas such as high-volume highway corridors and transit hubs. Convenience shopping centers are by nature relatively small. A contemporary convenience shopping center at the Penn Daw study area would not require the quantity of space envisioned in any of the Task Force development options.
- Neighborhood shopping centers serve the daily needs of nearby residents. Merchandise is generally limited to "convenience goods" and services. Neighborhood shopping centers seldom offer apparel and shoes or other merchandise that consumers prefer to

purchase after comparing assortment and prices at several stores. Supermarket-anchored neighborhood centers require a minimum of 3,000 to 5,000 households as a base of consumer support. The Penn Daw study area is well-suited for redevelopment with the scale of a neighborhood shopping center. A key consideration is identifying at least one appropriate anchor tenant that can be used to establish a sustainable merchandising direction. It is highly unlikely that a traditional supermarket would opt for a location directly opposite a Walmart Market; a specialized food store such as a Hispanic or Asian market may succeed in Walmart's shadow. The developer may need to identify a non-traditional anchor such as a health club or a public library to draw traffic to the Penn Daw study area.

- Community shopping centers require broad access via surface streets and arterials in order to serve neighborhoods within a 1 to 3 mile radius. Community shopping centers are often developed at busy intersections offering access from all compass directions. Merchandise in community shopping centers extends beyond daily needs to include "shopper's goods" (including apparel and footwear as well as home goods) that are purchased monthly or less frequently. Community shopping centers typically serve trade areas ranging in size from 10,000 to 50,000 households; community shopping centers co-exist with neighborhood centers and regional/superregional shopping centers. They offer more diverse merchandise than neighborhood shopping centers but less breadth and depth of assortment than regional shopping centers. Community shopping centers have stores offering basic clothing and shoes but with less selection or range of prices than larger regional or super-regional shopping centers. Whereas a regional shopping center may offer a full assortment of apparel retailers such as The Gap, Express, Ann Taylor, American Eagle, and Forever 21, a community shopping center offers few choices. A community center is often a destination when a consumer knows what she/he wants to buy with little or no comparison shopping.
- The Penn Daw study area is bracketed by community shopping centers including the node anchored by Kingstowne Towne Center (3 miles), Mt. Vernon Plaza (1 mile), and peripheral development at Springfield Mall (4 miles). The trade areas of these community shopping centers overlap in the vicinity of Penn Daw. Anchor retailers in these locations would experience significant sales cannibalization and profit erosion by opening additional stores at Penn Daw. By process of elimination, there are few viable anchor store candidates for the Penn Daw development opportunity. A community shopping center could be envisioned if the Penn Daw development opportunity could absorb most or all of the 200,000 square feet of retail space that its trade area could support. This strategy requires at least one major anchor tenant and would also require elimination of highway-related site constraints.

Realistic retail development strategy options for the Penn Daw study area are limited by the competitive retail environment and site constraints including the disruptive alignment of Kings Highway and challenged access from Richmond Highway.

REPOSITIONING THE EXISTING PENN DAW SHOPPING CENTER

Repositioning the existing Penn Daw shopping center, known as the Penn Daw Plaza, is another development option. The owner could refresh the existing buildings and re-merchandize the shopping center or the developer could make a more extensive investment by razing some or all of the existing buildings and replacing them with new construction. Whether a new center is built or the existing center is modernized, Penn Daw is likely to function as a convenience/neighborhood shopping center because of its relatively small parcel size. Penn Daw's functional niche is also influenced (constrained) by prevailing competition and prevailing market coverage by key retailers in virtually all merchandize categories.

The former Shoppers Food & Pharmacy space (approximately 54,000 square feet) can be subdivided into multiple tenant spaces. This is likely to require new HVAC equipment as well as demising walls.

The orientation of the existing shopping center must be considered. Small shops face north with virtually no exposure from Richmond Highway. Three larger spaces face east and therefore have some level of visibility from Kings Highway and Richmond Highway. These are spaces vacated by Shoppers Food & Pharmacy and currently occupied by CVS and an auto parts store.

The Penn Daw Plaza could be reconfigured and "right sized" with a row of mall space storefronts facing Kings Highway with retail occupying only a portion of the site. As shown in Figure 13, up to 40,000 square feet of shops, restaurants, and services would be the maximum recommended GLA without anchor tenant(s). Residential uses could be placed to the rear of the parcel. Diminishing the amount of GLA reduces the rent stream that the developer can anticipate from retail tenants.

The existing buildings may have on-going economic and functional value although the future of the shopping center is uncertain. In particular, two of the larger tenants may be "at risk" of departing for reasons entirely unrelated to the location, configuration, or condition of the shopping center.

- Books-A-Million's Penn Daw store is not typical of stores in this bookstore chain. Enlarging the store could provide one of the anchors that would enable the shopping center to sustain its specialty tenant mix for years to come. On the other hand, the departure of this store would represent a serious setback to merchandising efforts. Books-A-Million closed a similarly sized store in Reston.
- CVS Pharmacy is another large tenant and a major traffic generator at Penn Daw. The continued presence of a drug store is uncertain since CVS and its rivals have aggressively expanded through freestanding stores with drive-through windows. Many pharmacies have left their in-line spaces in favor of end cap locations or pad sites. Retaining CVS would seem to be an important effort.

When developed, the Penn Daw Plaza had approximately 1 square foot of specialty tenant space for every square foot of anchor space as is typical of neighborhood shopping centers. This ratio was generally maintained until Shoppers Food & Pharmacy departed. This ratio becomes the leasing guideline for repositioning the shopping center. Retaining existing anchors or soliciting new anchor(s) is critical for maintaining occupancy.

Any major repositioning of the shopping center site would best be undertaken in response to the needs of one or more specific anchor tenants. Massing more than 40,000 square feet without anchor(s) will be challenging. 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. 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.

EVALUATION OF RETAIL ELEMENTS OF DEVELOPMENT OPTIONS

Current Comprehensive Plan

The Comprehensive Plan incorporates 220,000 square feet of retail in the Penn Daw study area. While this amount of space in the general vicinity of Penn Daw can be supported by residents within a 10-minute drive, it is unlikely that the Penn Daw study area itself will attract retail development of this magnitude because of site constraints and the availability of superior site alternatives. The Comprehensive Plan may need to be changed to allow for a scale of retail development that matches the realities of the market including competitive alternative sites that could tap into the 200,000 square feet of supportable retail space identified within Penn Daw's probable retail trade area.

Overview of Task Force Concept Plans

The four concept plans generated by the task force represent "massing" alternatives with calculations of retail "capacity." All contain retail elements that are within the amount of supportable square footage that the can be supported by Penn Daw's probable trade area, but may be difficult to locate solely in the Penn Daw study area. They depict conceptual plans with aggregations of retail space allocated across different portions of the site that might be created if multiple property owners combine their holdings to create a single large development site.

- Two of the options assumed minor changes to Kings Highway in the vicinity of the Penn Daw study area as contained in Fairfax County's Comprehensive Plan.
- Two additional options assumed more significant changes to Kings Highway that would result in a grid street network. Significant alterations to roads in Fairfax County require

approval by the Virginia Department of Transportation and are subject to funding. Timing of any significant highway changes is uncertain.

Task Force Option 1 with Comprehensive Plan Street Network

As shown in Figures 18 and 19, Option 1 envisions 130,000 square feet of retail space concentrated on the western side of Kings Highway. Kings Highway would be reconfigured only to eliminate the existing intersection with Richmond Highway and to add a new connection between the two roadways to the south. The northbound and southbound legs of Kings Highway would remain separated between Poag and School Streets. Entering this complex from Richmond Highway would require a cumbersome left turn from Shields Avenue onto southbound Kings Highway or a defacto U-turn onto Kings Highway at the southern end of the project.

This option positions most of the retail space along the edge of Kings Highway in an urban format while minimizing residential development density on the western edges of the sites. The parcel fronting on Richmond Highway would remain an orientation to the Richmond Highway corridor and may function independently from the remainder of the retail space unless efforts are made to connect it to the other retail space in the complex.

The frontage parcel would feature a single-level retail building programmed to have 22,600 square feet of space. Although not shown, 68-113 surface parking spaces would need to be established on the frontage lot to serve the tenant(s) in this building. This site warrants a retail building with “two front facades” but this is extremely difficult to achieve, especially since this building is likely to attract tenants primarily oriented to transient traffic on Richmond Highway rather than tenants seeking to benefit from co-location synergies associated with tenants to the west of Kings Highway. The size and shape of this parcel will force parking into a traditional format at the front door of the retail building. Without sensitive architectural treatment, this building will not have an active façade facing Kings Highway. Restaurants would be likely prospects for this space; however, it would be difficult to create intimate outdoor seating on any side of this parcel because of highway noise and traffic volumes.

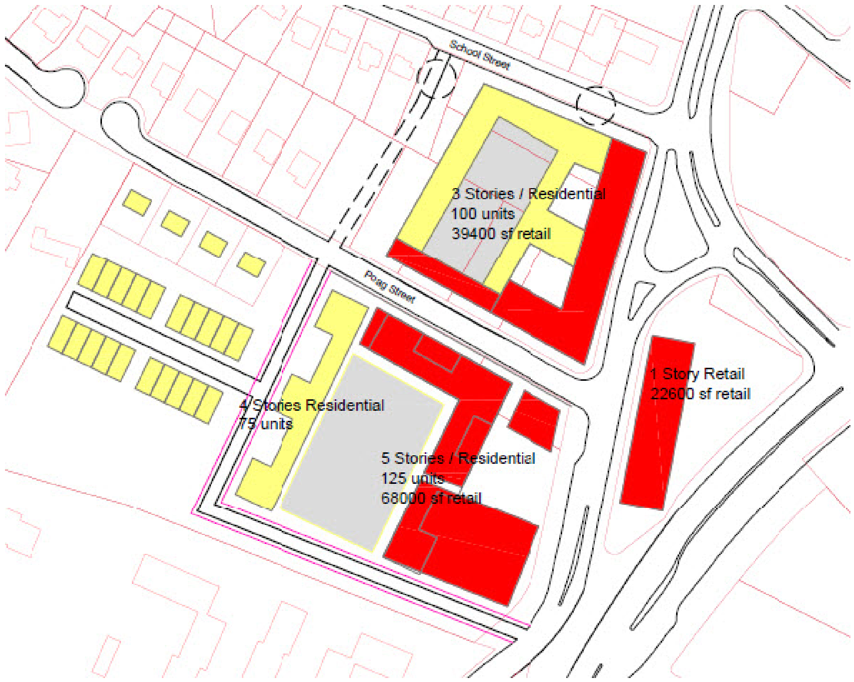
Figure 18. Task Force Option 1 With Comprehensive Street Plan Network

Source: Fairfax County

The south parcel would be programmed with 66,800 square feet of retail space. Space would wrap two sides of a surface parking lot and would have a freestanding building to define the intersection of Poag Street and Kings Highway. Public space for gathering—perhaps with private space for outdoor dining—could surround this freestanding building. Servicing the parking needs of this portion of the project would require 200-334 spaces. The recommended point of access to the rear parking lot is via Poag Street. Pedestrian portals must be included as access ways from the rear parking lot to the front edges of retail storefronts along Poag Street and Kings Highway.

The area to the north of Poag Street in the study area is programmed to have 39,400 square feet of retail space. Many of the storefronts on Poag Street would be shallow; deeper space would be located at the corner of Poag Street and Kings Highway and along Kings Highway to School Street. Servicing the parking needs of this portion of the project would require 118-197 spaces; again, pedestrian access portals must be provided to facilitate movement from the rear parking area to storefronts along Poag Street and Kings Highway.

Figure 19. Mixed-Use Detail – Task Force Option 1 With Comprehensive Street Plan Network



Source: Fairfax County

Curbside parking should be included along Poag Street for short-term use. The shallow storefronts here are likely to draw service establishments that would be at a competitive disadvantage without some storefront parking.

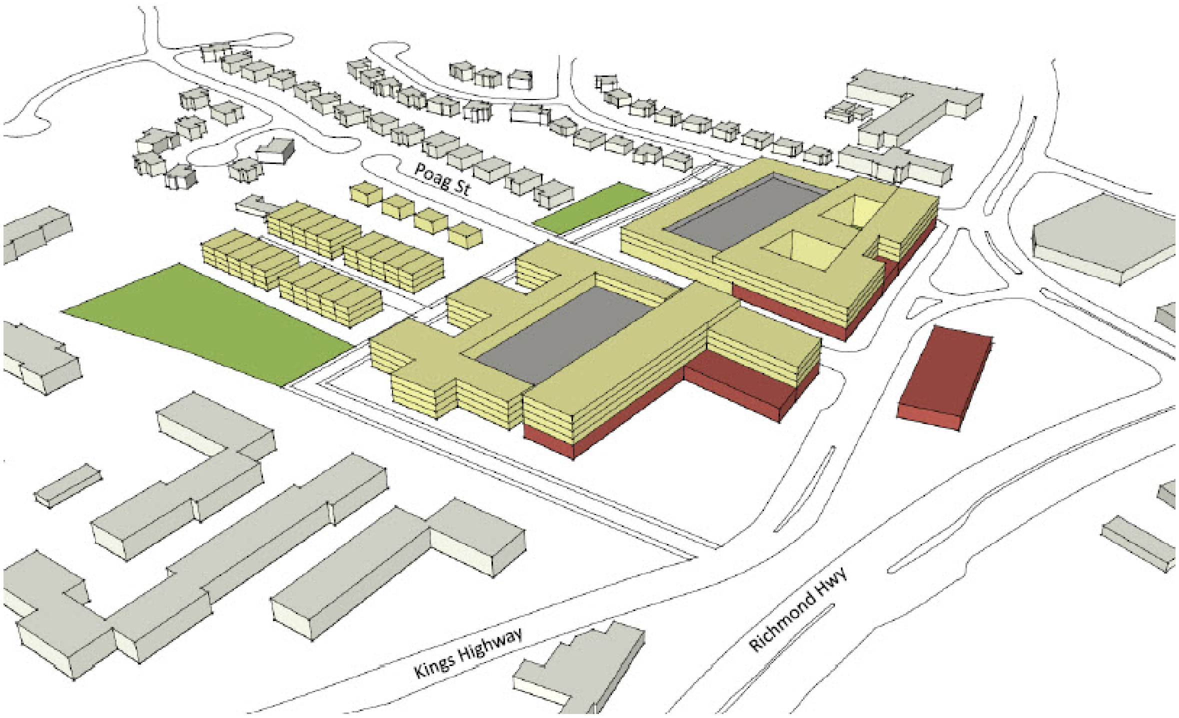
This option would have a point of differentiation if public space for gathering would be included in the site plan. A plaza for small events and casual interaction would respond to community desires for places to socialize. Creating intimate and functional public space in an area bisected by Kings Highway may be difficult.

Filling this amount of retail space will require one or more anchor uses to draw traffic to cross-patronize small retailers in the complex. Potential anchors are likely to be concerned about the absence of visibility and direct access from Richmond Highway.

Task Force Option 2 with Comprehensive Plan Street Network

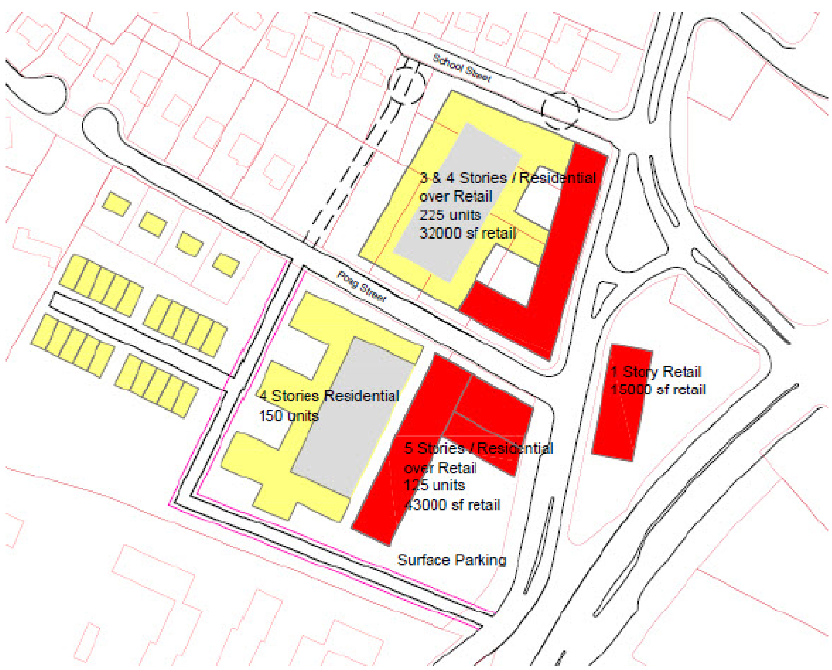
As shown in Figures 20 and 21, Option 2 shares many of the same massing principles as Option 1; however, it incorporates 90,000 square feet of retail space rather than 130,000 square feet. Option 2 calls for a smaller retail building of 15,000 square feet on the frontage parcel, fewer storefronts along the northern side of Poag Street, and a surface parking lot in front of the retail space located south of Poag Street along Kings Highway.

Figure 20. Task Force Option 2 With Comprehensive Street Plan Network



Source: Fairfax County

Figure 21. Mixed Use Detail – Task Force Option 2 With Comprehensive Street Plan Network



Source: Fairfax County

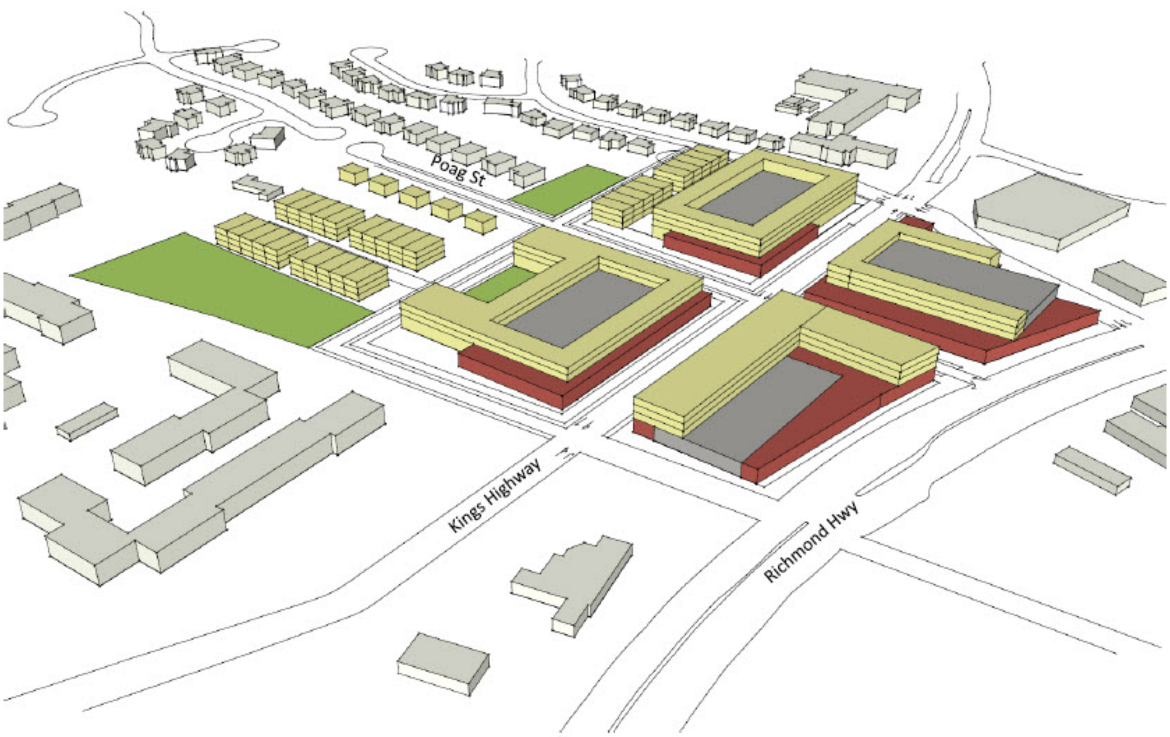
This option lacks public space for gathering and would still need at least one "anchor" to stabilize the small tenant space. A small anchor could be located at the southwestern corner of the site although the retail footprint as shown would most likely need to be expanded to accommodate an anchor tenant. Storefront parking would likely be lost.

This option does not provide better exposure and access from Richmond Highway for anchor(s) nor does it presume a better solution for parking to serve the retail space on the frontage lot.

Task Force Option 1 with New Street Grid

As shown in Figures 22 and 23, a new street grid could become an organizing element for accommodating higher density in a more urban format. A grid would be created by extending Poag Street through the frontage block to a new access/exit point on Richmond Highway and by realigning Kings Highway into a two-way street with a revamped intersection at School Street/Shields Highway.

Figure 22. Task Force Option 1 With New Street Grid



Source: Fairfax County

Option 1 calls for 130,000 square feet of retail space. As a practical matter, this amount of square footage requires one or more anchor uses for stability. Retail spaces as drawn do not reflect the store footprint dimensions typically sought by mid-box retailers. Retailers generally prefer frontage that is wider than store depth; most retailers are reluctant to use space that is more than 80-100 feet deep. A merchant using a 25,000 square foot box would typically prefer space that is 250 feet wide by 100 feet deep. This option does not allow for a large footprint store; at least one anchor tenant would be required in a retail mass of 130,000 square feet.

The relocation of Kings Highway to the west of its current path is a large undertaking that may require years to accomplish. The realignment of Kings Highway and creation of a more functional intersection at School Street may serve the needs of the broader community while expanding the footprint (and development capacity) of the frontage lot.

Figure 23. Mixed Use Detail – Task Force Option 1 With New Street Grid

Source: Fairfax County

The extension of Poag Street to Richmond Highway establishes a new point of entry that could be used to establish the unique character of this project. The site plan does not suggest any "gateway" feature. Wide sidewalks along Poag Street could accommodate outdoor dining; this would become a unique element of the image of the project.

Option 1 "front-loads" retail capacity as well as residential density to the frontage lot. The northern half of the frontage lot would be programmed for 46,000 square feet of retail space on three sides of a multi-story residential building. Retail space would wrap a parking garage that would need to have 130-230 spaces dedicated to retail patrons. The retail space plan as depicted has the potential of creating dysfunctional space in two locations on the northern frontage parcel. A triangular space on Richmond Highway at Shields Highway will suffer from its isolation from the remainder of the retail space if it is not incorporated into space facing Poag Street. Similarly, retail space that wraps around the corner along the south side of Shields Highway will not be leasable as small storefronts. This space also creates excessive depth for storefronts facing Kings Highway and is not leasable.

Retail space in this plan would be served by structured parking in the center of blocks. Access portals must be incorporated to facilitate movement from parking to streets at multiple points. Retail space is programmed for three sides of the parcel located south of Poag Street. A new street along the southern side of this block would provide vehicular access to residential units on the western half of this block. Retail storefronts along this street are likely to suffer from low foot traffic and would be easily overlooked by most patrons. These spaces are likely to become chronically vacant.

Retail space is shown along one half of the second block of Poag Street. This is a wise design, as extending retail for the length of the block—without an anchor at the end—would likely result in excess space. Curbside short-term parking should be incorporated in front of storefronts on both blocks of Poag Street. Storefronts facing Kings Highway would benefit from curbside parking, too; however, traffic volume and speed on this artery preclude this feature.

A significant challenge to the functionality of this retail plan is the potential for Kings Highway to become a barrier to internal project cross-patronage. The goal of creating a pedestrian-oriented area with opportunities for community interaction and social gathering are threatened if pedestrians cannot move freely throughout all four blocks.

Using parking ratios of 1 space per 3,000 to 5,000 square feet yields a total demand for 390-650 parking spaces to service the 130,000 square foot retail element of Option 1. Providing decentralized parking in four decks with capacity tightly matched to the amount of retail space surrounding each deck is less desirable than a retail site plan that has central parking that is equidistant to all clusters of retail space. Providing structured parking in four garages on four blocks will likely cost more than creating fewer decks each with greater capacity.

The introduction of structured parking into this area of Fairfax County will require patrons to change attitude and behavior. Fee-based parking is not perceived to be a viable option at this time.

Task Force Option 2 with New Street Grid

Option 2 shares many site plan similarities with Option 1, but the overall amount of retail space is lower at 90,000 square feet.

Troublesome retail space remains on the northern edge of the frontage block on the north side of Poag Street; space that wraps the corner along Shields Avenue is not well-located for pedestrian foot traffic.

Reducing the amount of retail space on the second block of Poag Street may be a good decision; however, removing retail space from the northwest corner of Poag Street and Kings Highway may eliminate an opportunity for a restaurant that would activate this intersection in a positive manner.

Figure 24. Task Force Option 2 With New Street Grid

Source: Fairfax County

Small storefronts facing Richmond Highway on the southern frontage block seem problematic as they are dependent upon foot traffic that is unlikely to materialize at that location. These stores lack front-door parking that is essential to small convenience-oriented businesses.

Figure 25. Mixed-Use Detail – Task Force Option 2 With New Street Grid

Source: Fairfax County

Developer Option

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. This proposed scope of retail development is "feasible" in that it is less than the level of supportable retail space associated with the probable retail trade area. From a practical perspective, leasing 70,000 square feet of space will require at least one anchor tenant. 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. Without an anchor, the recommended retail element would be 15,000 to 40,000 square feet. With or without anchor(s), the developer is likely to treat the retail element of the project as an amenity that will support the strategy of generating above-market rents.

Summary

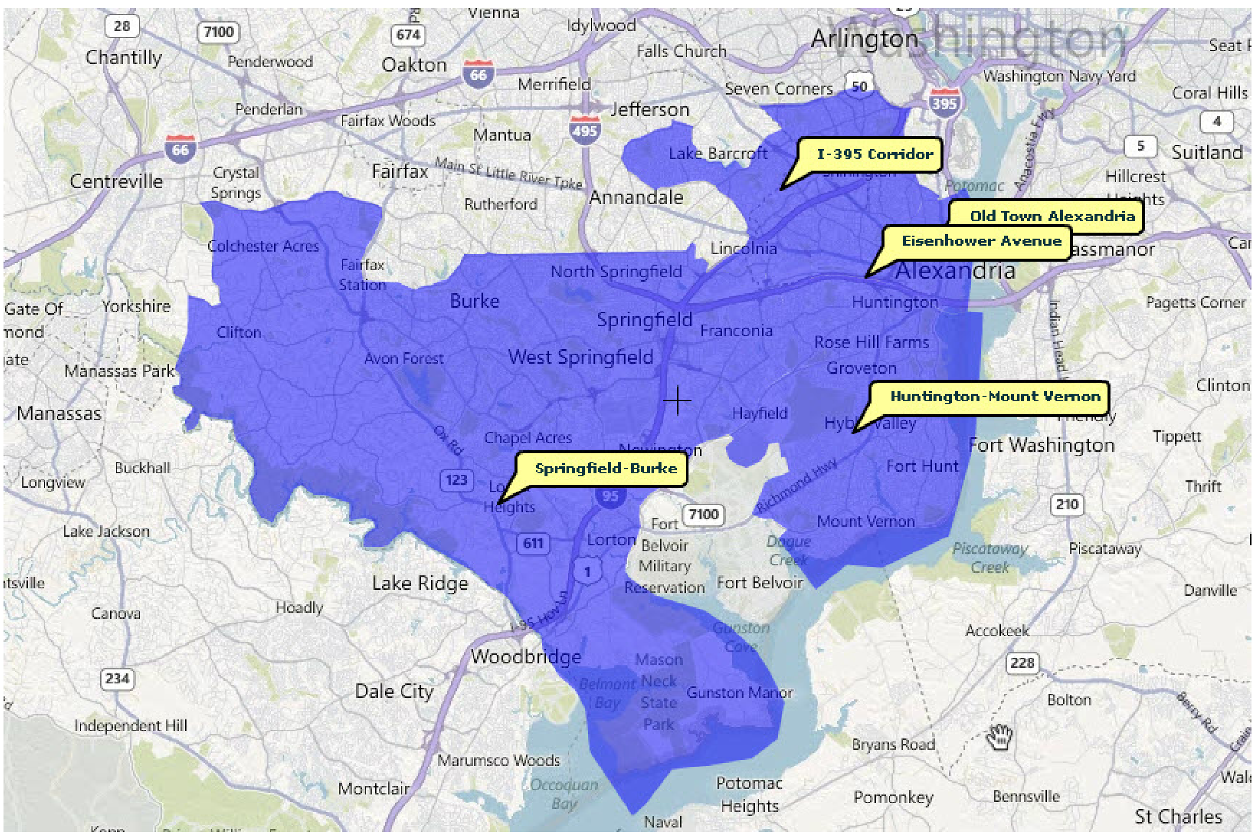
Residents of Penn Daw's probable trade area will generate demand to support up to 200,000 square feet of retail/restaurant space by 2015. All four of the Development Options incorporate amounts of retail square footage that are within this amount. However, The Penn Daw study area is not likely to attract anchor tenant(s) that would enable a retail development above 40,000 square feet. Constraints include the site's dimensions, the intrusiveness of Kings Highway, and weak exposure and access from Richmond Highway. In addition, retail sites exist that have trade areas that overlap Penn Daw's probable trade area. In order to support viable retail development, the concept plans would need to be refined by an experienced retail site planner to eliminate fundamental retail flaws. The greatest limitation is their apparent lack of capacity to accommodate any anchor tenant(s). Development feasibility will still be challenged even if anchor capacity can be designed into these concept plans because of likely difficulty securing anchor(s) because there are few market coverage voids.

Penn Daw Multifamily Competitive Market Analysis

Penn Daw's Probable Multifamily Market Area

The predominant market area for multifamily at Penn Daw are residents in the Mount Vernon and Lee Districts, an area shown below as Huntington-Mount Vernon. This area is bounded by I-495 to the north, the Potomac River to the east, and Fort Belvoir to the southwest. Secondary market areas for multifamily at Penn Daw include areas shown below as 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 26. Potential Market Area for Multifamily at Penn Daw



Source: ESRI

Market Assessment for Apartments

The total stock of existing multifamily rental housing 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.

Recent completions and pipeline projects in the southeast Fairfax County multifamily market number a total of 421 units. This is comprised of 202 units at The Courts at Huntington Station Phase I, which delivered in the first quarter of 2010, and the 219 units Phase II of the same project, which delivered in the first quarter of 2011.

Although the existing stock of multifamily with southeast Fairfax County is a mix between high-rise and garden style apartments, it is likely that future development will favor high-rise, along with a strong offering of amenities. Examples of this style include The Courts at Huntington Station, as well as numerous newer properties outside of the submarket within the City of Alexandria and Arlington County.

Characteristics of Existing and Proposed Space and Units Within Multifamily Market Area

The multifamily 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.

Figure 27. Summary of Multifamily Properties Near Penn Daw

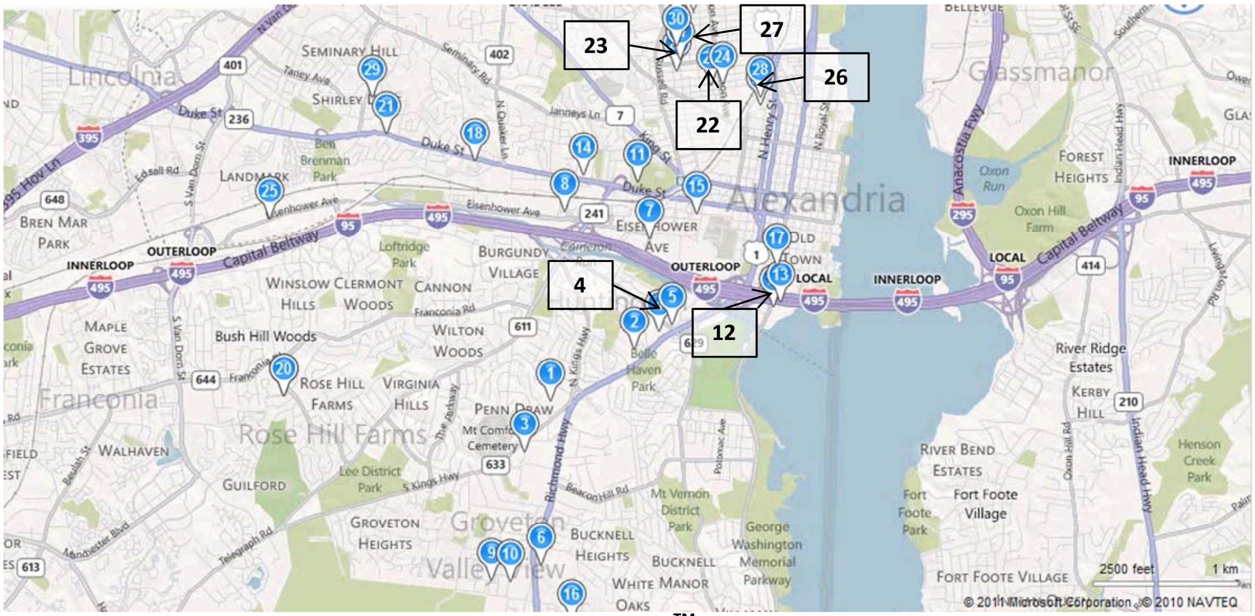
#	Property	Size (units)	Type	Year Built	Distance from Penn Daw (miles)
1	Kings Gardens	442	4 floors; class B/C	1964	0.02
2	Belle Haven Towers	569	10 floors; class B/C	1964	0.61
3	Beacon Hill	727	4 floors; class B/C	1965	0.64
4	Huntington Gateway	446	13 floors; class A	1990	0.81
5	Riverside Park Ph. II	1222	16 floors; class B/C	1971	1.13
6	Cherry Arms Apartments	168	5 floors; class B/C	1964	1.35
7	Carlyle Mill	315	4 floors; class A	2003	1.37
8	Avalon at Cameron Court	480	4 floors; class A	1998	1.48
9	Hollycourt Apartments	109	3 floors; class B/C	1969	1.54
10	Meadowwood Apartments	712	2 floors; class B/C	1968	1.59

#	Property	Size (units)	Type	Year Built	Distance from Penn Daw (miles)
11	Mason Gardens	65	3 floors; class B/C	1963	1.75
12	Hunting Point	795	8 floors; class B/C	1951	1.75
13	Hunting Towers	182	3 floors; class B/C	1942	1.75
14	Carydale East	233	14 floors; class B/C	1965	1.76
15	Meridian at Carlyle	403	16 floors; class A	2001	1.79
16	Mount Vernon Square	1387	3 floors; class A	1968	1.82
17	Monticello Lee Apartments	197	3 floors; class B/C	1943	1.95
18	Normandy Hill Apartments	156	2 floors; class B/C	1961	2.15
19	Rose Hill Apartments Ph. II	264	3 floors; class B/C	1962	2.19
20	Rose Hill Apartments Ph. I	181	3 floors; class B/C	1964	2.19
21	Fields of Alexandria	306	2 floors; class B/C	1962	2.57
22	Glendale Apartments	124	2 floors; class B/C	1942	2.66
23	Caylor Gardens	105	3 floors; class B/C	1967	2.72
24	Brenton Court Apartments	52	2 floors; class B/C	1936	2.74
25	The Reserve at Eisenhower	226	5 floors; class A	2002	2.75
26	Meridian at Braddock Station Ph. I	183	12 floors; class A	1991	2.77
27	Albert House at Gratz House	43	3 floors; class B/C	1967	2.80
28	Meridian at Braddock Station Ph. II	292	8 floors; class A	2002	2.82
29	Foxchase	2113	3 floors; class A	1980	2.82
30	Commonwealth Crossing	102	3 floors; class B/C	1953	2.90

Source: Reis Rent Comparables, August 2011

The following map illustrates the location of multifamily properties near Penn Daw.

Figure 28. Map of Multifamily Properties Near Penn Daw



Source: Bing™

Below are characteristics of multifamily properties near Penn Daw.

Figure 29. Multifamily Property Characteristics Summary

Item	Description
Size	Multifamily properties studied range in size from approximately 40 units to over 2,100. The majority of properties contain between 200 and 800 units.
Type	Low- and mid-rise structures predominate the multifamily properties studied, with the majority of properties having between three and eight levels.
Class	A mixture of Class A and B/C properties are represented among the multifamily properties studied.
Location	In the immediate vicinity of Penn Daw, there is a significant number of multifamily properties along Richmond Highway and South Kings Highway. Further north, numerous multifamily properties are located along or near Duke Street and around the Braddock Road Metro Station.
Age	Multifamily property ages range from the pre-World War II era to within the last decade. A significant number of properties are of 1960's vintage, with another significant number from the 1990's and early 2000's.
Style	Many of the older multifamily properties studied are configured as garden-style apartments, with much of the newer stock representing mid- or high-rise styles. Brick facades predominate the properties studied.

Item	Description
Quality	The quality of multifamily properties studied is diverse. Among the properties closest to the Penn Daw site, building maintenance quality appears to be mediocre, with tired facades and signage and adequate to substandard ground maintenance. North of the study area, especially among the cluster of properties near the Braddock Road Metro Station, the quality of overall maintenance appears to be much higher, perhaps reflective of the higher rents associated with more modern buildings.
Features and Amenities	Pools and outdoor recreational areas are among the most represented amenities within the group of multifamily properties studied.
Parking	Parking is provided at almost universally among the multifamily properties studied, with configuration varying in accordance with building age. On-property surface parking appears to be standard at most of the older properties, especially among garden style apartments. Newer properties, especially those located close to the Braddock Road Metro Station, generally offer sub-surface parking garages for tenants.

Source: Reis Rent Comparables, August 2011

Property Features, Functions and Benefits Important to Multifamily Market

Accessibility and ease of transportation is a highly-desired feature within the multifamily asset class, and this holds true within the vicinity of Penn Daw. Parking availability and access to public transportation (bus or rail) is a near-universal feature of the properties studied. However, a more limited subset of the properties studied are located in close proximity to fixed public transportation (i.e. Metrorail). For example, the Meridian at Braddock Station Phase I and II properties are within very easy walking distance of the Braddock Road Metro Station, and command rents among the highest within the group of properties studied. Although the age, quality and other amenities of the properties most likely contribute to their strong rent profiles, their access to Metrorail is a strong attribute, particularly in marketing efforts to young tenants who may not wish to own automobiles.

Pools and other outdoor recreation opportunities also carry a strong drawing power for tenants both throughout the Washington, DC, metropolitan area and within the vicinity of Penn Daw, especially given the region’s relatively mild weather. Differing levels of service at multifamily properties appeal to different tenant types. For instance, young professionals may prefer building with concierge services, including dry cleaning and acceptance of packages, while retired tenants would likely not place as much value on such services.

Profiles of Multifamily Users to be Served

As established previously in the study, the vicinity of Penn Daw is heavily populated with relatively young, highly educated and high-earning individuals and households. Nonfamily households and family households without children are represented in a higher proportion than state- or nation-wide. In addition, a relatively high proportion of the population within the Penn Daw trade area is employed in “white collar” industries as opposed to “blue collar” industries or the services sector. Altogether, this establishes a potential multifamily tenant population which is professionally successful, less likely to have minor dependents, and which is likely to place a premium on convenience in choosing a domicile.

The population characteristics described above, though certainly not reflective of the entirety of inhabitants in the Penn Daw trade area and surroundings, bodes well for demand in new, high-quality multifamily housing. Certain risks are posed by these economic and demographic characteristics. Chief among those risks is the general tendency of such individuals to move and change jobs more frequently, making tenant retention at a potential multifamily development a key priority. However, the potential tenant profile described is also highly likely to respond well to increased availability of community amenities in the neighborhood, and could also contribute positively to the overall revitalization of the study area.

Vacancy Rates and Characteristics of Vacant Multifamily Stock

Multifamily vacancy within the vicinity of Penn Daw is extremely low, with the multifamily properties listed in Figure 27 averaging below a 4% vacancy. Vacancy rates for specific properties near the Penn Daw site are provided in Appendix 2.1. Properties with vacancy rates higher than the average can be separated into two main categories. First, newer Class A properties with high asking rents in some cases have vacancy rates in the 7-9% range, likely due to the fact that their high rents are unattainable to a larger proportion of the renting population. However, this strata of vacancy is likely still sustainable for the properties because of the premiums its tenants are willing to pay for age, quality, and location of buildings. Second, older Class B/C properties with asking rents higher than their peer group in some cases have vacancy rates approaching or exceeding 10%. For such properties, those levels of vacancy may not be sustainable and significant renovation or rehabilitation may be necessary to salvage a property’s financial prospects.

Recent Absorption of Multifamily Space

Recent net absorption of multifamily space within the southeast Fairfax County submarket, which includes Penn Daw, has been negative 123 units (CBRE-EA, 1Q2011). In spite of that negative absorption, however, vacancy remains low at 3.9% in the submarket, which is also lower than the DC Metro average of 4.3%. However, given a relatively small amount of recent completions and pipeline projects in this submarket, it is unlikely that negative absorption will continue past the immediate term barring an unanticipated downturn in the local economy. Also, due to rent growth throughout the DC Metro, it is likely that available multifamily units in the southeast Fairfax County submarket will become more attractive by comparison and will experience positive absorption. Finally, given the overall low multifamily vacancy rate in the submarket, market indicators suggest that this area is still viewed as desirable by the renting population.

Current Pricing and Multifamily Rental Rates

Among the multifamily properties listed in Figure 27, average asking rent for all units types is $1,369, with studio units averaging $1,066, one-bedroom units averaging $1,223, two-bedroom units averaging $1,558, and three-bedroom units averaging $1,737. Within the southeast Fairfax County submarket, the average asking rent for all units types is $1,408.

Penn Daw Multifamily Market Potential Determination

Projected Share of Market Capture for Multifamily Use

The primary multifamily market area of Huntington-Mount Vernon has approximately 44,875 households. Of these households, about 38.82% are renters, resulting in about 17,420 renters. Under a monthly rental rate range of $1,000 to $1,700, about 81% of these renters (approximately 14,128) are in the income qualification range. The estimated capture rate in this market is about 4% based on the site's suburban location. The secondary multifamily market area includes several real estate submarkets (Eisenhower Avenue, I-395 corridor, Old Town, and Springfield-Burke). The capture rates for these areas are estimated to be significantly lower than the primary market area. Despite the low capture rates from these areas, a new multifamily development at Penn Daw could draw renters from the I-395 corridor given the high number of renters in this area. As shown in Figure 30, the estimated number of units supportable under a $1,000-$1,750 monthly rental rate is 872.

Figure 30. Supportable Multifamily Units at Penn Daw ($1,000 - $1,750 Monthly Rental Rate Range)

SUPPORTABLE MULTIFAMILY UNITS AT PENN DAW PROBABLE MARKET AREA ($1,000 - $1,750 MONTHLY RENTAL RATE RANGE)					
	Huntington-Mount Vernon[1]	Eisenhower Ave[1]	I-395 Corridor[1]	Old Town[1]	Springfield-Burke[1]
Number of Households in Market[2]	44,875	2,876	89,240	16,273	85,261
% Renters in Market[2]	38.82%	49.37%	60.28%	50.91%	23.39%
Number of Renter Households in Market	17,420	1,420	53,794	8,285	19,943
Multifamily Monthly Rental Rate Range	$1,000 to $1,750	$1,000 to $1,750	$1,000 to $1,750	$1,000 to $1,750	$1,000 to $1,750
Minimum Household Income for Rental Rate Range[3]	$40,000 to $70,000	$40,000 to $70,000	$40,000 to $70,000	$40,000 to $70,000	$40,000 to $70,000
% of Household Incomes in Income Qualification Range[3]	81%	88%	78%	82%	93%
Number of Renter Households in Income Qualification Range	14,128	1,247	42,067	6,793	18,507
Capture Rate	4%	1.5%	0.5%	0.5%	0.25%
Number of Units Supportable	565	18	210	33	46
Total Units Supportable	872				

[1]Real estate submarkets defined by ESRI
[2]ESRI
[3]Market household income from ESRI; income qualification range: <30% of household income spent on shelter

Under a monthly rental rate range of $1,200 to $1,950, about 76% of renters (approximately 13,179) in the primary market area (Huntington-Mount Vernon) are in the income qualification range. The number of renter households from the secondary market area in the income qualification range drops is approximately 64,347. As shown in Figure 31, the estimated number of units supportable under a $1,200-$1,950 monthly rental rate is 814.

Figure 31. Supportable Multifamily Units at Penn Daw ($1,200 - $1,950 Monthly Rental Rate Range)

SUPPORTABLE MULTIFAMILY UNITS AT PENN DAW PROBABLE MARKET AREA ($1,200 - $1,950 MONTHLY RENTAL RATE RANGE)					
	Huntington-Mount Vernon[1]	Eisenhower Ave[1]	I-395 Corridor[1]	Old Town[1]	Springfield-Burke[1]
Number of Households in Market[2]	44,875	2,876	89,240	16,273	85,261
% Renters in Market[2]	38.82%	49.37%	60.28%	50.91%	23.39%
Number of Renter Households in Market	17,420	1,420	53,794	8,285	19,943
Multifamily Monthly Rental Rate Range	$1,200 to $1,950	$1,200 to $1,950	$1,200 to $1,950	$1,200 to $1,950	$1,200 to $1,950
Minimum Household Income for Rental Rate Range[3]	$48,000 to $78,000	$48,000 to $78,000	$48,000 to $78,000	$48,000 to $78,000	$48,000 to $78,000
% of Household Incomes in Income Qualification Range[3]	76%	86%	72%	79%	90%
Number of Renter Households in Income Qualification Range	13,179	1,215	38,705	6,549	17,878
Capture Rate	4%	1.5%	0.5%	0.5%	0.25%
Number of Units Supportable	527	18	193	32	44
Total Units Supportable	814				

[1]Real estate submarkets defined by ESRI
[2]ESRI
[3]Market household income from ESRI; income qualification range: <30% of household income spent on shelter

Under a monthly rental rate range of $1,400 to $2,150 (the estimated upper limit of rental rates for a new multifamily development at Penn Daw), about 70% of renters (approximately 12,125) in the primary market area (Huntington-Mount Vernon) are in the income qualification range. The number of renter households from the secondary market area in the income qualification range drops is approximately 59,182. As shown in Figure 32, the estimated number of units supportable under a $1,200-$1,950 monthly rental rate is 748.

Figure 32. Supportable Multifamily Units at Penn Daw ($1,400 - $2,150 Monthly Rental Rate Range)

SUPPORTABLE MULTIFAMILY UNITS AT PENN DAW PROBABLE MARKET AREA ($1,400 - $2,150 MONTHLY RENTAL RATE RANGE)					
	Huntington-Mount Vernon[1]	Eisenhower Ave[1]	I-395 Corridor[1]	Old Town[1]	Springfield-Burke[1]
Number of Households in Market[2]	44,875	2,876	89,240	16,273	85,261
% Renters in Market[2]	38.82%	49.37%	60.28%	50.91%	23.39%
Number of Renter Households in Market	17,420	1,420	53,794	8,285	19,943
Multifamily Monthly Rental Rate Range	$1,400 to $2,150	$1,400 to $2,150	$1,400 to $2,150	$1,400 to $2,150	$1,400 to $2,150
Minimum Household Income for Rental Rate Range[3]	$56,000 to $86,000	$56,000 to $86,000	$56,000 to $86,000	$56,000 to $86,000	$56,000 to $86,000
% of Household Incomes in Income Qualification Range[3]	70%	81%	65%	74%	85%
Number of Renter Households in Income Qualification Range	12,125	1,149	35,020	6,122	16,891
Capture Rate	4%	1.5%	0.5%	0.5%	0.25%
Number of Units Supportable	484	17	175	30	42
Total Units Supportable	748				

[1]Real estate submarkets defined by ESRI
[2]ESRI
[3]Market household income from ESRI; income qualification range: <30% of household income spent on shelter

Multifamily Pricing Strategy Conclusion

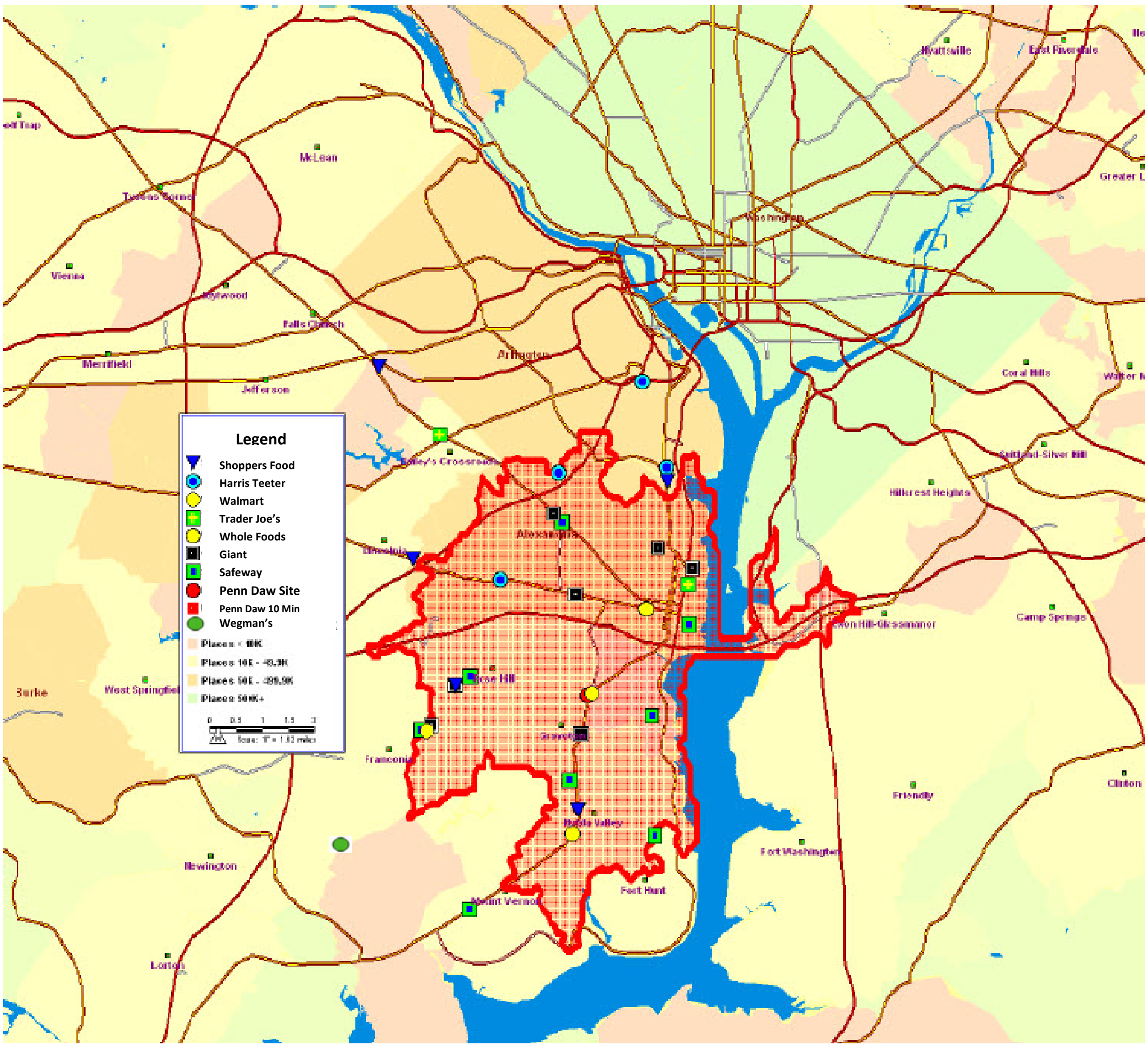
Based on a high-quality multifamily development at the Penn Daw site, a rental range of $1,400 to $2,150 per unit per month is believed to be achievable across a unit mix of studio and one-, two-, and three-bedroom apartments. Lower rental rates would not support the financial feasibility of a new development, while higher rents are not believed to be achievable due to the prevailing trends in the market.

APPENDIX 1: MARKET AREA IDENTIFICATION

1.1 Market Coverage by Key Anchor Retailers

Figure 33 shows the locations of existing traditional supermarkets and specialty grocery stores in the vicinity of Penn Daw's probable trade area.

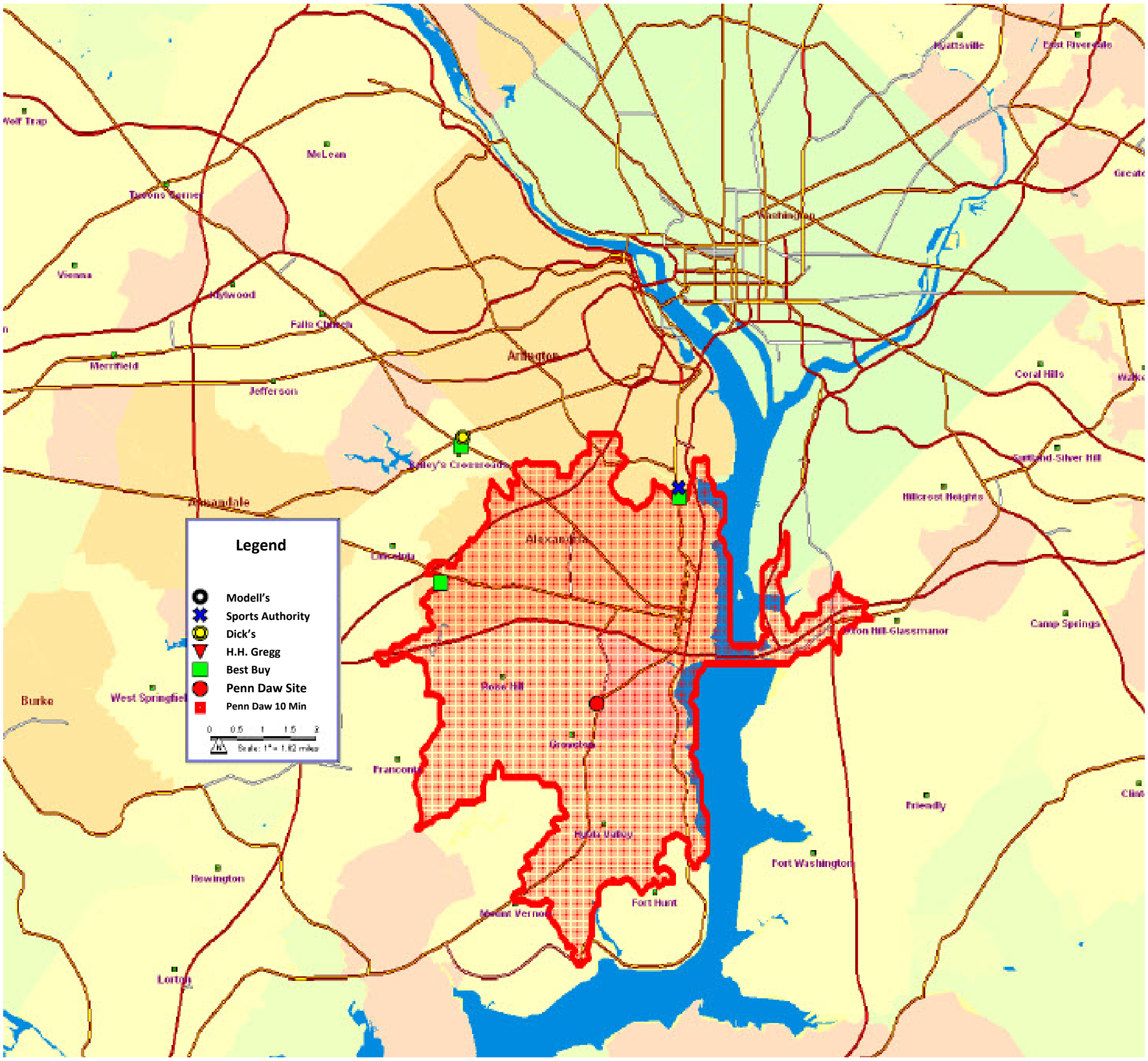
Figure 33. Supermarkets Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Figure 34 shows the locations of existing sporting goods and electronics/appliance stores in the vicinity of Penn Daw's probable trade area.

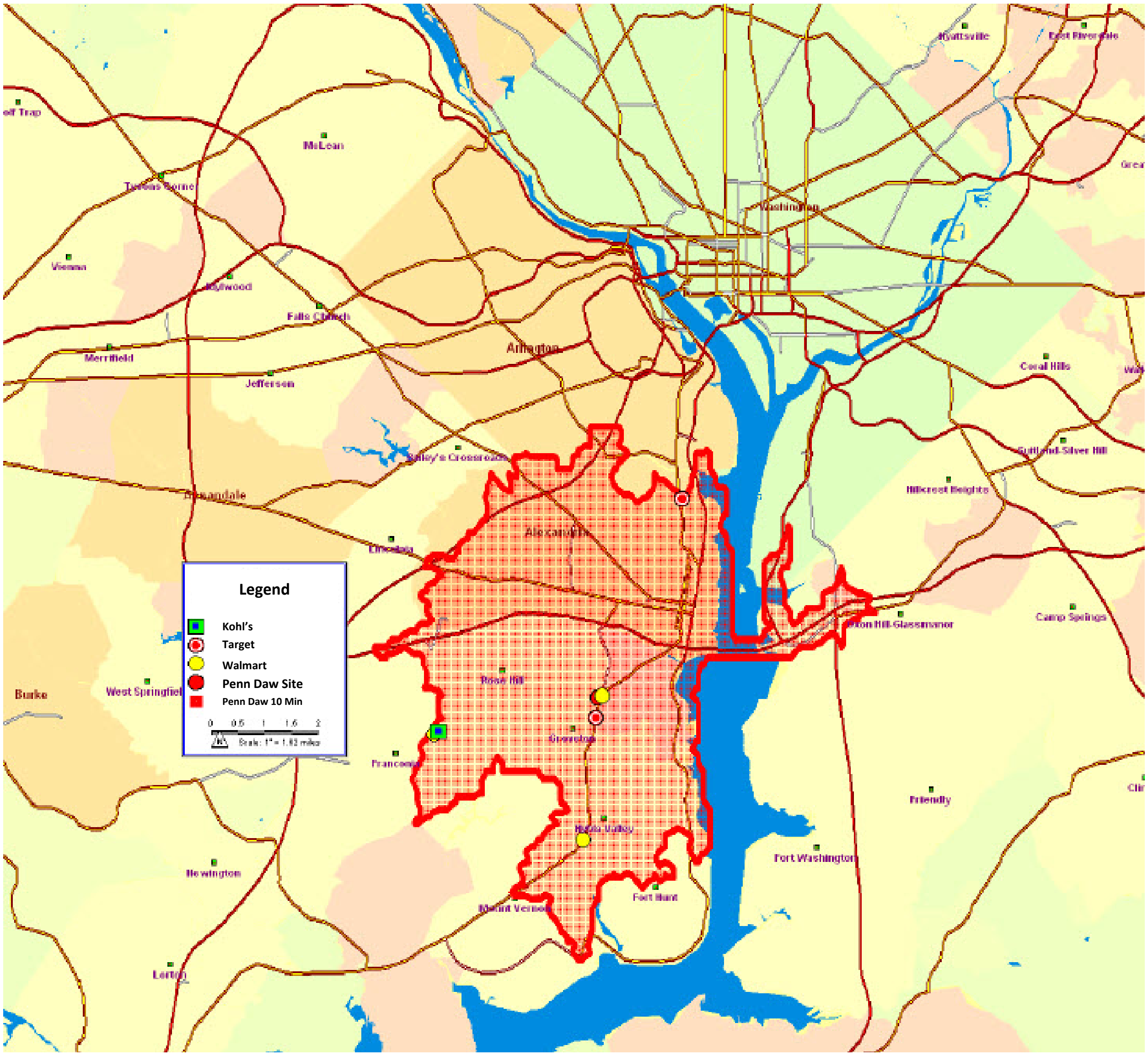
Figure 34. Sporting Goods / Electronics and Appliances Stores Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Figure 35 shows the locations of existing general merchandise stores (discount department stores) in the vicinity of Penn Daw's probable trade area.

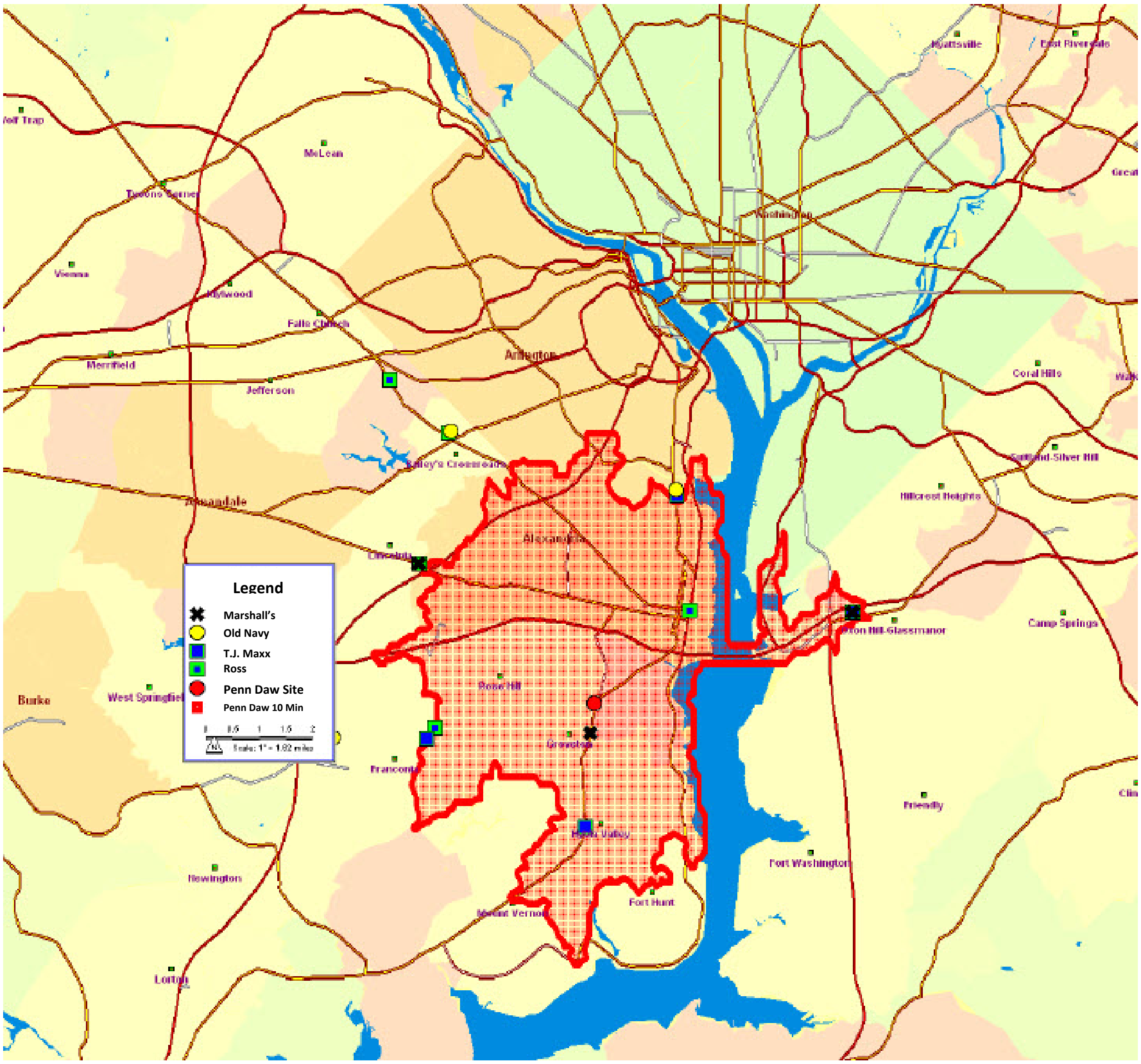
Figure 35. Mass Merchandise Department Stores Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Figure 36 shows the locations of existing family clothing stores in the vicinity of Penn Daw's probable trade area.

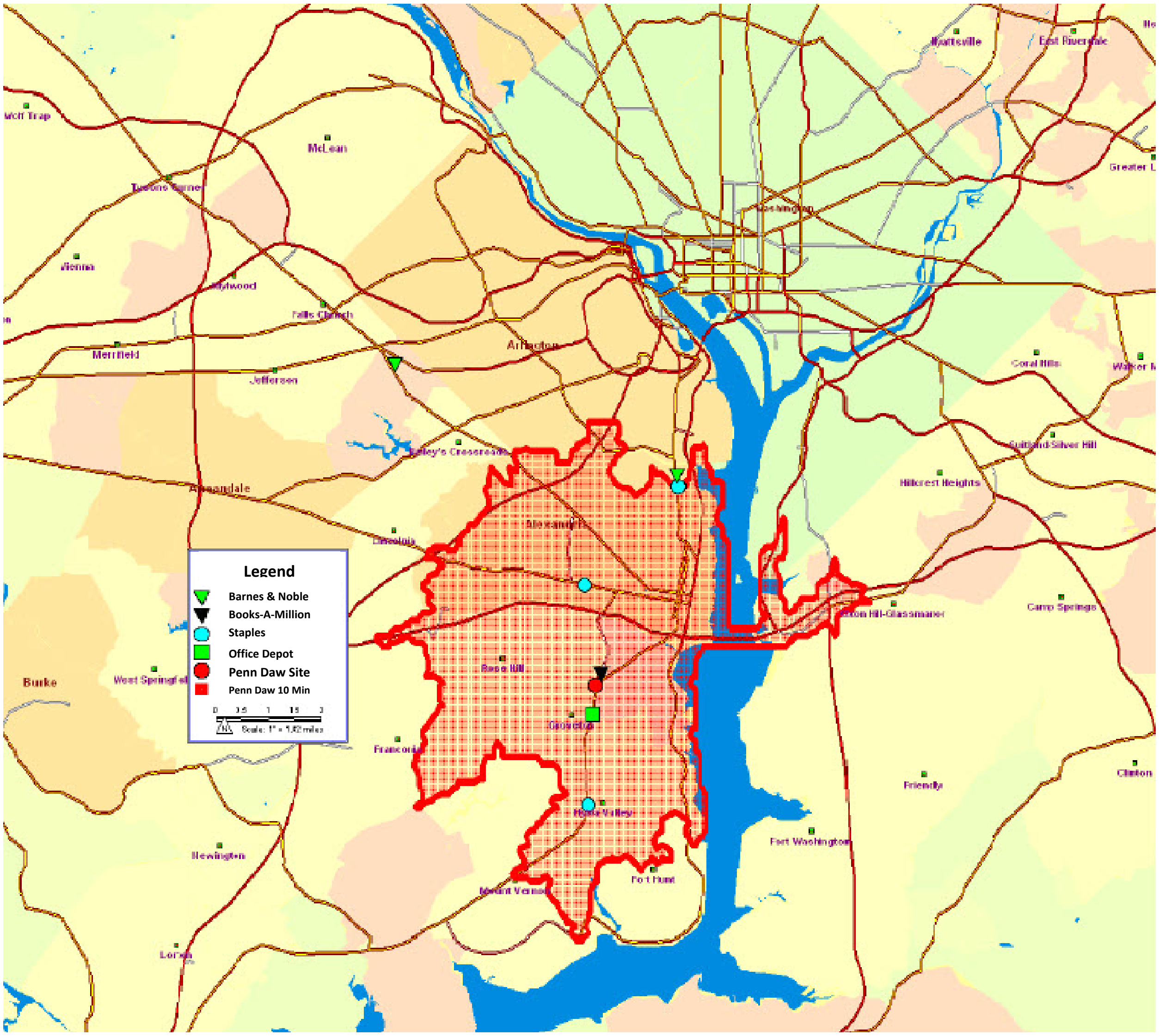
Figure 36. Family Clothing Stores Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Figure 37 shows the locations of existing bookstores and office supply stores in the vicinity of Penn Daw's probable trade area.

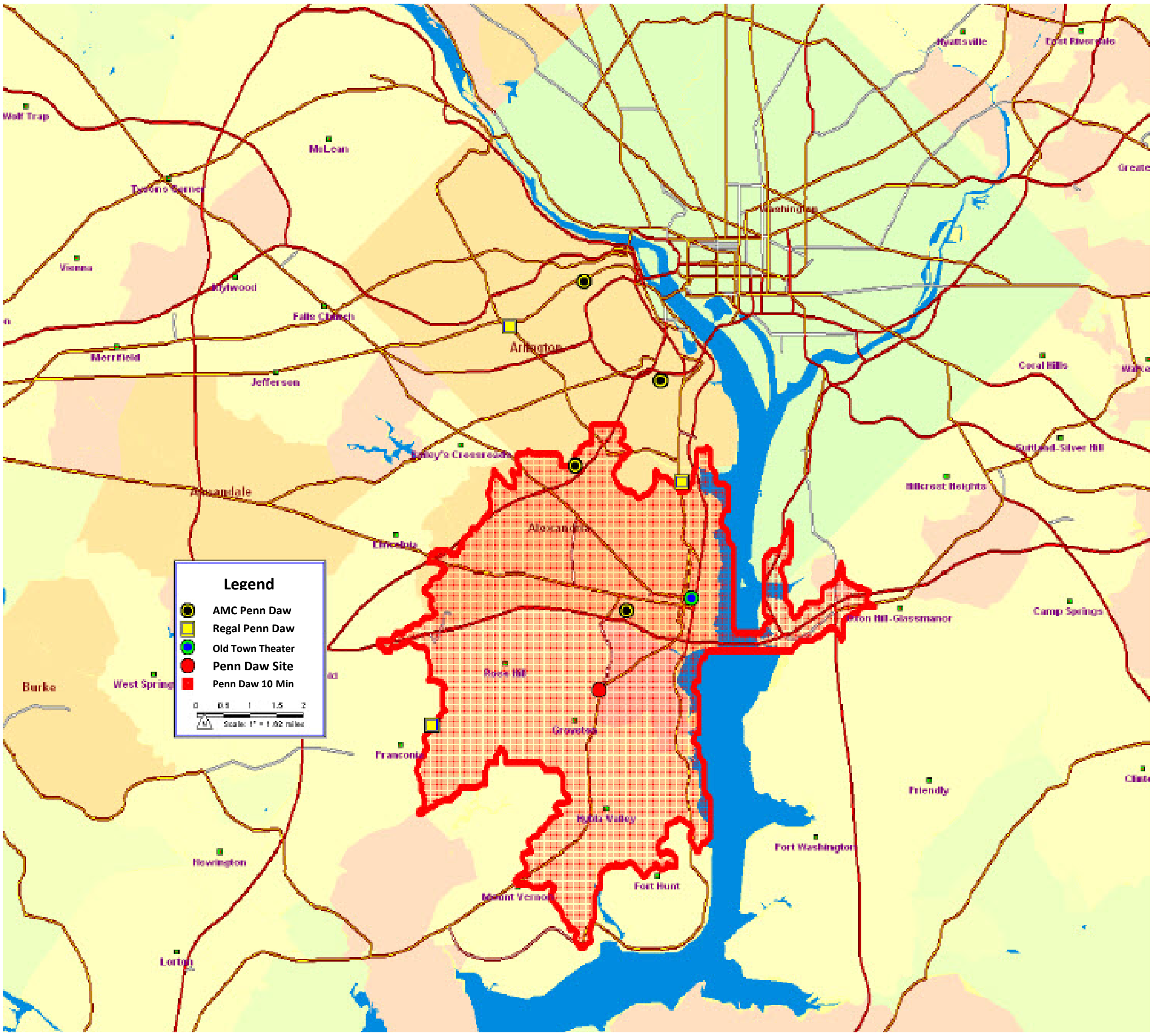
Figure 37. Books / Office Supplies Stores Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

Figure 38 shows the locations of existing movie theaters in the vicinity of Penn Daw's probable trade area.

Figure 38. Movie Theaters Near Penn Daw Trade Area



Sources: H. Blount Hunter Retail & Real Estate Research Co.; Scan/US, Inc.

1.2 Hierarchy of Shopping Centers

Shopping centers have evolved into a hierarchy of five basic types, named for the kind of goods sold and/or the geographic trade area to be served. In all cases, a shopping center's type and function are determined by its major tenant or tenants and the size of its trade area; they are never based solely on the area of the site or the square footage of the structure.[1]

[1]Dollars and Cents of Shopping Centers: 2000, Urban Land Institute

Convenience Center

A convenience center provides for the sale of personal services and convenience goods similar to those of a neighborhood center. It contains a minimum of three stores, with a total gross leasable area of up to 30,000 square feet. Instead of being anchored by a supermarket, a convenience center usually is anchored by some other type of personal/convenience service such as a mini-market. This type of open-air center is designed to provide convenient access to the day-to-day needs of consumers in the immediate neighborhood. Many convenience centers are anchored by a limited-selection grocery store and/or pharmacy. These anchors are supported by smaller stores offering drugs, sundries, snacks, and personal services. Huntington Station on Kings Highway near the Huntington Metro station is an example of a convenience center. It is anchored by 7-Eleven.

Neighborhood Shopping Center

A neighborhood shopping center is usually configured as a straight-line strip. Its primary trade area is typically about three miles. A neighborhood shopping center provides for the sale of convenience goods (food, drugs, and sundries) and personal services (laundry and dry cleaning, barbering, shoe repairing, etc.) for the day-to-day living needs of the immediate neighborhood. It is built around a supermarket as the principal tenant and typically contains a gross leasable area of about 60,000 square feet. In practice, neighborhood shopping centers range in size from 30,000 to 100,000 square feet. Belle View (estimated 150,000 square feet) and Rose Hill (130,000 square feet) are examples of neighborhood shopping centers. Each has a full-scale supermarket with an assortment of services and restaurants. Rose Hill's Rugged Wearhouse and Tuesday Morning stores are more typical of a community shopping center than a neighborhood shopping center, but the center's overall mix favors the offering of a neighborhood shopping center. Penn Daw Plaza was a neighborhood shopping center when it had a Shoppers Food and Pharmacy; now that it lacks an anchor, Penn Daw Plaza functions more as a convenience center than a neighborhood shopping center.

Community Shopping Center

In addition to the convenience goods and personal services offered by the neighborhood shopping center, a community shopping center provides a wider range of soft lines (wearing apparel for men, women, and children) and hard lines (hardware and appliances). The community shopping center makes merchandise available in a greater variety of sizes, styles, colors, and prices. Many community shopping centers are built around a junior department store, variety store, super drugstore, or discount department store as the major tenant, in addition to a supermarket. Community shopping center tenants sometimes include off-price retailers selling items such as apparel, home improvement/furnishings, toys, electronics, or sporting goods. Community shopping centers are usually configured as a strip, in a straight line, an “L” or a “U” shape. A community center’s primary trade area is typically less than 10 miles. The Kingstowne node (including Kingstowne Towne Center and adjacent Kohl’s and Walmart) is a community retail center. Anchor tenants comprise 88 percent of Kingstowne Towne Center’s 227,000 square feet of GLA. Mt. Vernon Plaza in Hybla Valley is also a community shopping center. Multiple anchors occupy 60 percent of this center’s 455,000 square feet.

Power Center

A power center is a specialized type of community center that contains at least four category-specific, off-price anchors of 20,000 or more square feet. These anchors typically emphasize hard goods, office supplies, pet supplies, sporting goods, electronics/appliances, books/music, linens/household goods, health and beauty aids, toys, family apparel, shoes, and personal computer hardware/software. They tend to be narrowly focused but deeply merchandised “category killers” together with the more broadly merchandised, price-oriented warehouse club and discount department stores. Anchors in power centers typically occupy 85 percent or more of total GLA; some power centers have no small tenants. Potomac Yard in Alexandria is an example of a power center; approximately 85 percent of this center’s GLA is occupied by anchor tenants.

Regional Shopping Center / Super-Regional Shopping Center

A regional shopping center provides general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. Regional shopping centers are built around one or two full-line department stores of generally not less than 50,000 square feet. The typical size of a regional shopping center is about 500,000 square feet of gross leasable area; in practice, it may range from 250,000 to more than 900,000 square feet. The regional shopping center provides services typical of a business district yet not as extensive as those of a super-regional shopping center. Landmark Mall is a regional shopping center with 287,000 square feet of specialty retail space and 682,000 square feet of anchor space (occupied and unoccupied).

A super-regional shopping center offers extensive variety in general merchandise, apparel, furniture, and home furnishings, as well as a variety of services and recreational facilities. Super-regional shopping centers are built around three or more full-line department stores generally of not less than 75,000 square feet each. The typical size of a super-regional shopping center is about 1,000,000 square feet of gross leasable area. In practice, the size ranges from about 500,000 to more than 1,500,000 square feet. Springfield Mall is the closest super-regional shopping center to the Penn Daw study area; Fashion Centre at Pentagon City in another nearby super-regional shopping center. Fashion Center has approximately 350,000 square feet of small tenant space with 475,000 square feet of anchor space (Macy’s and Nordstrom).

1.3 Fundamentals of Retailing

Retail development in suburban settings is driven by business fundamentals that must be acknowledged and considered when creating a retail development plan or recruitment strategy.

Retailing follows consumers; it leads customers in rare exceptions. Retailers look for established markets as signified by sustained traffic; they are reluctant to be pioneers. Ironically, retailers seek levels of traffic, which they themselves tend to generate. By far, most retailers are "convenience retailers" dependent upon being near their best customer prospects. They must see a steady stream of their customer type to be comfortable with a potential site. Some merchants can be classified as "destination retailers" because their customer franchise is so strong or their offering is so unique that they can draw patrons to any site they select.

When making site selection decisions, retailers generally focus on three aspects of the potential trade area to be served: population/household density, population/household growth, and demographic composition of potential customers. ***Most retailers have established criteria for site selection.*** In its most basic sense, a retail site is nothing more than a place from which to have direct access to shopper traffic with certain characteristics. In the early stages of retail development, it is important to deliver consistent demographics while traffic grows. Prospective retailers must "see" their targeted customer demographics in the flow of traffic available to them at a proposed site. They also want to know if future population or household growth will sustain increasing sales. Demonstrating that a site's probable trade area meets a chain's site criteria enables a developer or broker to engage in dialogue with the retailer without assurance that the retailer will accept the site.

Retailers do not select sites based upon political jurisdiction. Retailers pick sites that enable them to serve an aggregation of consumers that they believe will support their stores. Location decisions are generally independent of political boundaries on maps although political boundaries can impact trade area boundaries if consumers are unwilling to cross boundaries to shop.

The most basic question that chain retailers ask when they evaluate a new site is "Who can I serve from this location that I'm not already serving with my existing stores?" If they determine that the number of new customers is inadequate, they will not open the new store. If they determine that "sales transfer" from an existing store would merely erode sales and profit, they will not open the new store.

On an increasing basis, retailers maximize profitability by operating the fewest stores possible. Opening new stores increases fixed expenses while driving incremental sales through existing stores increases profitability assuming that fixed costs are being covered.

Consistent traffic is a prerequisite for most retailers. The level of rent that retailers are willing to pay is in direct proportion to traffic and sales opportunity they perceive. Inconsistent traffic is perceived to be risky, and in fact, inconsistent traffic makes it difficult for retailers to plan inventory purchasing and staffing. Increased rent is an acceptable trade-off for diminished risk and higher probability of immediate profit.

Consumer traffic must demonstrate sufficient "buying power" to be of interest to retailers. Retailers have preconceived notions of their customers' demographic characteristics and economic capacity. This insight is used to guide the site selection process. Retailers have too many viable site alternatives to take speculative risks; they must perceive their customer to be present or probable as the basis for leasing store locations.

Chain retailers have a limited number of prototypical store formats that they are willing to operate; deviating from these established formats is done only as a last resort in circumstances when demand for a location by the merchant is high. Retailers have created preferred floor plans for maximum profitability. Departing from established store formats or merchandise assortments is a dollars-and-cents issue that costs money in the design and development process and creates operating inefficiencies.

"High traffic vs. the right traffic" can be a fundamental trade-off for retailers. In general, an area that delivers a high level of traffic will be preferred by more retail tenants than an alternative site with more favorable rental economics but less traffic. The American retailing model of mass merchandising is predicated upon low margin/high traffic. Some specialty retailers are capable of generating high profitability on low traffic if their margins are high. In other cases, retailers can survive in low traffic conditions if there is minimal competition or when consumers have highly desirable demographics; these are the circumstances that permit retailing to flourish in resort settings.

"Shoppers' goods shopping" requires a "critical mass" of merchants in order to draw consumers on destination shopping trips. The drawing power of a retail area is dependent on its size ("critical mass"), content, and location relative to its market and competition. Most "shoppers' goods" retailers prefer to cluster with compatible merchants in a critical mass so that they are not solely dependent upon their own drawing power for traffic. Merchants have a herding mentality; often their preference is for an established critical mass rather than betting on the eventual evolution of a critical mass with destination drawing power.

Clustering of compatible retailers has become the norm in American retailing. "Birds of a feather flocking together" is the basis for successful shopping center development and applies no less to urban areas. Merchants seeking compatible customers will gravitate to "nodes" where multiple merchants have greater probability of drawing sufficient traffic than any single retailer could draw on its own merits. Stated in a neutral fashion, few retailers are willing to be "pioneers." Stated in a judgmental fashion, retailers are "lemmings."

Some retailers view clustering as increased competition while most view clustering as a way of reducing risk and creating incremental business through synergy. Restaurateurs fear the competition inherent in clustering in the early stages of the evolution of a dining node. Restaurateurs generally perceive the benefits of a functional critical mass of dining options when a restaurant district achieves destination drawing power.

Independent, entrepreneurial retailers are a "fragile" form of business in a world of increasingly large chain merchandisers. Multi-unit operators enjoy economies of scale and advantages in costs of inventory that entrepreneurs do not. Local merchants typically succeed by maintaining specialty niches and with admirable persistence. Expanding is often difficult for entrepreneurial retailers because they are fragile—often under-capitalized and without extensive management depth. Coaxing successful entrepreneurs into pioneering locations challenges their capacity to survive. Creating a second store stretches the capacity of entrepreneurs whose success may have stemmed from their daily presence in the store.

Fragile entrepreneurs often lack rudimentary retail skills. Many people have romantic notions of opening a store or restaurant, yet these business sectors are seldom kind to inexperienced operators who lack basic retail skills. Unrealistic business plans and a lack of sales skills result in many business failures. Other entrepreneurs are predestined for failure when their creative passions are not backed by an in-depth understanding of the financial aspects of retailing. While some businesses fail due to poor customer service, many more fail because they are under-capitalized. Many start-up retail businesses never recover from the burden of excessive expenses incurred prior to opening day. Other traps include too much inventory or too little inventory. Finally, reliance upon "sales" to stimulate business hastens the decline of many retailers. A retailer who operates at "keystone" (100 percent mark-up over cost) gives away virtually all of his profit when taking a 20 percent price reduction. Novice merchants who reduce prices at the first sign of trouble are actually hastening their own demise.

Retailers cannot generally survive rent-to-sales ratios in excess of 15 percent. Retailers operating at "keystone" mark-up (selling cost is twice the cost of goods sold) cannot generate a profit if rent exceeds 12-15 percent of sales. Despite the importance of the rent-to-sales ratio, the vast majority of entrepreneurial merchants are unfamiliar with the concept and unaware of the immutability of the concept. Naive merchants with overly optimistic projections of sales may agree to unsustainable levels of rent, thereby playing into the hands of unscrupulous landlords who are comfortable churning tenants. Pragmatic merchants seek rent-to-sales ratios of 3 to 7 percent and are often amenable to paying progressively higher rents as warranted by sales. The single greatest cause of retail failure is rents (and other expenses) that are not commensurate with sales.

Retailers cannot manage their way to profitability simply by minimizing rent; they must have adequate sales to provide revenue for inventory, staffing, and other operating expenses. Low rent (or no rent at all) cannot compensate for low sales volume. A retailer's cash register must "ring" if he is to survive. Even with no rent, a retailer cannot survive if sales fail to cover the cost of goods sold, salaries, utility expenses, and other costs.

1.4 Retailer Site Requirements

Site Requirements – Selected Non-Apparel/Shoe Retailers

Figure 39. Site Requirements – Selected Non-Apparel/Shoe Retailers

SITE REQUIREMENTS – SELECTED NON-APPAREL/SHOE RETAILERS							
	Radius	**Population**	**Income**	**Vehicles Per Day**	**Other Preferences**	**Typical Size (SF)**	**Parking Spaces**
Factory Card and Party Outlet	---	---	---	---	Variety of shopping center types	9,000 – 10,000	---
Party City	5 Miles	150,000	$50,000	---	25 percent of population under age 14	12,000 – 15,000	---
Kirkland's	5 Miles	100,000	---	---	Easy access and high visibility	6,500 – 10,000	---
Gamestop	3 Miles	25,000	---	15,000	Median age below 39 with 30 percent of population under age 24; desired co-tenants include Walmart Supercenter, Target	1,500 – 2,500	---
Hancock Fabrics	---	---	---	---	---	10,000 – 13,000	---
Joann's Fabric	5 Miles	125,000	$75,000	---	Co-tenancy: Kohl's, Bed Bath & Beyond, Target, T.J. Maxx	14,000 – 30,000	---
Bath & Body Works	---	---	---	---	High traffic locations with fashion retailer co-tenancy	2,500 – 3,000	---
Claire's Accessories	---	---	---	---	Targets teens and tweens age 7 and 13	1,000 – 1,200	---
Sally Beauty Supply	3 Miles	39,000 - 50,000	$34,000 - $72,000	---	100,000+ square foot shopping centers with at least one major anchor	1,200 – 1,800	---
GNC	---	30,000	---	---	Sensitive to protected territory of existing franchisee; desired co-tenants include mass merchandisers Target and Walmart	1,100 – 1,400	---
Anna's Linens	5 Miles	150,000	$35,000 - $70,000	---	Prefers area with 30 percent African Americans or Hispanics; desired co-tenants include national big boxes and grocers	7,000 – 10,000	---
O'Reilly Auto Parts	---	---	---	---	End cap or pad sites preferred	6,800 – 7,300	30 – 40

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

Site Requirements – Selected Apparel/Shoe Retailers

Figure 40. Site Requirements – Selected Apparel/Shoe Retailers

SITE REQUIREMENTS – SELECTED APPAREL/SHOE RETAILERS							
	Radius	**Population**	**Income**	**Vehicles Per Day**	**Other Preferences**	**Typical Size (SF)**	**Parking Spaces**
Ross Dress for Less	5 Miles	100,000	Middle income	30,000	Targets 25-54 year old, white collar workers	25,000 – 35,000	---
New York & Company	---	---	---	---	Targets customers are fashion- and value-conscious women between ages 25 and 45	2,000 – 5,000	---
Rue 21	10 Miles	100,000 – 350,000	$35,000 - $80,000	---	Teens age 11-16 who desire to be 21 and adults who aspire to be 21 again	4,500 – 5,000	---
DressBarn/ DressBarn Woman	5 Miles	120,000	$55,000	---	150,000+ square foot centers; preferred co-tenants include discounters and other soft goods; target is females sizes 2-24 and petites	---	---
Cato Fashions	---	25,000	---	---	Serves broad income range; desired co-tenants include discounters and strong grocery stores	---	---
Christopher & Banks	10 Miles	75,000	$50,000	---	Target is females age 40+ with household income of $50,000 - $75,000	3,000 – 3,500	---
DEB Shops	---	---	---	---	Target is females age 13-25; desired co-tenants are value-based merchants	6,000 – 8,000	---
Fashion Bug	5 Miles	100,000	$45,000	---	Targets women age 20-49; also serves teens and girls age 7+. Desired co-tenants include grocery and discounters with other women's apparel	6,500 – 9,000	5/ 1,000 SF
Simply Fashions	3 Miles	25,000	---	---	Mandatory requirement of at least 5,000 African Americans within 1 mile radius and 25,000 African Americans within 3 mile radius	2,500 – 3,500	---
The Avenue	5 Miles	150,000	$35,000 - $85,000	---	Target is women sizes 14+, ages 25-55	5,000 – 6,000	---
Lane Bryant	5 Miles	150,000	$50,000	25,000	Fashion-oriented females ages 25-45; sizes 14-28; soft goods/other women's apparel as co-tenants	5,000 – 7,000	5/ 1,000 SF
Famous Footwear	5 Miles	100,000	$50,000	---	Desired co-tenants include Target, Marshall's	5,000 – 6,500	---
The Athlete's Foot	3 Miles	25,000	---	---	Like a variety of shopping center types	1,000 – 2,400	---
Shoe Carnival	---	80,000+	---	---	Prefer centers with strong apparel/fashion co-tenancy; desired co-tenants include Target, Walmart, Marshall's, Dress Barn, Rue 21	8,000 – 10,000	---
Off Broadway Shoes	1 Mile	100,000	$50,000	---	Ladies apparel retailers	---	---

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

Site Requirements – Selected Anchors/Mini-Anchors

Figure 41. Site Requirements – Selected Anchors/Mini-Anchors

SITE REQUIREMENTS – SELECTED ANCHORS/MINI-ANCHORS							
	Radius	**Population**	**Income**	**Vehicles Per Day**	**Other Preferences**	**Typical Size (SF)**	**Parking Spaces**
Kohl's	---	100,000	$40,000	---	Trade areas must have high percentage of families with children; national retailer co-tenancy preferred	64,000 – 88,000	4.5/ 1,000 SF
Home Depot	10 Miles	55,000	MSA Median	11,000	No conflicting co-tenants	55,000 – 225,000	500
Petco	3 Miles	100,000	$45,000+	40,000	Middle to upper middle income pet owners; 200,000+ square foot shopping centers	10,000 – 15,000	---
Petsmart	3 Miles	75,000	$95,000	75,000	Minimum 200,000 population within 5 miles	18,000 – 28,000	---
Sports Authority	5 Miles	200,000	$55,000	30,000	Prefers to be in or near big box power centers	35,000 – 50,000	---
Dick's Sporting Goods	---	150,000	$55,000	30,000	Co-tenancy; major department store, Best Buy, Target, Barnes & Noble, movie theater, Costco, health club, Bed Bath & Beyond	14,000 – 18,000	---
Staples	---	---	---	---	Desirable co-tenants include Walmart, Home Depot	13,000 – 18,000	120
OfficeMax	---	70,000	Above MSA	---	Major thoroughfare with high visibility	20,000 – 22,000	3.5/ 1,000 SF
Office Depot	---	40,000	$40,000	---	Growth area with a minimum of 40,000 population	21,000 – 22,000	---
Michael's Arts & Crafts	5 Miles	100,000	$35,000	25,000	Prefer to be in or near big box power centers	55,000 – 60,000	---
Hobby Lobby	5 Miles	250,000	$65,000	---	Co-tenancy: Kohl's Target, JC Penney, Marshall's, T.J. Maxx; prefer regional power centers	15,000 – 25,000	---
Books-A-Million	5 Miles	150,000	---	---	Well-educated consumers in households with moderate to above-average incomes; desired co-tenants include big box stores including T.J. Maxx or upscale grocery store	25,000 – 40,000	---
Barnes & Noble	3 Miles	100,000	$50,000	---	Require high percentage of college graduates; prefer "regional village" shopping centers	10,000 – 14,000	---
Cost Plus World Market	---	---	---	---	**No new stores planned at this time**	---	---
Trader Joe's	3 Miles	90,000	$50,000	---	---	10,000 – 14,000	80
Harris-Teeter	---	---	---	---	---	45,000 – 60,000	---

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

1.5 Population, Households and Demographic Characteristics

Population Data

Population growth in the Penn Daw trade area from 2010 to 2015, as shown in Figure 42, below, is expected to slightly exceed both the state and national averages. Population within the Penn Daw trade area is expected to grow at a 0.85% annual rate, compared to 0.78% for Virginia and 0.76% nationally. As Figure 43 indicates, this 0.85% growth rate will result in a projected population of 286,153 in the Penn Daw trade area in 2015, compared with 274,348 in 2010 and 251,372 as of the year 2000 census. During the same 2010-2015 period, median age within the trade area is expected to decrease slightly from 37.4 to 37.1, which calculates to a -0.16% annual growth rate. Both the median age for 2010 and the projected median age for 2015 are slightly older than the median age as of the 2000 census, which was 35.2.

Figure 42. Population Trends

Trends: 2010-2015 Annual Rate	Penn Daw Trade Area	State	National
Population Growth Rate	0.85%	0.78%	0.76%

Source: ESRI

Figure 43. Population Data – Penn Daw Trade Area

	Census 2000	2010	2015	2010-2015 Change	2010-2015 Annual Rate
Population	251,372	274,348	286,153	11,805	0.85%
Median Age	35.2	37.4	37.1	-0.3	-0.16%

Source: ESRI

Household Data

As depicted in Figure 44, by 2015, the number of households in the Penn Daw trade area is expected to reach 122,566, compared to 117,426 in 2010 and 108,686 in 2000. The number of families in the trade area is projected to reach 63,968 by 2015, compared with 62,261 in 2010 and 60,176 in 2000. The average household size in the trade area is anticipated to remain at 2.32 through 2015, which was also the average household size in 2010. The average household size in 2000 was slightly smaller at 2.29.

Figure 44. Household Summary – Penn Daw Trade Area

Summary	2000	2010	2015
Households	108,686	117,426	122,566
Families	60,176	62,261	63,968
Average Household Size	2.29	2.32	2.32

Source: ESRI

The household composition within the Penn Daw trade area differs from both broader Fairfax County and Virginia, as shown in Figure 45, below. A smaller proportion of households within the trade area, 55.4%, are comprised of families, compared with 71.4% in Fairfax County and 68.5% in Virginia. Nonfamily households make up a larger proportion, 44.6%, in the trade area compared with 28.6% in Fairfax County and 31.5% in Virginia. Additionally, nonfamily households are represented in a greater proportion within the trade area, at 44.6% compared to 28.6% in Fairfax County and 31.5% in Virginia. Together, this information indicates that the Penn Daw trade area is more heavily populated by unmarried individuals living either alone or with nonfamily housemates (e.g. roommates) than either Fairfax County or Virginia as a whole. The trend is likely to continue based on the information presented in Figure 46, which indicates that although 2010-2015 projected growth in the number of households within the trade area, 0.86%, is expected to outstrip the averages for Virginia and the nation, 0.83% and 0.78%, respectively, the growth during the same period in number of families will be lower: 0.54% in the trade area compared to 0.70% for Virginia and 0.64% for the nation. Additionally, with the projected growth of owner households in the trade area lower than the Virginia and national projections, strong conditions could exist for demand in multifamily rental housing compatible with nonfamily living situations.

Figure 45. 2010 Households by Type – Penn Daw Trade Area

2010 Households by Type	10-Min Drive from Penn Daw	Fairfax County	Virginia
Family Households	55.4%	71.4%	68.5%
Married-couple Family	39.5%	59.4%	52.8%
With Children	17.4%	31.0%	25.2%
Other Family (No Spouse Present)	15.9%	11.9%	15.6%
With Children	10.1%	7.0%	10.2%
Nonfamily Households	44.6%	28.6%	31.5%
Householder Living Alone	35.2%	21.4%	25.1%
Householder Not Living Alone	9.4%	7.2%	6.5%

Source: ESRI

Figure 46. Household Trends

Trends: 2010-2015 Annual Rate of Growth	Penn Daw Trade Area	State	National
Households	0.86%	0.83%	0.78%
Families	0.54%	0.70%	0.64%
Owner Households	0.80%	0.85%	0.82%

Source: ESRI

Figure 47, below, categories households by the number of members within the Penn Daw trade area. The largest proportion of households, 35.2%, is comprised of one person, followed by two person households representing 32.7%. Together, this indicates that over two-thirds of the households in the trade area are comprised of two individuals or fewer; the remaining proportion of households is comprised of between three and seven or more individuals.

Figure 47. 2010 Households by Size – Penn Daw Trade Area

2010 Households by Size	
1 Person Household	35.2%
2 Person Household	32.7%
3 Person Household	14.2%
4 Person Household	10.0%
5 Person Household	4.5%
6 Person Household	1.9%
7+ Person Household	1.5%

Source: ESRI

Demographic Characteristics

The Diversity Index, which measures the probability that two people from the same area will be from different race/ethnic groups, was 73.4 in the market area, compared to 59.3 in the U.S. population.

Educational attainment within the Penn Daw trade area, captured in Figure 48, reflects a population in which over half of all individuals 25 years or older have completed some form of higher education, with 24.7% or the population holding a graduate or professional degree, 27.7% holding a bachelor's degree, and 5.3% holding an associate degree. Of the remaining population, only 10.2% do not hold at least a high school degree.

Figure 48. 2010 Population 25+ by Educational Attainment – Penn Daw Trade Area

2010 Population 25+ by Educational Attainment	
Less than High School	10.2%
High School Graduate	17.2%
Some College	14.9%
Associate Degree	5.3%
Bachelor's Degree	27.7%
Graduate/Professional Degree	24.7%

Source: ESRI

As reflected in Figure 49, 37.6% of the population within the Penn Daw trade area has never married, with 46.9% currently married, 4.4% widowed, and 11.1% divorced.

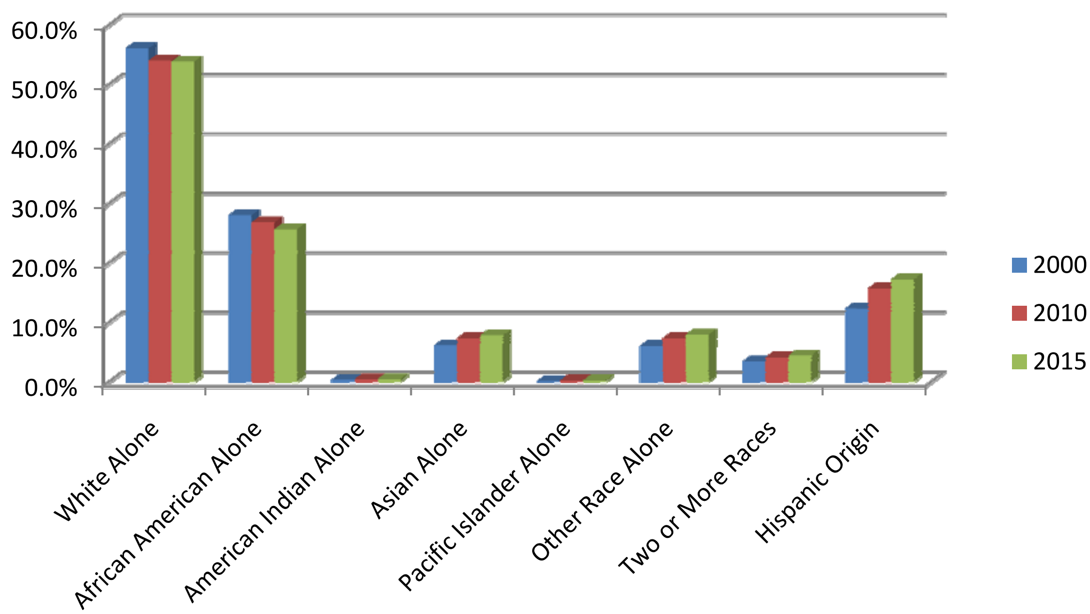
Figure 49. 2010 Population 15+ by Marital Status – Penn Daw Trade Area

2010 Population 15+ by Marital Status	
Never Married	37.6%
Married	46.9%
Widowed	4.4%
Divorced	11.1%

Source: ESRI

Racial composition within the trade area, as reflected in Figure 50, is predominantly white, followed by African-American and Hispanic origin. From the year 2000 through 2010 and extending to 2015 projections, the proportion of whites and African-Americans in the trade area show a declining trend, while Hispanics, Asians, Pacific Islanders and individuals of two or more races all reflect an upward trend.

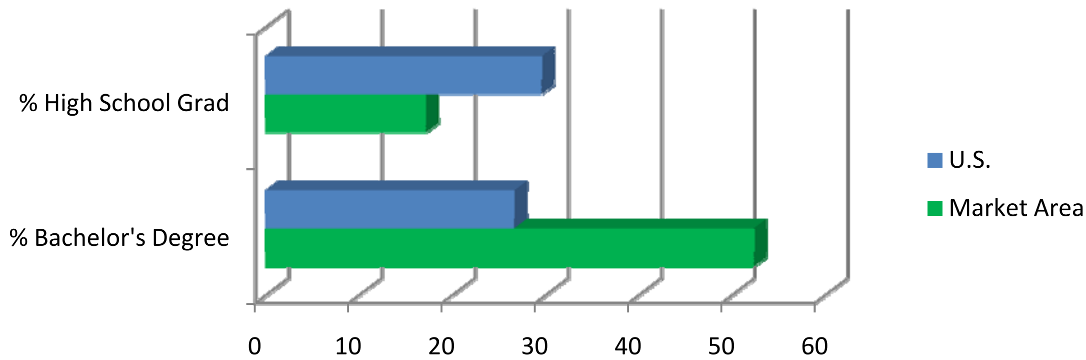
Figure 50. Race and Ethnicity – Penn Daw Trade Area



Source: ESRI

Figure 51 depicts a population within the Penn Daw trade area that is more educated than the national average, with over 50% of residents in the trade area holding a bachelor's degree, compared with approximately 25% nationally.

Figure 51. 2010 Population by Education (Age 25+) – Penn Daw Trade Area



Source: ESRI

1.6 Income, Affordability and Purchasing Power

Income Data

Median and average household incomes, as well as per capita income within the Penn Daw trade area, have risen from 2000 to 2010, and that trend is projected to continue through 2015, as depicted in Figure 52. Of particular note, as shown in Figure 53, the projected 2010-2015 growth rate of median household income within the trade area, 3.69%, is expected to outpace the averages for both Virginia and the nation, at 2.73% and 2.36%, respectively.

Figure 52. Household and Per Capita Income Trends – Penn Daw Trade Area

Household and Per Capita Income	2000	2010	2015
Median Household Income	$60,283	$77,837	$93,301
Average Household Income	$76,998	$96,335	$112,318
Per Capita Income	$33,701	$41,331	$48,206

Source: ESRI

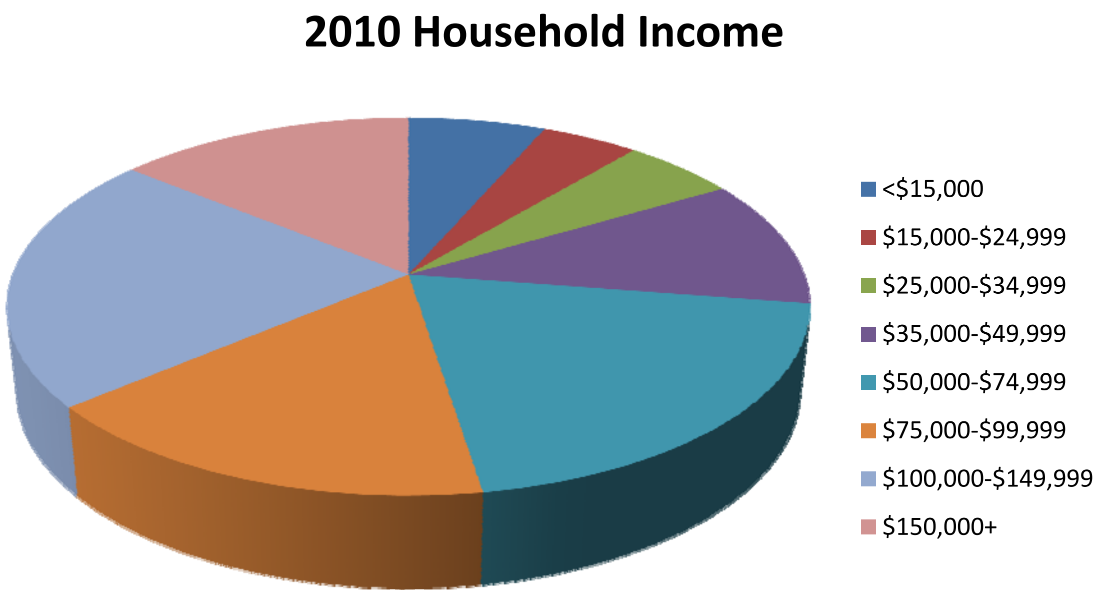
Figure 53. Household Income Trends

Trends: 2010-2015 Annual Rate	Penn Daw Trade Area	State	National
Median Household Income	3.69%	2.73%	2.36%

Source: ESRI

Figure 54 depicts the breakdown of household income within the Penn Daw trade area as of 2010. The four income brackets representing household incomes of $50,000 or greater represent almost three-quarters of the overall household income breakdown within the trade area.

Figure 54. 2010 Household Income – Penn Daw Trade Area



Source: ESRI

Affordability Data

According to the National Association of Home Builders (NAHB), the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan area ranks 154 out of 223 nationally in the NSHB Housing Opportunity Index. The Housing Opportunity Index ranks metropolitan areas based on the share of homes affordable for a family with the median income for that metropolitan area. According to NAHB, 73.2% of homes are affordable for families with the median income in the aforementioned metropolitan area. Within the vicinity of Washington, DC, the Bethesda-Rockville-Frederick, MD metropolitan area ranks slightly less affordable, at 159 out of 223, with 72.7% of homes affordable for families with the median income within the metropolitan area.

Purchasing Power Data

Purchasing power by household within the Penn Daw trade area, as represented in Figure 55, demonstrates that over 60% of households have a purchasing power of $50,000 or greater. Median disposable income within the trade area is $57,879 per household, while average disposable income is $75,019 per household.

Figure 55. 2010 Households by Disposable Income – Penn Daw Trade Area

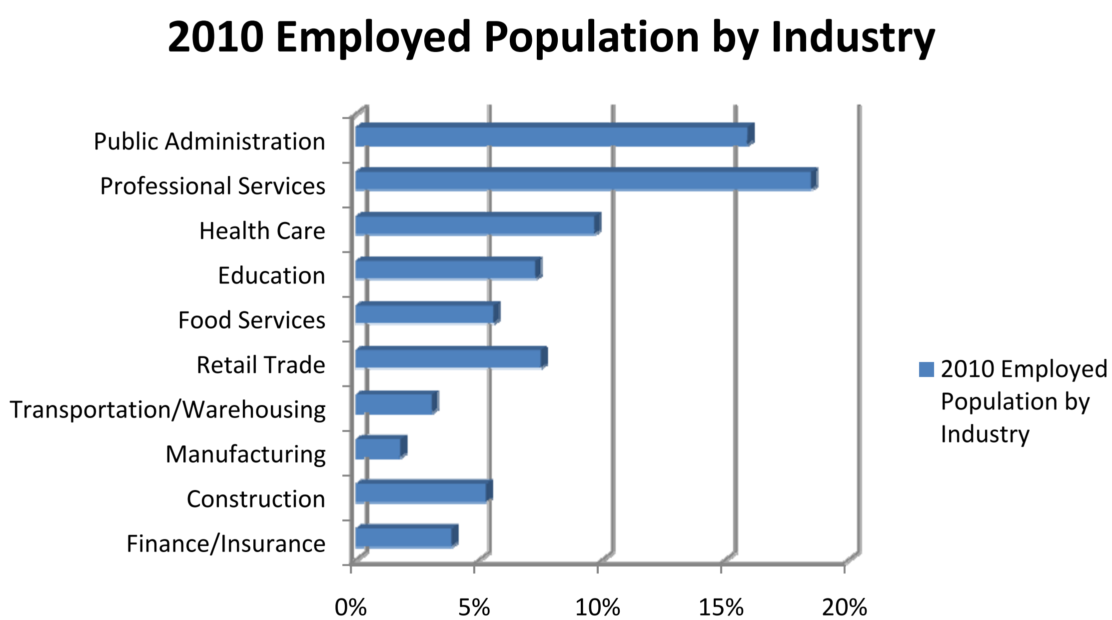
2010 Households by Disposable Income	Number	Percent
Total	117,424	100.0%
< $15,000	8,930	7.6%
$15,000 - $24,999	7,522	6.4%
$25,000 - $34,999	10,648	9.1%
$35,000 - $49,999	19,518	16.6%
$50,000 - $74,999	28,668	24.4%
$75,000 - $99,999	18,545	15.8%
$100,000 - $149,999	15,988	13.6%
$150,000 - $199,999	3,830	3.3%
$200,000+	3,775	3.2%
Median Disposable Income	$57,879	
Average Disposable Income	$75,019	

Source: ESRI

1.7 Employment by Industry or Occupation

Figure 56 displays 2010 population among individuals 16 years or older within the Penn Daw trade area. Professional services and public administration are the most represented industries, with health care and retail trade rounding out the top four within the trade area.

Figure 56. 2010 Employed Population 16+ by Industry – Penn Daw Trade Area



Source: ESRI

As Figure 57 depicts, the unemployment rate within the Penn Daw trade area is expected to decrease to 5.6% in 2015, compared with a 7.4% unemployment rate in 2010. Both the 2010 unemployment rate and the 2015 projection are lower than the May 2011 unemployment rates for the District of Columbia and the nation as a whole, shown in Figure 58. However, the 2010 unemployment rate for the trade area is slightly higher than the Southern Maryland, DC Metropolitan Statistical Area (MSA), and Northern Virginia May 2011 unemployment rates, which are 6.0%, 5.7%, and 4.5%, respectively.

Figure 57. Recent and Projected Unemployment Rate – Penn Daw Trade Area

Year	% Unemployed
2010	7.4%
2015	5.6%

Source: ESRI

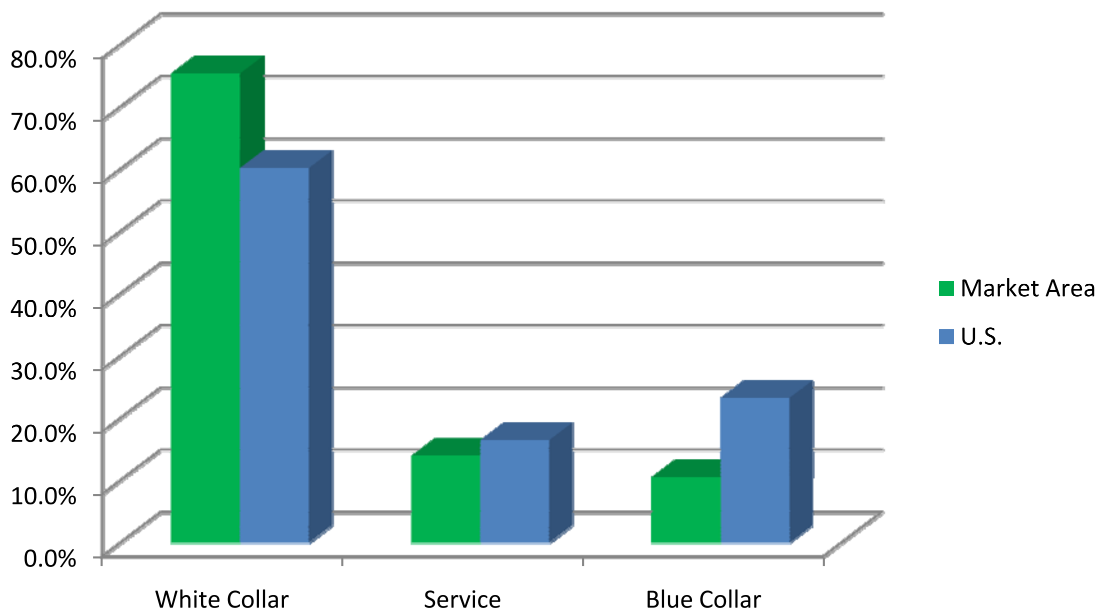
Figure 58. DC Area Unemployment Rates

May 2011 Unemployment Rate	
DC	10.2%
U.S.	8.7%
Southern Maryland	6.0%
Washington, DC MSA	5.7%
Northern Virginia	4.5%

Source: George Mason University Center for Regional Analysis

Figure 59, below, demonstrates that employment among the population 16 years or older within the Penn Daw trade area is higher in the white collar sector and lower in the service and blue collar sectors compared to the national average, likely a reflection of the educational attainment levels of the trade area population described above.

Figure 59. 2010 Employment Population 16+ by Occupational Status – Penn Daw Trade Area



Source: U.S. Bureau of the Census, 2000 Census of Population and Housing. ESRI forecasts for 2010 and 2015.

In 2000, 68.7 percent of the market area population drove alone to work, and 4.0 percent worked at home. The average travel time to work in 2000 was 32.9 minutes in the market area, compared to the U.S. average of 25.5 minutes.

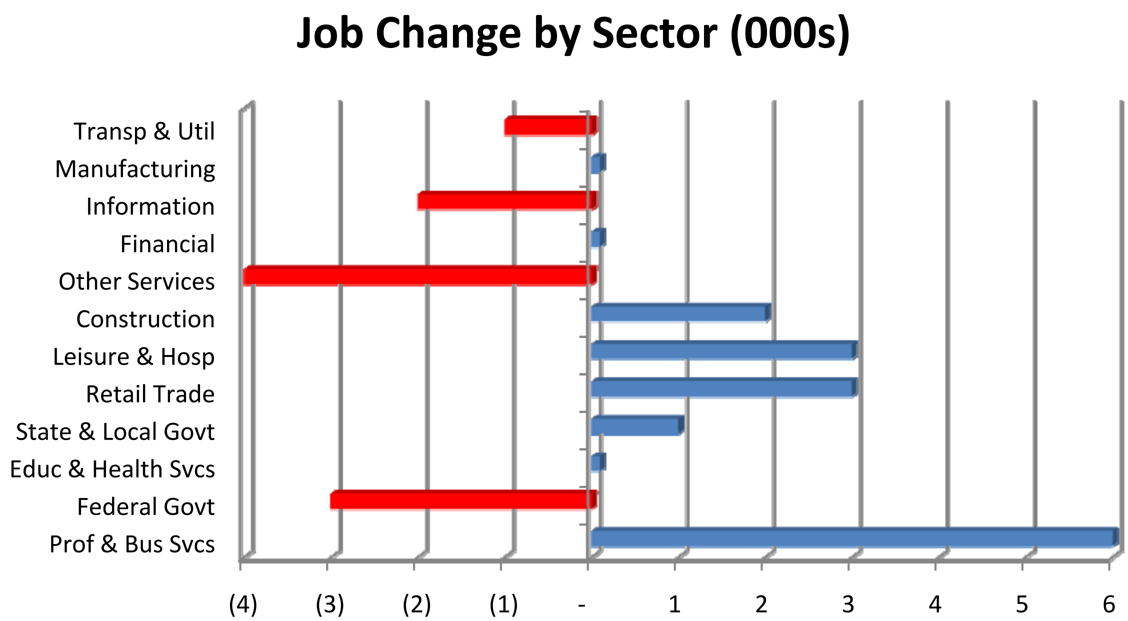
1.8 Trends and Economic Drivers

The Washington, DC, regional economy, which has arguably withstood the recent economic downturn better than any other major market in the United States, is known primarily for its reliance on the prevalence of federal government employment throughout the region. However, other industries play a crucial role in the regional economy, including high-tech and bioscience, higher education, financial services, and telecommunications. The high educational attainment of the regional population has increased the area's draw as employers are attracted to the skilled workforce. State and local governments also provide a significant source of employment for the region.

Although the economic picture in and around Washington, DC, is much brighter than that in most other regions, some challenges have recently been presented. For the first time in 14 months, the Washington area lost more jobs than it gained, according to *The Washington Post* (August 3, 2011). The story continues:

> The area unemployment rate rose half a percentage point in June, to 6.2 percent, from 5.7 percent in May, the report said, largely because of job losses in the federal government. Throughout the economic downturn, the Washington area fared better than most other metropolitan areas, mainly because the federal government hired by the thousands as the private sector contracted…It lost a net 2,700 positions from June 2010 to June 2011, according to the report. The rise in the jobless rate during June does not necessarily mean that unemployment worsened from the month before…But analysts also attribute the declines to a slowdown in hiring spurred by the showdown over the federal budget. And some said they fear the drop could be a harbinger of what the area will face when the federal budget cuts are set in motion. "The federal government was gaining 13,000, 14,000 jobs [on an annualized basis] consistently last year. Now it's lost its steam," said Stephen S. Fuller, director of the Center for Regional Analysis at George Mason University. "What gave us early growth last year and made us the fastest-growing metro area looks like our Achilles' heel this year. The federal government isn't going to be carrying the water [for the region] any longer." Federal, state and local government in the region posted a net loss of 5,600 jobs from June 2010 to June 2011, the report says, slightly more than the figure recorded from May to May. Most of those losses were in the federal government…Other sectors posting net losses were construction, down 6,800 jobs; education and health, down 1,200; information technology, down 800; and leisure and hospitality, down 800. The sectors that posted net gains were professional and business services, up 11,000 jobs; financial services, up 1,500; and retail, up 300. Some analysts are concerned that the professional and business services sector, which includes government contracting, could be hit by the budget cuts.

Figure 60. Job Change by Sector, Northern Virginia, July 2010 – June 2011



Source: George Mason University Center for Regional Analysis

Despite the unusually large role that the federal government plays in its regional economy, Washington, DC, is still affected by trends in the broader national economy. As of late, the national economic picture has been mixed. Supporting an optimistic outlook, trends such as business capital spending, corporate profits, and cash on hand; private sector job growth; gross domestic product (GDP) growth; manufacturing; and personal income and consumption growth have largely, though not exclusively, been positive. Another bright spot of note has been a general downward trend in initial unemployment claims. However, challenges such as low consumer confidence, uncertainty regarding interest rates and the ability to access capital, and ripple effects of the recent US sovereign debt downgrade somewhat counterbalance other positive trends in the general economy. Still, the Washington, DC, economy remains better poised than most major markets to withstand economic headwinds, maintain trends of job creation, and continue to attract economic activity that should help DC and its surroundings remain at the vanguard of the broader economic recovery.

1.9 Availability of Economic or Development Incentives

The following are available federal, state and local incentives per the Southeast Fairfax Development Corporation.

Federal Programs:

- New Market Tax Credits: Seven year credit against federal income taxes for making 5% qualified equity investments in targeted areas, resulting in gap financing for businesses.
- SBA Loans: Generally used for start-up businesses and to meet varied short and long term needs.

State Programs:

- Governor's Opportunity Fund: Discretionary funds available to the Governor to secure a business location or expansion project for Virginia. Grants are awarded to localities on a local matching basis with the expectation that the grant will result in a favorable location decision for the Commonwealth.
- Virginia Jobs Investment Program (VJIP): A program that offers customized recruiting and training assistance to companies that are creating new jobs or experiencing technological change. The program is designed to reduce the human resource development cost of new and expanding companies.
- Sales and Use Tax Exemptions: Virginia offers some of the broadest sales and use tax exemptions in the U.S.
- Property Tax Exemption: Virginia does not tax intangible property.
- Virginia Small Business Financing Authority (VSBFA): VSBFA offers programs to provide businesses with access to capital needed for growth and expansion. The programs are as follows:
    - Industrial Development Bonds and the Umbrella Bond Program
    - Virginia Economic Development Loan Fund
    - Loan Guaranty Program
    - Child Day Care Financing Program
    - Virginia Capital Access Program
    - Small Business Environmental Compliance Assistance Fund
- Enterprise Zones: Virginia's Enterprise Zone program provides state and local incentives to businesses that invest and create jobs within Virginia's enterprise zones, which are located throughout the state. – N/A to Penn Daw – nearest Enterprise Zone in the northern part of Alexandria city limits.
- Foreign Trade Zones: Virginia offers six foreign trade zones designed to encourage businesses to participate in international trade by effectively eliminating or reducing customs duties. Also, numerous subzones are provided and additional ones can be designated to enhance the trade capabilities of specific companies.

Fairfax County Programs:

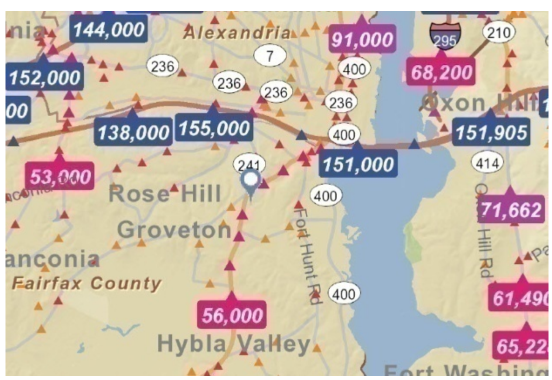
- BPOL Tax Exemption: The Business, Professional and Occupational license (BPOL) tax based on gross receipts more than $10,000 must pay a fee or the tax. However, Fairfax County does allow certain specific exclusions and adjustments, including:
  - Software Development Companies – Software sales, leases or licensing may be excluded from gross receipts by companies that design, develop or create computer software in Fairfax County.
  - Government computer hardware/software sellers – The original cost (not resale price) of computer hardware or software sold under contract to a state or federal government entity in the United States within two years of purchase may be deducted from gross receipts.
  - Nonprofits – Except for unrelated business income, the income of charitable nonprofit organizations may be excluded from gross receipts.

1.10 Traffic and Tax Data

Traffic Data

Figure 61, below, depicts traffic count in the areas surrounding Penn Daw. Traffic counts are highest among major transportation arteries, particularly I-495 and I-395, where daily rates approach or exceed 150,000. Richmond Highway, south of the site under analysis, has an average traffic count of 56,000 daily. Jefferson Davis Highway north of I-495 also boasts a significant average daily rate of 91,000.

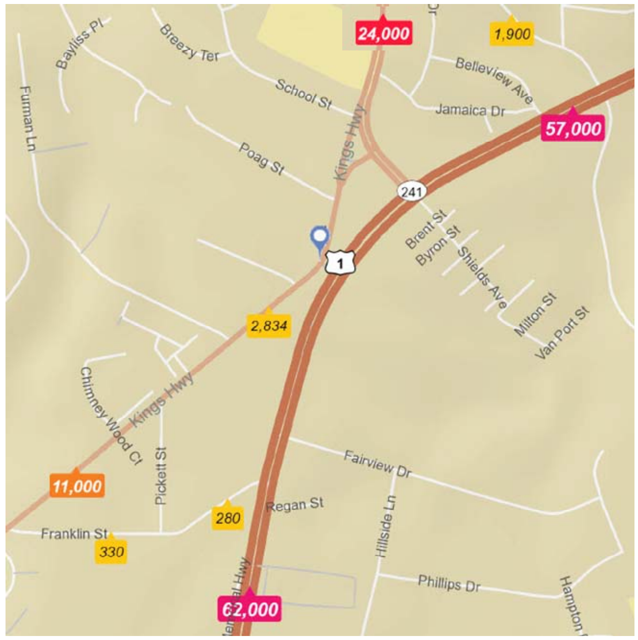
Figure 61. Traffic Count Map – General Area



Source: ESRI

A closer look at the immediate vicinity of the Penn Daw study area, as depicted in Figure 62, depicts an average daily traffic count of 57,000 on Richmond Highway north of the site, with a slightly higher average count of 62,000 on that same route south of the site.

Figure 62. Traffic Count Map – Close-up to Penn Daw Study Area



Source: ESRI

Tax Rates

Tax rates applicable to the Penn Daw study area are displayed in Figure 63. State income tax is 5.75% of income plus $720 for income greater than $17,001. A total sales tax of 5% is applicable, comprised of a 4% Virginia rate and an additional 1% Fairfax County levy. Virginia state corporate income tax is a flat 6%. Motor vehicle and business personal property taxes are both $4.57 per $100 of value, while local property tax is $1.07 per $100 of value.

Figure 63. Penn Daw Area Tax Rates

Penn Daw Area Tax Rates	
State Income Tax	5.75% + $720 (for income > $17,001)
Sales Tax	4% - Virginia; 1% - Fairfax County
State Corporate Income Tax	6%
Motor Vehicle Tax	$4.57 per $100 value
Business Personal Property Tax	$4.57 per $100 value
Local Property Tax	$1.07 per $100 value

Source: State of Virginia, Fairfax County

Appendix 2: Competitive Market Analysis

2.1 Characteristics of Existing and Proposed Space and Units Within Market Area

Retail

There is an abundance of retail centers within close proximity of the Penn Daw study area, with approximately 12 retail centers 40,000 SF or larger within a three mile radius of the site as shown in Figure 64. Retail center sizes range from approximately 10,000 to 500,000 SF, with the majority of properties studied at least 40,000 SF. Analysis of the market revealed no retail centers in the immediate vicinity of Penn Daw built after 1990, with some properties built as early as approximately 1950. Tenants in the surrounding area include many national retailers with representation in the mid-Atlantic region, potentially causing a dearth of potential anchor tenants who would be willing to introduce a new location at the risk of cannibalizing sales at existing nearby locations.

Figure 64. Summary of Retail Properties Near Penn Daw

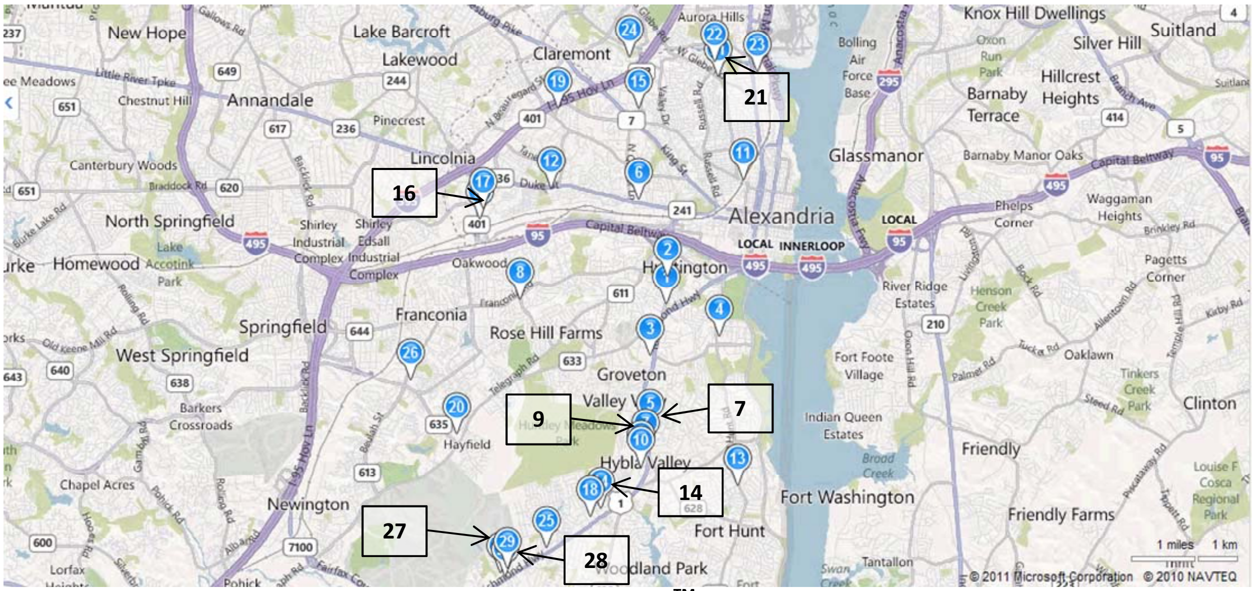
#	Property	Size (SF)	Type	Year Built	Distance from Penn Daw (miles)
1	Richmond Highway Center	40,000	Neighborhood Center	1964	0.19
2	Huntington Station	47,507	Neighborhood Center	1951	0.55
3	Beacon Center	343,600	Community Center	1975	0.59
4	Belleview Shopping Center	128,120	Neighborhood Center	1971	1.12
5	Mt. Vernon Crossroads	87,000	Neighborhood Center	1971	1.85
6	Alexandria Commons	146,183	Neighborhood Center	1989	1.87
7	Mount Vernon Plaza	491,151	Community Center	1974	2.22
8	Rose Hill Plaza	134,788	Community Center	1968	2.27
9	7770 Richmond Hwy.	60,477	Neighborhood Center	1974	2.39
10	Mt. Vernon Crossroads	82,000	Neighborhood Center	1973	2.45
11	Colecroft Place	10,268	Neighborhood Center	1973	2.51
12	The Shops at Foxchase	128,848	Community Center	1981	2.71
13	Hollin Hall Shopping Center	85,000	Neighborhood Center	1959	3.06
14	Kwik Shop Center	11,000	Neighborhood Center	1967	3.25

#	Property	Size (SF)	Type	Year Built	Distance from Penn Daw (miles)
15	Fairlington Centre	45,000	Neighborhood Center	1947	3.30
16	Picket Street Shopping Center	21,800	Neighborhood Center	1974	3.31
17	Van Dorn Station	74,000	Neighborhood Center	1989	3.41
18	Mt. Vernon Shopping Center	44,608	Neighborhood Center	1966	3.46
19	Seminary Plaza Shopping Center	92,177	Neighborhood Center	1964	3.72
20	Hayfield Shopping Center	95,464	Neighborhood Center	1985	3.79
21	Glebe Road Shopping Center	30,000	Neighborhood Center	1973	3.91
22	Mt. Vernon Village	59,000	Neighborhood Center	1940	4.11
23	Crystal Underground Shopping Center	151,000	Neighborhood Center	1966	4.13
24	Village at Shirlington	370,000	Community Center	1987	4.18
25	Skyview Center	35,881	Neighborhood Center	1955	4.19
26	Festival at Manchester Lakes	165,486	Neighborhood Center	1989	4.24
27	Sacramento Center	84,466	Neighborhood Center	1988	4.92
28	Pear Tree Village	31,517	Neighborhood Center	1985	4.94
29	Woodlawn Shopping Center	115,917	Neighborhood Center	1962	4.96

Source: Reis Rent Comparables, August 2011

The following map illustrates the location of retail properties near Penn Daw.

Figure 65. Map of Retail Properties Near Penn Daw



Source: Bing[TM]

Below are characteristics of retail properties near Penn Daw.

Figure 66. Retail Property Characteristics Summary

Item	Description
Size	Retail center sizes studied range from approximately 10,000 to almost 500,000 SF.
Type	Neighborhood centers predominate the study area, with some representation of community centers.
Class	Properties studied are a mix of Class A and Class B retail centers.
Location	Retail centers studied are predominantly located on main thoroughfares, including Richmond Highway, Telegraph Road, and West Glebe Road.
Age	The majority of retail centers studied predate 1990, with the oldest properties built as early as approximately 1950. Many of the community centers and larger neighborhood centers studied were built after 1970.
Style	The majority of retail studied is placed in a strip configuration with significant setbacks from the roadway occupied by parking.
Quality	The quality of properties studied is mixed, with property upkeep ranging from superb to poor. At the majority of retail centers with nationally recognized tenants, the quality of the properties is quite strong.
Features and Amenities	The majority of retail centers studied include one or more anchor tenants, such as a supermarket or major discount retailer. Although fast food and fast casual dining chains are well-represented as tenants, outdoor seating is limited, likely due to most retail centers' proximity to major roadways and associated noise.
Parking	Parking is mostly within the boundaries of each retail center studied, as opposed to on-street parking. Parking configuration is predominantly horizontal, with very limited multi-level parking structures supporting retail centers.

Source: Reis Rent Comparables, August 2011

Multifamily Rental and Vacancy Rates Near Penn Daw

The multifamily properties studied include a mix of garden-style and mid- to high-rise apartments. The majority of the multifamily properties near the Penn Daw study area perform well with low vacancy rates. The majority of properties within the immediate vicinity of Penn Daw are of an older (pre-1970) vintage and average rental rates of $1,200 to $1,300 per unit. Newer properties and properties closer to fixed public transportation command higher rental rates. Below are rental and vacancy rate summaries for 15 apartment properties closest to the Penn Daw study area.

Figure 67. Rental and Vacancy Rate Summary – Kings Gardens

1. Kings Gardens					
Address	6300 S Kings Hwy			**Floors**	4
Current Vacancy Rate	2.3%			**Year Built**	1964
Property Size (Units)	442			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,032	$1,265	$1,524	$1,207
Unit Size (SF)	N/A	727	1,025	1,175	

Source: Reis Rent Comparables, August 2011

Figure 68. Rental and Vacancy Rate Summary – Belle Haven Towers

2. Belle Haven Towers					
Address	6034 Richmond Hwy			**Floors**	10
Current Vacancy Rate	3.5%			**Year Built**	1964
Property Size (Units)	569			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$1,050	$1,200	$1,467	$1,658	$1,282
Unit Size (SF)	398	723	903	1,168	

Source: Reis Rent Comparables, August 2011

Figure 69. Rental and Vacancy Rate Summary – Beacon Hill

3. Beacon Hill					
Address	3100 Southgate Dr			**Floors**	4
Current Vacancy Rate	4.1%			**Year Built**	1965
Property Size (Units)	727			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$1,051	$1,179	$1,485	$1,778	$1,389
Unit Size (SF)	450	802	1,004	1,089	

Source: Reis Rent Comparables, August 2011

Figure 70. Rental and Vacancy Rate Summary – Huntington Gateway

4. Huntington Gateway					
Address	5982 Richmond Hwy			Floors	13
Current Vacancy Rate	3.4%			Year Built	1990
Property Size (Units)	446			Class	A
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$1,471	$1,545	$1,782	N/A	$1,658
Unit Size (SF)	600	765	1,100	N/A	

Source: Reis Rent Comparables, August 2011

Figure 71. Rental and Vacancy Rate Summary – Riverside Park Ph II

5. Riverside Park Ph II					
Address	2000 Huntington Ave			Floors	16
Current Vacancy Rate	2.8%			Year Built	1971
Property Size (Units)	1,222			Class	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$1,074	$1,304	$1,744	N/A	$1,358
Unit Size (SF)	525	832	1,132	N/A	

Source: Reis Rent Comparables, August 2011

Figure 72. Rental and Vacancy Rate Summary – Cherry Arms Apartments

6. Cherry Arms Apartments					
Address	7131 Richmond Hwy			Floors	5
Current Vacancy Rate	1.2%			Year Built	1964
Property Size (Units)	168			Class	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,049	$1,289	$1,509	$1,216
Unit Size (SF)	N/A	677	951	992	

Source: Reis Rent Comparables, August 2011

Figure 73. Rental and Vacancy Rate Summary – Carlyle Mill

7. Carlyle Mill					
Address	2201 Mill Rd			Floors	4
Current Vacancy Rate	7.0%			Year Built	2003
Property Size (Units)	315			Class	A
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,656	$1,911	$2,471	$1,827
Unit Size (SF)	N/A	842	1,127	1,311	

Source: Reis Rent Comparables, August 2011

Figure 74. Rental and Vacancy Rate Summary – Avalon at Cameron Court

8. Avalon at Cameron Court					
Address	2700 Williamsburg St		Floors		4
Current Vacancy Rate	2.9%		Year Built		1998
Property Size (Units)	480		Class		A
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,845	$2,208	N/A	$2,027
Unit Size (SF)	N/A	819	1,180	N/A	

Source: Reis Rent Comparables, August 2011

Figure 75. Rental and Vacancy Rate Summary – Hollycourt Apartments

9. Hollycourt Apartments					
Address	7300 Tavenner Ln		Floors		3
Current Vacancy Rate	0.0%		Year Built		1969
Property Size (Units)	109		Class		BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$877	$1,052	N/A	$967
Unit Size (SF)	N/A	654	924	N/A	

Source: Reis Rent Comparables, August 2011

Figure 76. Rental and Vacancy Rate Summary – Meadowwood Apartments

10. Meadowwood Apartments					
Address	3308 Lockheed Blvd		Floors		2
Current Vacancy Rate	14.5%		Year Built		1968
Property Size (Units)	712		Class		BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$880	$1,105	$1,244	$1,439	$1,185
Unit Size (SF)	448	642	1,095	1,300	

Source: Reis Rent Comparables, August 2011

Figure 77. Rental and Vacancy Rate Summary – Mason Gardens

11. Mason Gardens					
Address	2327 Duke St		Floors		3
Current Vacancy Rate	3.1%		Year Built		1963
Property Size (Units)	65		Class		BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,190	$1,515	$1,563	$1,359
Unit Size (SF)	N/A	650	850	1,200	

Source: Reis Rent Comparables, August 2011

Figure 78. Rental and Vacancy Rate Summary – Hunting Point

12. Hunting Point					
Address	1204 S Washington St			**Floors**	8
Current Vacancy Rate	3.6%			**Year Built**	1951
Property Size (Units)	795			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$972	$1,183	$1,612	N/A	$1,141
Unit Size (SF)	400	700	900	N/A	

Source: Reis Rent Comparables, August 2011

Figure 79. Rental and Vacancy Rate Summary – Hunting Towers

13. Hunting Towers					
Address	1202 S Washington St			**Floors**	3
Current Vacancy Rate	3.8%			**Year Built**	1942
Property Size (Units)	182			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	N/A	$1,278	$1,705	N/A	$1,370
Unit Size (SF)	N/A	688	1,000	N/A	

Source: Reis Rent Comparables, August 2011

Figure 80. Rental and Vacancy Rate Summary – Carydale East

14. Carydale East					
Address	2727 Duke St			**Floors**	14
Current Vacancy Rate	7.7%			**Year Built**	1965
Property Size (Units)	233			**Class**	BC
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$943	$1,258	$1,576	$1,655	$1,397
Unit Size (SF)	422	599	930	1,050	

Source: Reis Rent Comparables, August 2011

Figure 81. Rental and Vacancy Rate Summary – Meridian at Carlyle

15. Meridian at Carlyle					
Address	401 Holland Ln			**Floors**	16
Current Vacancy Rate	6.5%			**Year Built**	2001
Property Size (Units)	403			**Class**	A
	Studio	1BR	2BR	3BR	Average
Current Asking Rent/Unit	$1,658	$1,885	$2,558	N/A	$2,072
Unit Size (SF)	565	700	1,100	N/A	

Source: Reis Rent Comparables, August 2011

Office

Office development in the immediate vicinity of Penn Daw is minimal. The closest significant critical mass of office development is located north of the Woodrow Wilson Bridge around the Braddock Road and King Street Metro Stations, in and around Old Town Alexandria, and along the George Washington Memorial Parkway. The office properties studied are all 1980's vintage.

Figure 82. Summary of Office Properties Near Penn Daw

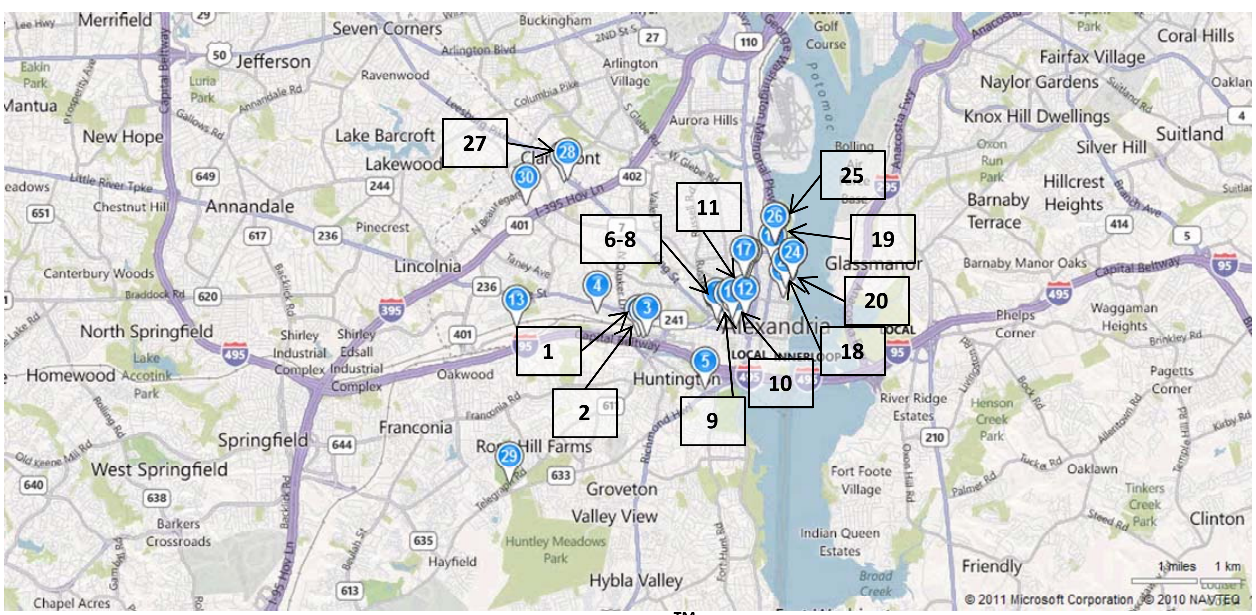
#	Property	Size (SF)	Type	Year Built	Distance from Penn Daw (miles)
1	Alexandria Tech Center III	60,000	4 floors; class B/C	1987	0.31
2	Woodward + Lothrop/Atc	120,000	4 floors; class A	1987	0.34
3	Alexandria Tech Center II	46,000	3 floors; class B/C	1987	0.36
4	The Wheeler Building	18,000	2 floors; class B/C	1988	0.88
5	1 Beltway Center/ Seed Bldg.	75,000	5 floors; class B/C	1985	1.35
6	King Street Station II	109,000	7 floors; class B/C	1988	1.37
7	The Nacs Building	75,000	7 floors; class B/C	1985	1.41
8	King Street Station I	146,000	6 floors; class A	1984	1.42
9	1505 Prince Street	15,000	2 floors; class B/C	1987	1.55
10	1321 Duke Street	22,000	4 floors; class B/C	1987	1.64
11	Washington Engineering Ctr.	51,332	6 floors; class B/C	1984	1.66
12	1101 King Street	182,028	7 floors; class B/C	1985	1.83
13	4875 Eisenhower Ave.	52,000	2 floors; class B/C	1985	1.91
14	Braddock Place III	79,603	7 floors; class B/C	1985	2.09
15	Braddock Place II	79,000	7 floors; class B/C	1986	2.10
16	Braddock Place I	126,477	7 floors; class B/C	1985	2.10
17	Braddock Place IV	31,276	4 floors; class B/C	1985	2.10
18	Edward F. Carlough Bldg.	118,800	5 floors; class B/C	1987	2.45
19	Parkway Bldg.	94,634	5 floors; class A	1984	2.49

#	Property	Size (SF)	Type	Year Built	Distance from Penn Daw (miles)
20	Waterfront II	90,000	6 floors; class B/C	1986	2.57
21	Transpotomac Canal Ctr.	127,000	7 floors; class A	1987	2.66
22	Transpotomac Canal Ctr.	145,000	5 floors; class A	1986	2.66
23	Transpotomac Canal Ctr.	164,000	6 floors; class A	1987	2.66
24	Transpotomac Canal Ctr.	73,200	3 floors; class A	1987	2.66
25	Towngate Executive Center IV	56,500	4 floors; class B/C	1986	2.76
26	Towngate Executive Center III	50,000	5 floors; class B/C	1986	2.77
27	Park Center II	218,000	14 floors; class B/C	1985	2.82
28	Kiosk Bldg./Park Center	64,799	4 floors; class B/C	1986	2.87
29	Telegraph Village	37,045	2 floors; class B/C	1986	2.92
30	Mark Center Plaza 1 A	195,000	12 floors; class A	1986	2.92

Source: Reis Rent Comparables, August 2011

The following map illustrates the location of office properties near Penn Daw.

Figure 83. Map of Office Properties Near Penn Daw



Source: Bing™

Below are characteristics of office properties near Penn Daw.

Figure 84. Office Property Characteristics Summary

Item	Description
Size	The majority of office properties studied are 50,000 SF or greater, with some properties approaching or exceeding 200,000 SF. There are some smaller office properties in the approximately 10,000 to 30,000 range; however, these properties are mostly subsets of larger office parks or located within Old Town Alexandria.
Type	Properties studied are mostly mid-rise, with some smaller properties consisting of only two or three levels.
Class	Class A and B/C properties are represented among the properties studied, with Class B/C representing the majority.
Location	The majority of properties studied are located north of the Woodrow Wilson Bridge in close proximity to Washington Street. A cluster of office properties also exists near the King Street Metro Station.
Age	All office properties studied were constructed in the 1980's.
Style	Facade types of the office properties studied are varied, with office park configurations being well-represented.
Quality	Office properties studied appear to be well-maintained and of a strong overall quality.
Features and Amenities	Office properties studied are predominantly full-service buildings with security/concierge front-desk staff on premises.
Parking	Parking is provided at the majority of office properties studied, with a mixture of surface parking and underground and elevated garages.

Source: Reis Rent Comparables, August 2011

2.2 Property Features, Functions and Benefits Important to Market

Retail – Property Features, Functions and Benefits Important to Market

Frontage and visibility along, and easy access from, major thoroughfares are the most predominant features of retail properties in the area surrounding Penn Daw. Ease of access is of particular importance, as properties accessible via both left- and right-hand turns hold a competitive advantage in terms of attracting shoppers to their tenants. Ample parking appears to be a near universal feature as well; however, appropriate parking configuration depends on the tenant mix. For instance, retail centers with multiple anchor and in-line tenants prefer a parking configuration that encourages customers to visit and patronize multiple retailers on site. As such, excessive setbacks from the road may be daunting, and a non-linear (e.g. U- or L-shape) configuration may promote walkability within the center. In contrast, single-destination retail centers (e.g. Walmart) may have a higher tolerance for large setbacks with the expectation that visitors will use a single retailer for most of their shopping needs.

Multifamily – Property Features, Functions and Benefits Important to Market

Accessibility and ease of transportation is a highly-desired feature within the multifamily asset class, and this holds true within the vicinity of Penn Daw. Parking availability and access to public transportation (bus or rail) is a near-universal feature of the properties studied. However, a more limited subset of the properties studied are located in close proximity to fixed public transportation (i.e. Metrorail). For example, the Meridian at Braddock Station Phase I and II properties are within very easy walking distance of the Braddock Road Metro Station, and command rents among the highest within the group of properties studied. Although the age, quality and other amenities of the properties most likely contribute to their strong rent profiles, their access to Metrorail is a strong attribute, particularly in marketing efforts to young tenants who may not wish to own automobiles.

Pools and other outdoor recreation opportunities also carry a strong drawing power for tenants both throughout the Washington, DC, metropolitan area and within the vicinity of Penn Daw, especially given the region's relatively mild weather. Differing levels of service at multifamily properties appeal to different tenant types. For instance, young professionals may prefer buildings with concierge services including dry cleaning and acceptance of packages, while retired tenants would likely not place as much value on such services.

Office – Property Features, Functions and Benefits Important to Market

Attributes of office properties in the vicinity of Penn Daw appear to be mostly related to location, particularly as it relates to accessibility and proximity to other amenities. Office-based employers rely partly on their locations to attract their target workforce. A preference for accessibility via public transportation and highways is reflected in the distribution of office properties near the George Washington Memorial Parkway and the King Street Metro Station. Office tenants also generally prefer to be located near restaurants, popular retailers, and other amenities that employees would enjoy during breaks and after work. This again is reflected by the geographical distribution of office properties in the vicinity of Penn Daw.

2.3 Vacancy Rates and Characteristics of Vacant Stock

Retail Vacancy Rates and Characteristics of Vacant Stock

Vacancy rates in the vicinity of Penn Daw and among the retail properties studied is relatively low, with the properties detailed in Section 2.1 averaging under 6% vacancy. However, vacancy varies significantly between properties. High vacancies can generally be attributable to the loss of one or more anchor tenants, and the effect of this is two-fold. First, the sheer volume of space that anchor tenants typically occupy means that the loss of such a tenant will drastically increase the vacancy rate at that property. Second, loss of an anchor tenant will generally reduce the appeal of the property for other tenants at the property. This may lead to in-line tenants choosing to relocate upon conclusion of lease terms rather than renewing a lease when the most significant draw to a retail center has been lost.

Multifamily Vacancy Rates and Characteristics of Vacant Stock

Multifamily vacancy within the vicinity of Penn Daw is extremely low, with the multifamily properties near the Penn Daw study area averaging below a 4% vacancy. Properties with vacancy rates higher than the average can be separated into two main categories. First, newer Class A properties with high asking rents in some cases have vacancy rates in the 7-9% range, likely due to the fact that their high rents are unattainable to a larger proportion of the renting population. However, this strata of vacancy is likely still sustainable for the properties because of the premiums its tenants are willing to pay for age, quality, and location of buildings. Second, older Class B/C properties with asking rents higher than their peer group in some cases have vacancy rates approaching or exceeding 10%. For such properties, those levels of vacancy may not be sustainable and significant renovation or rehabilitation may be necessary to salvage a property's financial prospects.

Office Vacancy Rates and Characteristics of Vacant Stock

Office vacancy within the vicinity of Penn Daw is relatively high, with the properties listed in Section 2.1 having an average vacancy of almost 19%. This is higher than the vacancy rate for the DC metropolitan area as a whole, which is currently in the low teens. The Springfield office submarket, which includes Penn Daw, currently has a vacancy rate approaching 16%, according to the CB Richard Ellis Econometric Advisors (CBRE-EA), 1Q2011; also above the overall vacancy rate for the region. Due to a dearth of new property deliveries in the vicinity of Penn Daw and within the Springfield submarket, this vacancy is due to tenants choosing to relocate from the area. Although the DC office market has performed well compared to national averages, this suggests that that the Springfield submarket is losing tenants either to other submarkets within the DC metropolitan area or other regions. Primary factors likely include availability of newer properties and an increased preference for Metro-accessible properties.

2.4 Recent Absorption of Space

Recent Absorption of Retail Space

Recent net absorption of retail space within the southeast Fairfax County submarket, which includes Penn Daw, has been approximately 14,000 SF, according to CBRE-EA, 1Q2011 Washington, DC Retail Market Report. Overall net absorption in the entire DC Metro area during the same period has been negative 9,000 SF, indicating the southeast Fairfax County has had a stronger performance than the regional average.

Recent Absorption of Multifamily Space

Recent net absorption of multifamily space within the southeast Fairfax County submarket, which includes Penn Daw, has been negative 123 units, according to the CBRE-EA 1Q2011 Washington, DC Multifamily Market Report. In spite of that negative absorption, however, vacancy remains low at 3.9% in the submarket, which is also lower than the DC Metro average of 4.3%.

Recent Absorption of Office Space

Recent net absorption of office space within the Springfield submarket, which includes Penn Daw, has been approximately negative 113,000 SF, according to the CBRE-EA 1Q2011 Washington, DC Office Market Report. During the same time period, DC proper and more suburban regions of Virginia, such as Herndon and the I-395 corridor, have experienced positive absorption, perhaps at the expense of Springfield and other submarkets within northern Virginia. Overall net absorption for the DC Metro during the same time period is almost negative 500,000 SF.

2.5 Current Pricing and Rental Rates

Retail – Current Pricing and Rental Rates

Among the retail properties listed in Section 2.1, average asking rent for anchor tenants is $19.33, and average asking rent for non-anchor tenants is $29.99. Within the southeast Fairfax County submarket, average asking rents for all tenants is $27.34, according to the CBRE-EA 1Q2011 Washington, DC Retail Market Report.

Multifamily – Current Pricing and Rental Rates

Among the multifamily properties listed in Section 2.1, average asking rent for all units types is $1,369, with studio units averaging $1,066, one-bedroom units averaging $1,223, two-bedroom units averaging $1,558, and three-bedroom units averaging $1,737. Within the southeast Fairfax County submarket, the average asking rent for all units types is $1,408, according to the CBRE-EA 1Q2011 Washington, DC Multifamily Market Report.

Office – Current Pricing and Rental Rates

Among the office properties listed in Section 2.1, the average asking rent per SF is $31.67. Across the Springfield submarket, average asking rent per SF is $31.01, according to the CBRE-EA 1Q2011 Washington, DC Office Market Report.

2.6 Construction, Financing, Discount Rates, Capitalization and Operating Expense Data

Retail

As represented in Figure 85, retail construction costs, on a per SF basis, are $160. The retail going in cap rate and discount rate are 7.25% and 8.5%, respectively. The retail reversion cap rate is 7.5%, the retail market rent inflator is 1.0%, and the retail expense growth rate is 2.5%. The retail tenant finish allowance is $5 per SF and the median retail operating expenses per SF are $4.42.

Figure 85. Retail Construction, Discount Rates, Capitalization and Operating Expense Data

Retail Construction, Discount Rates, Capitalization and Operating Expense Data	
Retail Construction Cost Per SF[1]	$160 per SF
Retail Going-in Cap Rate[2]	7.25%
Retail Going-in Discount Rate[2]	8.5%
Retail Reversion Cap Rate[2]	7.5%
Retail Market Rent Inflator[2]	1.0%
Retail Expense Growth Rate[2]	2.5%
Retail Tenant Finish Allowance[2]	$5 per SF
Median Retail Operating Expenses per SF[3]	$4.42 per SF

[1]Marshall Valuation Service Guide
[2]Integra Realty Resources, rates and data for neighborhood retail centers in Washington, DC metro area
[3]Reis Rent Comparables report for retail properties near Penn Daw, August 2011

Anchored retail financing rates, based on a 10-year fixed rate financing, are 4.94% and 5.14% for Class A and Class B/C anchored retail, respectively, and 5.14% and 5.39% for Class A and Class B/C for strip centers. Max loan-to-values for anchored retail and strip centers are 60-70% and 60-65%, respectively.

Figure 86. Retail Financing Data

10-Year Fixed Rate Financing	Max Loan-to-Value	Class A	Class B/C
Anchored Retail[1]	60 – 70%	4.94%	5.14%
Strip Center[1]	60 – 65%	5.14%	5.39%

[1]Cushman & Wakefield Sonnenblick Goldman Capital Markets Update, August 2011
(Assumes Minimum Debt Service Coverage Ratio of 1.35x)

Multifamily

Figure 87 captures a multifamily construction cost of $150 per SF, as well as a going-in cap rate of 5.5%, a going-in discount rate of 7.5%, and a reversion cap rate of 6.0%. The market rent inflator is 3.0%, while the expense growth rate and operating expense ratio are 2.5% and 41.7%, respectively.

Figure 87. Multifamily Construction, Discount Rates, Capitalization and Operating Expense Data

Multifamily Construction, Discount Rates, Capitalization and Operating Expense Data	
Multifamily Construction Cost Per SF[1]	$150 per SF
Multifamily Going-in Cap Rate[2]	5.5%
Multifamily Going-in Discount Rate[2]	7.5%
Multifamily Reversion Cap Rate[2]	6.0%
Multifamily Market Rent Inflator[2]	3.0%
Multifamily Expense Growth Rate[2]	2.5%
Median Multifamily Operating Expenses Ratio[3]	41.7%

[1]Marshall Valuation Service Guide
[2]Integra Realty Resources, rates and data for suburban multifamily in Washington, DC metro area
[3]Reis Rent Comparables report for multifamily properties near Penn Daw, August 2011

Multifamily (non-agency) financing rates, based on a 10-year fixed rate financing, are 4.99% and 5.14% for Class A and Class B/C, respectively, and multifamily (agency) rates are 5.14% and 5.39% for Class A and Class B/C, respectively. Max loan-to-values for non-agency and non-agency loans are 65-70% and 70-75%, respectively.

Figure 88. Multifamily Financing Data

10-Year Fixed Rate Financing	Max Loan-to-Value	Class A	Class B/C
Multifamily (Non-Agency)[1]	65 – 70%	4.99%	5.14%
Multifamily (Agency)[1]	70 – 75%	4.94%	5.09%

[1]Cushman & Wakefield Sonnenblick Goldman Capital Markets Update, August 2011
(Assumes Minimum Debt Service Coverage Ratio of 1.35x)

Office

Figure 89 captures key costs and rates for office development. Office construction cost is $160 per SF, while the going-in cap rate and discount rate are 7% and 8.25%, respectively. The office reversion cap rate is 7.5%, the rent inflator is 0.5%, and the expense growth rate is 2.5%. Office tenant finish allowance is $30 per SF, while the operating expenses per SF are $8.46.

Figure 89. Office Construction, Discount Rates, Capitalization and Operating Expense Data

Office Construction, Discount Rates, Capitalization and Operating Expense Data	
Office Construction Cost Per SF[1]	$160 per SF
Office Going-in Cap Rate[2]	7%
Office Going-in Discount Rate[2]	8.25%
Office Reversion Cap Rate[2]	7.5%
Office Market Rent Inflator[2]	0.5%
Office Expense Growth Rate[2]	2.5%
Office Tenant Finish Allowance[2]	$30 per SF
Median Office Operating Expenses per SF[3]	$8.46 per SF

[1]Marshall Valuation Service Guide
[2]Integra Realty Resources, rates and data for suburban office in Washington, DC metro area
[3]Reis Rent Comparables report for office properties near Penn Daw, August 2011

Office property financing rates, based on a 10-year fixed rate financing, are 4.94% and 5.19% for Class A and Class B/C, respectively. Max loan-to-value is 60-70%.

Figure 90. Office Financing Data

10-Year Fixed Rate Financing	Max Loan-to-Value	Class A	Class B/C
Office[1]	60 – 70%	4.94%	5.19%

[1]Cushman & Wakefield Sonnenblick Goldman Capital Markets Update, August 2011
(Assumes Minimum Debt Service Coverage Ratio of 1.35x)

APPENDIX 3: MARKET POTENTIAL DETERMINATION

3.1 Characteristics of Region, Locality, Neighborhood and Site

Region Characteristics – Northern Virginia

The region of Northern Virginia is characterized by its close proximity to Washington, DC, its relatively high levels of educational attainment and affluence, and its role as home to many federal contractors and large corporations. The region is a key driver in the economy of the DC Metro area, with significant centers of employment, cultural resources, and military presence.

Locality Characteristics – Southeast Fairfax County

Fairfax County is considered a core locale within Northern Virginia, due to its geographical and population size, as well as its close proximity to Washington, DC. Southeast Fairfax County, which includes Penn Daw, encompasses major north-south transportation arteries, including Richmond Highway and the George Washington Memorial Parkway. Whereas the George Washington Memorial Parkway serves primarily as a commuter road, Richmond Highway, on which the Penn Daw study area is located, is used both for commuting and more local traffic.

Southeast Fairfax County is also home to Ft. Belvoir, a significant Army installation, and historic Mt. Vernon. There is a significant volume of existing retail and residential development within Southeast Fairfax County, with a minimal amount of office development, especially on at the northern end of the Richmond Highway corridor.

Neighborhood Characteristics – Penn Daw Area

The Penn Daw area is located along the northern portion of the Richmond Highway central corridor, south of the northern gateway closer to the Woodrow Wilson Memorial Bridge. The area is characterized by retail and multifamily housing along and in close proximity to Richmond Highway, with single family detached housing further removed from Richmond Highway. The area is within or nearby four Fairfax County elementary school districts: Mount Eagle, Groveton, Belle View, and Bucknell.

Site Characteristics – Study Area

The Penn Daw study area is located at the intersection of Richmond Highway and South Kings Highway, and consists parcels under ownership by five distinct entities. The majority of the study area is fully developed, with existing utilities including water, sewer, and natural gas service. With the exception of the unoccupied Rite Aid pharmacy, all of the structures within the study area were built in 1960 or earlier.

3.2 Market Assessment for Townhouse and Multifamily Product Types

Market Assessment for Apartments

The total stock of existing multifamily rental housing 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.

Recent completions and pipeline projects in the southeast Fairfax County multifamily market number a total of 421 units. This is comprised of 202 units at The Courts at Huntington Station Phase I, which delivered in the first quarter of 2010, and the 219 units Phase II of the same project, which delivered in the first quarter of 2011.

Although the existing stock of multifamily units within southeast Fairfax County is a mix between high-rise and garden style apartments, it is likely that future development will favor high-rise, along with a strong offering of amenities. Examples of this style include The Courts at Huntington Station, as well as numerous newer properties outside of the submarket within the City of Alexandria and Arlington County.

Market Assessment for Condominiums

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. 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 de facto 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 and number of new unit sales. 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. Therefore, new construction at thoughtfully-selected sites, or first-rate repositioning of multifamily rental, appears to hold a competitive advantage in the sale of new condo units. Also important to note is the role that condo units can play in the context of broader developments – both as part of a condo/multifamily mix in a strictly residential development, and as a component of mixed-use developments which may also incorporate retail and/or office uses. Condo sales, especially pre-sales before the units are completed or even during planning, can provide needed capital to aid in the financing of the broader project. In addition, sold condo units can also help to attract other tenants, especially in the retail sector, to a mixed-use development because defined residential tenants of a property will likely choose to, or at least consider, patronizing retail establishments located on the premises.

Market Assessment for Townhouses

The townhouse style of owner-occupied single family housing is popular throughout the Washington, DC, Metro region due to its low perceived maintenance, efficient use of generally expensive land, and the allure of elegance generally associated with well-designed examples within this housing style. 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, along with another significant demographic which is less inclined to purchase detached single family homes – young professionals without children – baby boomers 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 on the virtue of Metro accessibility.

In addition to easy access to transportation, local amenities differentiate top-flight townhouse communities from the rest of the pack in terms of pricing. This can refer to in-unit amenities (quality of finishes, number of bathrooms, etc.) and in-complex amenities (pool area, clubhouse, etc.) which are within the developer and architect’s control within the confines of available space and budget. More challenging to replicate, and often more valuable to would-be purchasers, are community amenities such as walkable streets with restaurants and shops, cultural resources such as cinemas, theatres, and art galleries, and viewscapes of natural terrain.

In closing, 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 special perks 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 by those in more amenity-rich areas, such as near Huntington Metro, Old Town Alexandria, or within the District of Columbia. Therefore, although a townhouse development could certainly 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.

3.3 Profiles of Users to be Served

Retail

As discussed extensively in previous sections of this study, due to numerous factors it is believed to be unlikely than one or more traditional anchor tenants can be secured for a redevelopment of the study area. There is a possibility of utilizing future retail space for a non-traditional anchor tenant, such as a public library or health club. A specialty grocer (e.g. Hispanic or Asian supermarket) may also be possible.

In the event that 1) a new development option more attractive to one or more anchor tenants is formulated, or 2) a smaller volume of retail space than included in any of the current options is constructed, smaller retailers could still play a role in a redevelopment of the study area. Absent the ability to secure an anchor tenant, demand for small retailers would need to come in large part from residents of multifamily and/or other housing units constructed as part of the redevelopment. Compatible retailer types to serve residents' needs could include hardware stores, fast casual and/or specialty restaurants, and small convenience stores.

Multifamily

As established previously in the study, the vicinity of Penn Daw is heavily populated with relatively young, highly educated and high-earning individuals and households. Nonfamily households and family households without children are represented in a higher proportion than state- or nation-wide. In addition, a relatively high proportion of the population within the Penn Daw trade area is employed in "white collar" industries as opposed to "blue collar" industries or the services sector. Altogether, this establishes a potential multifamily tenant population which is professionally successful, less likely to have minor dependents, and which is likely to place a premium on convenience in choosing a domicile.

The population characteristics described above, though certainly not reflective of the entirety of inhabitants in the Penn Daw trade area and surroundings, bodes well for demand in new, high-quality multifamily housing. Certain risks are posed by these economic and demographic characteristics. Chief among those risks is the general tendency of such individuals to move and change jobs more frequently, making tenant retention at a potential multifamily development a key priority. However, the potential tenant profile described is also highly likely to respond well to increased availability of community amenities in the neighborhood, and could also contribute positively to the overall revitalization of the study area.

Office

Due to the analysis which concluded that the Penn Daw study area is likely unable to support Class A office development at this time, 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 purveyors of professional services, such as certified public accountants or 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.

3.4 Product's Features, Amenities and Services

Retail

A development concept that maximizes the visibility of tenant retailers' establishments, particularly from Richmond Highway, will best promote to secure tenants and maximize occupancy. Easily accessible parking and inviting walkways between individual storefronts will promote increased foot traffic and drive up the number of visitors at each location. Finally, to the extent possible, retail spaces should be positioned to receive the maximum amount of foot traffic from tenants entering and exiting the residential portion of the development.

Multifamily

In order to command rents sufficient to achieve financial feasibility, multifamily development will require high quality design and construction, both within individual units and in common areas. Individual units will require spacious kitchens with modern appliances, high ceilings, recessed lighting, quality carpets or other flooring, and other features comparable to the top tier of competing multifamily properties in the area. Common area features such as a club room, outdoor pool, and resident fitness center would also greatly enhance the property's appeal to prospective tenants. Finally, services such as a 24-hour concierge desk, through which tenants could arrange for off-site dry cleaning, would add a significant convenience factor which is likely to be crucial with the young professional population within the vicinity of the property.

Office

Office space should be designed with relatively small office suites in mind, suitable for both the medical and professional uses. Leases executed on a gross basis (with the owner/property manager providing maintenance and custodial services) would benefit such tenants who do not have the scale to replicate those functions internally.

3.5 Pricing Strategy

Retail

To the extent that it is possible to secure one or more anchor tenants in a future redevelopment, rental rates in the high teens (dollars per SF per year) would likely be necessary for minimum financial viability, with higher rents possible if the design concept is altered to make the opportunity more attractive to such retailers. For a point of reference, the now-terminated Shoppers Food lease at the existing Penn Daw Site was for $16.73 per SF per year, as shown below in Figure 91.

Figure 91. Penn Daw Shopping Center Occupancy and Rental Rates

Penn Daw Shopping Center Occupancy and Rental Rates	
Asking Rent (Non-Anchor)[1]	$25.28 per SF
Asking Rent (Anchor)[1]	$16.73 per SF
Vacancy Rate[1]	44.8%[2]
Property Size (SF)[1]	131,118 SF
Major Tenants[1]	Bowling Alley 38,000 SF CVS 11,300 SF

[1]Reis, August 2011
[2]Includes vacancy from Shoppers Food Warehouse

Small retailers could be expected to pay approximately $25 per SF per year if one or more anchor tenants co-located at the development. However, in the more likely scenario that an anchor tenant is not secured, small retailers would be less likely to pay that rate as the lack of an anchor tenant will result in fewer visitors to the retail center. In that case, rents closer to $20 per SF per year are more reasonable, although the lower limit would be determined by the minimum retail rental revenue needed for financial viability.

Typical rent-to-sales ratios range from 5 to 15 percent. Sales productivity assumed in this analysis ranges from $250 to $400 per square foot based upon merchandise category/business type. Restaurants generating $400 per square foot can afford to pay rent of 5 to 10 percent of sales depending upon cost of goods sold. This would equal expected rental ranges of $20 to $40 per square foot. Retailers would target similar rent-to-sales ratios; with assumed productivity of $250 per square foot, retailers would anticipate rents ranging from $12.50 to $25 per square foot. Small format retailers would pay rent at the higher end of this range.

Multifamily

Based on a high-quality multifamily development at the Penn Daw study area, a rental range of $1,400 to $2,150 per unit per month is believed to be achievable across a unit mix of studio and one-, two-, and three-bedroom apartments. Lower rental rates would not support the financial feasibility of a new development, while higher rents are not believed to be achievable due to the prevailing trends in the market.

Office

Based on the assumption of any office development being catered to small users of Class B/C office space, rents will likely average approximately $30 per SF per year. That figure could vary subject to the negotiation of lease terms, such as the amount of space, any period of rent-free occupancy, and tenant improvement allowance, among others.

3.6 Rate of Absorption of Each Product Type

Retail

Recent net absorption of retail space within the southeast Fairfax County submarket, which includes Penn Daw, has been approximately 14,000 SF (CBRE-EA, 1Q2011). Given a total retail space stock of 5.58 million SF, this reflects a 0.25% absorption in the first quarter of 2011. If that trend continues, retail absorption would average approximately 1% annually. In reality, absorption of retail space within southeast Fairfax County and within the immediate vicinity of Penn Daw will depend significantly on the competitive position of available properties and broader trends in the DC Metro and greater economy.

Multifamily

Recent net absorption of multifamily space within the southeast Fairfax County submarket, which includes Penn Daw, has been negative 123 units (CBRE-EA, 1Q2011). Given a total multifamily stock of 35,184 units, this reflects a -0.35% absorption in the first quarter of 2011. If that trend continues, multifamily absorptions would average approximately -1.4% annually. However, given a relatively small amount of recent completions and pipeline projects in this submarket, it is unlikely that negative absorption will continue past the immediate term barring an unanticipated downturn in the local economy. Also, due to rent growth throughout the DC metropolitan area, it is likely that available multifamily units in the southeast Fairfax County submarket will become more attractive by comparison and will experience positive absorption. Finally, given the overall low multifamily vacancy rate in the submarket, market indicators suggest that this area is still viewed as desirable by the renting population.

Office

Recent net absorption of office space within the Springfield submarket, which includes Penn Daw, has been approximately negative 113,000 SF. Given a total inventory of 4.046 million SF, this reflects a -2.79% absorption for the first quarter of 2011. However, forecasts (CBRE-EA, 1Q2011) projects positive absorption to resume over the next two years, with approximately 125,000 SF being absorbed during that period. Actual net absorption will likely vary wildly depending on any major employers decisions to relocate to or vacate from the submarket, given the relatively low volume of inventory compared to other submarkets.

Appendix 4: Feasibility Assessment of Multifamily Development Options

4.1 Market Viability of Multifamily Development Options

Market Viability of Task Force Option 1 Multifamily

Below is a cash flow summary for the Task Force Option 1 multifamily development.

Figure 92. Cash Flow Summary – Task Force Option 1 Multifamily Development

Cash Flow	0	1	2	3	4	5	6
Operating Cash Flow							
Rental Income		6,471,000	6,665,130	6,865,084	7,071,036	7,283,168	7,501,663
Reimbursement Revenue		129,420	133,303	137,302	141,421	145,663	150,033
Potential Gross Income (PGI)		6,600,420	6,798,433	7,002,386	7,212,457	7,428,831	7,651,696
Less Vacancy		$ (1,980,126)	$ (1,019,765)	$ (350,119)	$ (360,623)	$ (371,442)	$ (382,585)
Effective Gross Income (EGI)		$ 4,620,294	$ 5,778,668	$ 6,652,266	$ 6,851,834	$ 7,057,389	$ 7,269,111
Less Operating Expenses							
Real Estate Tax		$ (520,199)	$ (533,204)	$ (546,534)	$ (560,197)	$ (574,202)	$ (588,557)
Maintenance		$ (346,799)	$ (355,469)	$ (364,356)	$ (373,465)	$ (382,802)	$ (392,372)
Insurance		$ (115,600)	$ (118,490)	$ (121,452)	$ (124,488)	$ (127,601)	$ (130,791)
Marketing		$ (115,600)	$ (118,490)	$ (121,452)	$ (124,488)	$ (127,601)	$ (130,791)
Administrative		$ (308,266)	$ (315,973)	$ (323,872)	$ (331,969)	$ (340,268)	$ (348,775)
Utilities		$ (211,933)	$ (217,231)	$ (222,662)	$ (228,229)	$ (233,934)	$ (239,783)
Management Fee		$ (134,866)	$ (138,238)	$ (141,694)	$ (145,236)	$ (148,867)	$ (152,589)
Other		$ (173,400)	$ (177,735)	$ (182,178)	$ (186,732)	$ (191,401)	$ (196,186)
Subtotal		$ (1,926,663)	$ (1,974,829)	$ (2,024,200)	$ (2,074,805)	$ (2,126,675)	$ (2,179,842)
Less Replacement Reserves		$ (56,400)	$ (57,810)	$ (59,255)	$ (60,737)	$ (62,255)	$ (63,811)
Less TI and RC		$ (220,014)	$ (225,514)	$ (231,152)	$ (236,931)	$ (242,854)	$ (248,926)
Net Operating Income (NOI)		**$ 2,417,217**	**$ 3,520,514**	**$ 4,337,659**	**$ 4,479,362**	**$ 4,625,605**	**$ 4,776,532**
Development Cash Flow							
Development Costs							
MF	$ (66,093,750)						
General Contingency	$ (6,609,375)						
Demolitions Costs	$ (960,771)						
Sales							
Sales							
MF Bldg Sales						$ 86,846,037	
Cost of Sales							
MF Bldg Sales						$ (3,473,841)	
Pretax Cash Flow Before Financing	$ (73,663,896)	$ 2,417,217	$ 3,520,514	$ 4,337,659	$ 4,479,362	$ 87,997,801	
Debt Service Coverage Ratio		0.67	0.98	1.20	1.24	1.62	
Financing							
Permanent Loan							
Loan Amount	$ 55,016,796						
Debt Service		$ (3,600,807)	$ (3,600,807)	$ (3,600,807)	$ (3,600,807)	$ (54,221,513)	
Points	$ (550,168)						
Pretax Cash Flow After Financing	$ (19,197,268)	$ (1,183,590)	$ (80,293)	$ 736,852	$ 878,555	$ 33,776,287	
Leveraged IRR	11.92%						

Below are the pro forma assumptions for the Task Force Option 1 multifamily development.

Figure 93. Pro Forma Assumptions – Task Force Option 1 Multifamily Development

General Assumptions			
Number of Multifamily (MF) Units	300		
Market Rent Inflator (%/Yr)[1]	3.0%		
Expense Growth Rate (%/Yr)[1]	2.5%		
Construction Cost ($/SqFt)	$ 150.00		
Net SqFt to Gross SqFt (%)	80%		
Total Rentable Net SqFt	352,500		
Total Gross SqFt	440,625		
Other Income (% of Gross)	2%		
Cap Rates			
Going-In Cap Rate[1]	5.5%		
Reversion Cap Rate[1]	6.0%		
Number of Units per Building			
Building 1	125		
Building 2	75		
Building 3	100		
Loss			
Model Units (One of each model)	7		
Employee Units (1-bedroom equivalent)	4		
Office (1-bedroom equivalent)	2		
Rent Concessions (Mo/Yr)	0.4		
Operating Assumptions			
Other Income (% of Gross)	2.0%		
Vacancy Factor (% of EGI)	5.0%		
Management Fees (% of EGI)	5.0%		
Operating Expenses Ratio (% of EGI)	41.70%		
Capital Expenditures ($/SqFt)	$ 0.16		
Vacancy Rates			
Year 1 (After Construction is Complete)	30.00%		
Year 2 (After Construction is Complete)	15.00%		
Year 3 Thereafter (Stabilized)	5.00%		
Rent & Unit Type Distribution			
Unit Type	**SqFt**	**Rent/Mo**	**Distribution**
Studio	700	$ 1,400	10%
1 BR x 1.0 BA	1,000	$ 1,550	15%
1 BR x 1.5 BA	1,100	$ 1,600	15%
2 BR X 2.0 BA	1,200	$ 1,850	20%
2 BR X 2.5 BA	1,300	$ 1,950	20%
3 BR X 2.5 BA	1,400	$ 2,100	10%
3 BR X 3.0 BA	1,500	$ 2,150	10%

Market Viability of Task Force Option 2 Multifamily

Below is a cash flow summary for the Task Force Option 2 multifamily development.

Figure 94. Cash Flow Summary – Task Force Option 2 Multifamily Development

Cash Flow	0	1	2	3	4	5	6
Operating Cash Flow							
Rental Income		10,785,000	11,108,550	11,441,807	11,785,061	12,138,613	12,502,771
Reimbursement Revenue		215,700	222,171	228,836	235,701	242,772	250,055
Potential Gross Income (PGI)		11,000,700	11,330,721	11,670,643	12,020,762	12,381,385	12,752,826
Less Vacancy		$ (3,300,210)	$ (1,699,608)	$ (583,532)	$ (601,038)	$ (619,069)	$ (637,641)
Effective Gross Income (EGI)		$ 7,700,490	$ 9,631,113	$ 11,087,110	$ 11,419,724	$ 11,762,316	$ 12,115,185
Less Operating Expenses							
Real Estate Tax		$ (866,998)	$ (888,673)	$ (910,890)	$ (933,662)	$ (957,004)	$ (980,929)
Maintenance		$ (577,999)	$ (592,449)	$ (607,260)	$ (622,441)	$ (638,003)	$ (653,953)
Insurance		$ (192,666)	$ (197,483)	$ (202,420)	$ (207,480)	$ (212,668)	$ (217,984)
Marketing		$ (192,666)	$ (197,483)	$ (202,420)	$ (207,480)	$ (212,668)	$ (217,984)
Administrative		$ (513,777)	$ (526,621)	$ (539,787)	$ (553,281)	$ (567,113)	$ (581,291)
Utilities		$ (353,221)	$ (362,052)	$ (371,103)	$ (380,381)	$ (389,890)	$ (399,638)
Management Fee		$ (224,777)	$ (230,397)	$ (236,157)	$ (242,061)	$ (248,112)	$ (254,315)
Other		$ (288,999)	$ (296,224)	$ (303,630)	$ (311,221)	$ (319,001)	$ (326,976)
Subtotal		$ (3,211,104)	$ (3,291,382)	$ (3,373,666)	$ (3,458,008)	$ (3,544,458)	$ (3,633,070)
Less Replacement Reserves		$ (94,000)	$ (96,350)	$ (98,759)	$ (101,228)	$ (103,758)	$ (106,352)
Less TI and RC		$ (366,690)	$ (375,857)	$ (385,254)	$ (394,885)	$ (404,757)	$ (414,876)
Net Operating Income (NOI)		**$ 4,028,696**	**$ 5,867,524**	**$ 7,229,432**	**$ 7,465,603**	**$ 7,709,342**	**$ 7,960,887**
Development Cash Flow							
Development Costs							
MF	$ (110,156,250)						
General Contingency	$ (11,015,625)						
Demolitions Costs	$ (960,771)						
Sales							
Sales							
MF Bldg Sales						$ 144,743,395	
Cost of Sales							
MF Bldg Sales						$ (5,789,736)	
Pretax Cash Flow Before Financing	$ (122,132,646)	$ 4,028,696	$ 5,867,524	$ 7,229,432	$ 7,465,603	$ 146,663,001	
Debt Service Coverage Ratio		0.67	0.98	1.21	1.25	1.63	
Financing							
Permanent Loan							
Loan Amount	$ 91,216,284						
Debt Service		$ (5,970,036)	$ (5,970,036)	$ (5,970,036)	$ (5,970,036)	$ (89,897,728)	
Points	$ (912,163)						
Pretax Cash Flow After Financing	$ (31,828,525)	$ (1,941,340)	$ (102,512)	$ 1,259,396	$ 1,495,567	$ 56,765,273	
Leveraged IRR	12.28%						

Below are the pro forma assumptions for the Task Force Option 2 multifamily development.

Figure 95. Pro Forma Assumptions – Task Force Option 2 Multifamily Development

General Assumptions				
Number of Multifamily (MF) Units	500			
Market Rent Inflator (%/Yr)[1]	3.0%			
Expense Growth Rate (%/Yr)[1]	2.5%			
Construction Cost ($/SqFt)	$ 150.00			
Net SqFt to Gross SqFt (%)	80%			
Total Rentable Net SqFt	587,500			
Total Gross SqFt	734,375			
Other Income (% of Gross)	2%			
Cap Rates				
Going-In Cap Rate[1]	5.5%			
Reversion Cap Rate[1]	6.0%			
Number of Units per Building				
Building 1	125			
Building 2	75			
Building 3	100			
Loss				
Model Units (One of each model)	7			
Employee Units (1-bedroom equivalent)	4			
Office (1-bedroom equivalent)	2			
Rent Concessions (Mo/Yr)	0.4			
Operating Assumptions				
Other Income (% of Gross)	2.0%			
Vacancy Factor (% of EGI)	5.0%			
Management Fees (% of EGI)	5.0%			
Operating Expenses Ratio (% of EGI)	41.70%			
Capital Expenditures ($/SqFt)	$ 0.16			
Vacancy Rates				
Year 1 (After Construction is Complete)	30.00%			
Year 2 (After Construction is Complete)	15.00%			
Year 3 Thereafter (Stabilized)	5.00%			
Rent & Unit Type Distribution				
Unit Type		**SqFt**	**Rent/Mo**	**Distribution**
Studio		700	$ 1,400	10%
1 BR x 1.0 BA		1,000	$ 1,550	15%
1 BR x 1.5 BA		1,100	$ 1,600	15%
2 BR X 2.0 BA		1,200	$ 1,850	20%
2 BR X 2.5 BA		1,300	$ 1,950	20%
3 BR X 2.5 BA		1,400	$ 2,100	10%
3 BR X 3.0 BA		1,500	$ 2,150	10%

Market Viability of Developer Option

Below is a cash flow summary for the Developer Option multifamily development.

Figure 96. Cash Flow Summary – Developer Option Multifamily Development

Cash Flow	0	1	2	3	4	5	6
Operating Cash Flow							
Rental Income		16,824,600	17,329,338	17,849,218	18,384,695	18,936,236	19,504,323
Reimbursement Revenue		336,492	346,587	356,984	367,694	378,725	390,086
Potential Gross Income (PGI)		17,161,092	17,675,925	18,206,203	18,752,389	19,314,960	19,894,409
Less Vacancy		$ (5,148,328)	$ (2,651,389)	$ (1,274,434)	$ (1,312,667)	$ (1,352,047)	$ (1,392,609)
Effective Gross Income (EGI)		$ 12,012,764	$ 15,024,536	$ 16,931,768	$ 17,439,721	$ 17,962,913	$ 18,501,800
Less Operating Expenses							
Real Estate Tax		$ (1,352,517)	$ (1,386,330)	$ (1,420,988)	$ (1,456,513)	$ (1,492,926)	$ (1,530,249)
Maintenance		$ (901,678)	$ (924,220)	$ (947,326)	$ (971,009)	$ (995,284)	$ (1,020,166)
Insurance		$ (300,559)	$ (308,073)	$ (315,775)	$ (323,670)	$ (331,761)	$ (340,055)
Marketing		$ (300,559)	$ (308,073)	$ (315,775)	$ (323,670)	$ (331,761)	$ (340,055)
Administrative		$ (801,492)	$ (821,529)	$ (842,067)	$ (863,119)	$ (884,697)	$ (906,814)
Utilities		$ (551,026)	$ (564,801)	$ (578,921)	$ (593,394)	$ (608,229)	$ (623,435)
Management Fee		$ (350,653)	$ (359,419)	$ (368,404)	$ (377,614)	$ (387,055)	$ (396,731)
Other		$ (450,839)	$ (462,110)	$ (473,663)	$ (485,504)	$ (497,642)	$ (510,083)
Subtotal		$ (5,009,323)	$ (5,134,556)	$ (5,262,920)	$ (5,394,493)	$ (5,529,355)	$ (5,667,589)
Less Replacement Reserves		$ (146,640)	$ (150,306)	$ (154,064)	$ (157,915)	$ (161,863)	$ (165,910)
Less TI and RC		$ (572,036)	$ (586,337)	$ (600,996)	$ (616,021)	$ (631,421)	$ (647,207)
Net Operating Income (NOI)		**$ 6,284,765**	**$ 9,153,337**	**$ 10,913,789**	**$ 11,271,293**	**$ 11,640,274**	**$ 12,021,095**
Development Cash Flow							
Development Costs							
MF	$ (171,843,750)						
General Contingency	$ (17,184,375)						
Demolitions Costs	$ (960,771)						
Sales							
Sales							
MF Bldg Sales						$ 218,565,366	
Cost of Sales							
MF Bldg Sales						$ (8,742,615)	
Pretax Cash Flow Before Financing	$ (189,988,896)	$ 6,284,765	$ 9,153,337	$ 10,913,789	$ 11,271,293	$ 221,463,025	
Debt Service Coverage Ratio		0.68	0.99	1.18	1.21	1.58	
Financing							
Permanent Loan							
Loan Amount	$ 141,895,567						
Debt Service		$ (9,286,956)	$ (9,286,956)	$ (9,286,956)	$ (9,286,956)	$ (139,844,428)	
Points	$ (1,418,956)						
Pretax Cash Flow After Financing	$ (49,512,285)	$ (3,002,191)	$ (133,619)	$ 1,626,833	$ 1,984,337	$ 81,618,597	
Leveraged IRR	10.39%						

Below are the pro forma assumptions for the Developer Option multifamily development.

Figure 97. Pro Forma Assumptions – Developer Option Multifamily Development

General Assumptions			
Number of Multifamily (MF) Units	780		
Market Rent Inflator (%/Yr)[1]	3.0%		
Expense Growth Rate (%/Yr)[1]	2.5%		
Construction Cost ($/SqFt)	$ 150.00		
Net SqFt to Gross SqFt (%)	80%		
Total Rentable Net SqFt	916,500		
Total Gross SqFt	1,145,625		
Other Income (% of Gross)	2%		
Cap Rates			
Going-In Cap Rate[1]	5.5%		
Reversion Cap Rate[1]	6.0%		
Number of Units per Building			
Building 1	125		
Building 2	75		
Building 3	100		
Loss			
Model Units (One of each model)	7		
Employee Units (1-bedroom equivalent)	4		
Office (1-bedroom equivalent)	2		
Rent Concessions (Mo/Yr)	0.4		
Operating Assumptions			
Other Income (% of Gross)	2.0%		
Vacancy Factor (% of EGI)	7.0%		
Management Fees (% of EGI)	5.0%		
Operating Expenses Ratio (% of EGI)	41.70%		
Capital Expenditures ($/SqFt)	$ 0.16		
Vacancy Rates			
Year 1 (After Construction is Complete)	30.00%		
Year 2 (After Construction is Complete)	15.00%		
Year 3 Thereafter (Stabilized)	7.00%		
Rent & Unit Type Distribution			
Unit Type	**SqFt**	**Rent/Mo**	**Distribution**
Studio	700	$ 1,400	10%
1 BR x 1.0 BA	1,000	$ 1,550	15%
1 BR x 1.5 BA	1,100	$ 1,600	15%
2 BR X 2.0 BA	1,200	$ 1,850	20%
2 BR X 2.5 BA	1,300	$ 1,950	20%
3 BR X 2.5 BA	1,400	$ 2,100	10%
3 BR X 3.0 BA	1,500	$ 2,150	10%

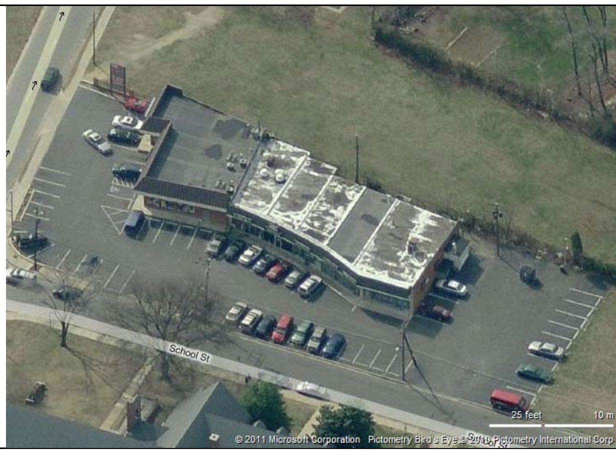
APPENDIX 5: ASSESSMENT OF CURRENT SHOPPING CENTER AND RETAIL MIX

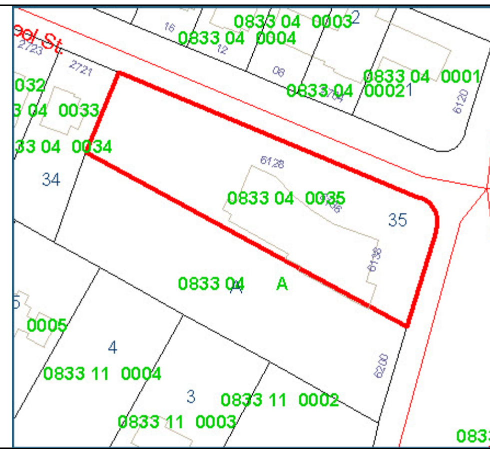
5.1 Assessment of Site-Specific Factors on Market/Retail Potential

Existing Buildings and Infrastructure

The Lee property consists of an existing retail center consisting of 9,523 SF which was built in 1955. The site has existing water, sewer, and gas utility service. An aerial photograph and tax record map of the Lee property is below.

Figure 98. Lee Property Aerial and Tax Map

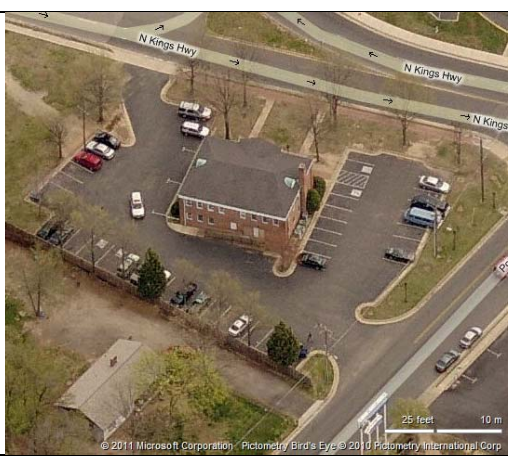


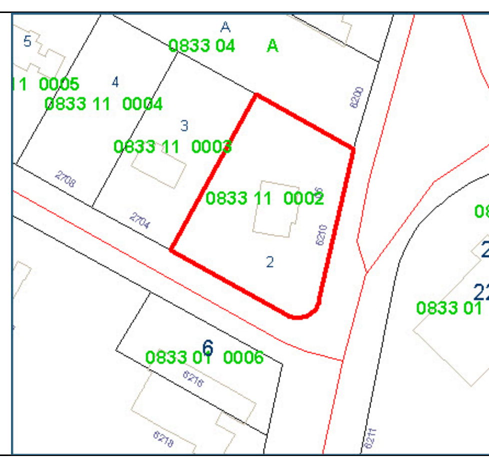


Source: Pictometry **Source: Fairfax County**

The Spicer property consists of a 7,536 office building constructed in 1948. The building and site have existing water, sewer, and gas utility service. Also within the Spicer property is a single family home built in 1952 comprising 1,888 SF. An aerial photograph and tax record map of the Spicer property office building are below.

Figure 99. Spicer Property Aerial and Tax Map

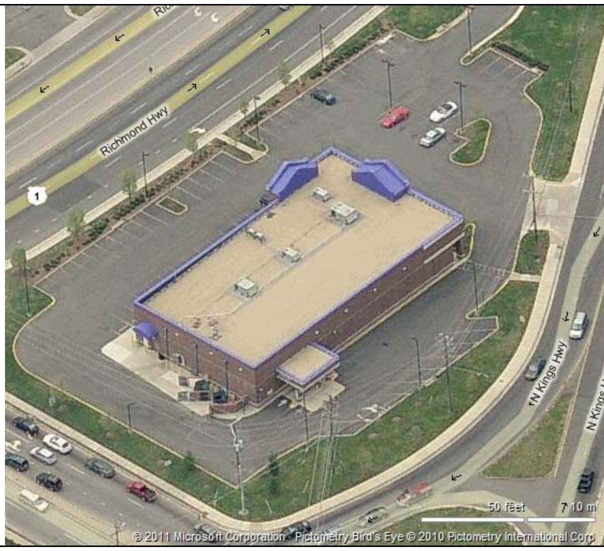


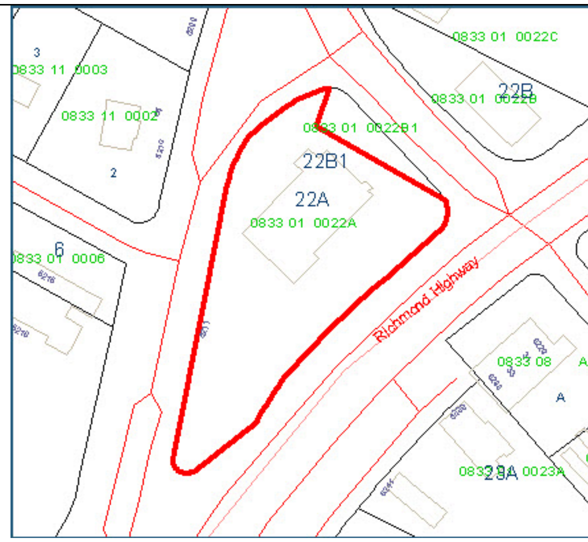


Source: Pictometry **Source: Fairfax County**

The Rite Aid property consists of a 12,478 SF pharmacy constructed in 2000. The site is served by existing water, sewer and gas connections. An aerial photograph and tax record map of the Rite Aid Property are below.

Figure 100. Rite Aid Property Aerial and Tax Map

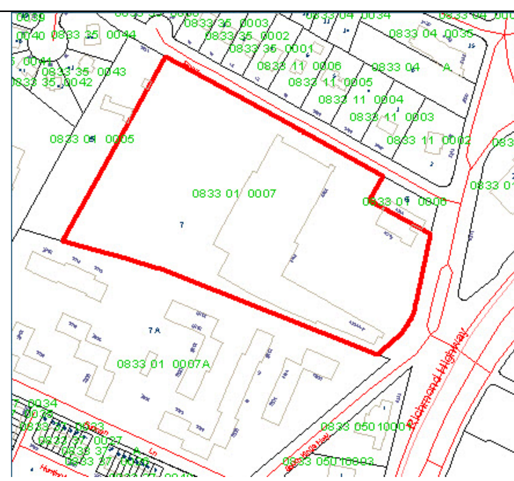




Source: Pictometry **Source: Fairfax County**

The Combined property consists of a 126,290 SF shopping center constructed in 1960. Although tax records do not indicate availability of utilities on the site, it is believed to be served by existing water, sewer, and gas connections. An aerial photograph and tax record map of the Combined property are below.

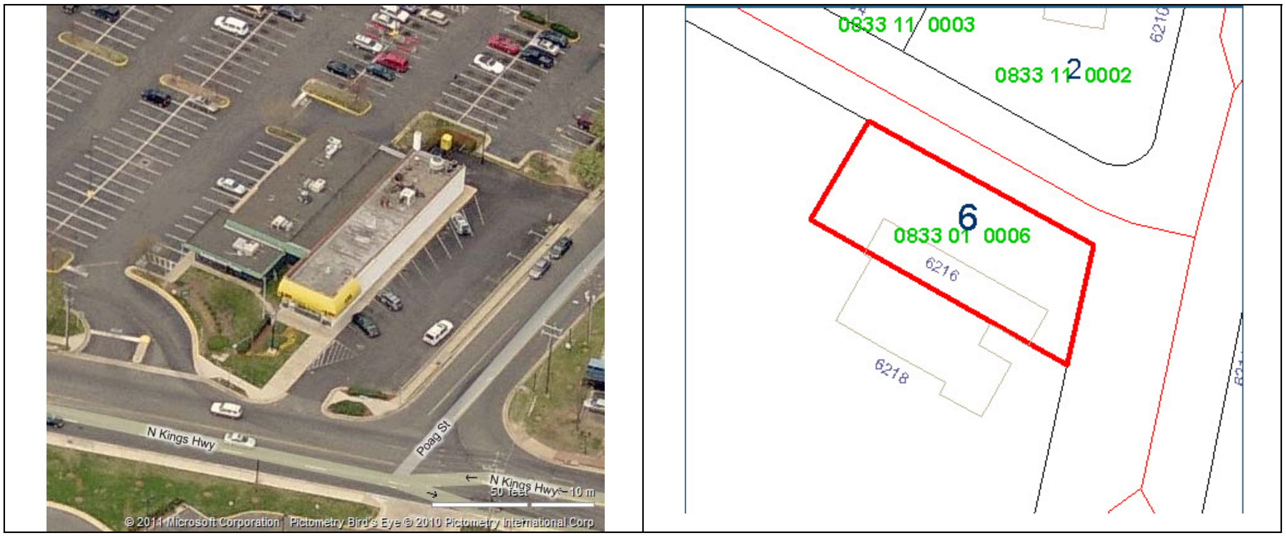
Figure 101. Penn Daw Shopping Center Aerial and Tax Map



Source: Pictometry **Source: Fairfax County**

The Trend property consists of a 3,375 SF retail center constructed in 1955. Although tax records do not indicate availability of utilities on the site, it is believed to be served by existing water, sewer, and gas connections. An aerial photograph and tax record map of the Trend property are below.

Figure 102. Trend Property Aerial and Tax Map



Source: Pictometry **Source: Fairfax County**

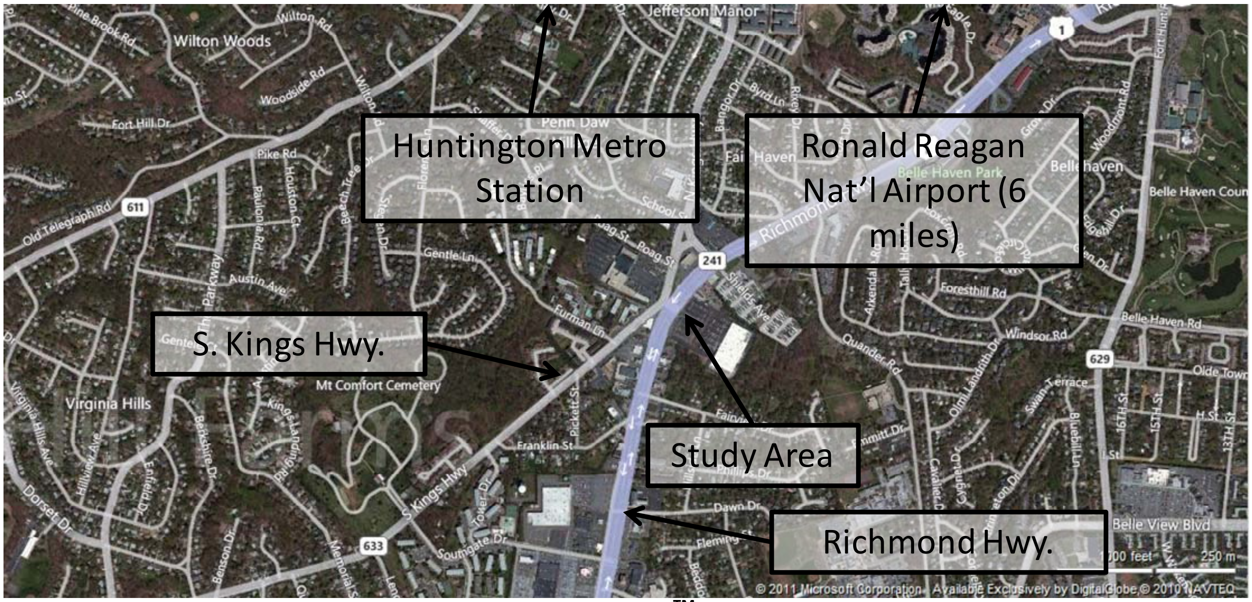
Environmental Considerations

Environmental considerations associated with the Penn Daw study area appear to be minimal. The Penn Daw study area is not impacted by a flood zone. As the site is currently fully developed and the majority is covered by impermeable surfaces, it is unlikely that a redevelopment would cause significant environmental impacts, provided sound site planning practices are followed. Redevelopment could present the opportunity for environmental enhancements, including Leadership in Energy and Environmental Design (LEED) certified buildings.

Accessibility / Traffic

The Penn Daw study area is located adjacent to both Richmond Highway and South Kings Highway. Richmond Highway is a major transportation route in the area, allowing travel to the south toward Ft. Belvoir and north to both I-495/Woodrow Wilson Memorial Bridge and Jefferson Davis Highway. The closest fixed public transportation is Huntington Metro Station, located approximately one mile from the study area. Additionally, multiple bus routes serve the Richmond Highway area, providing access to the Huntington Metro Station and other points. In addition to ground transportation, Ronald Reagan National Airport (DCA) is located approximately six miles north of the study area. A map depicting transportation amenities surrounding the study area is included below.

Figure 103. Transportation Amenities Near Penn Daw Study Area



Source: Bing™

Surrounding Areas

As stated above, Richmond Highway serves as the commercial backbone of the Penn Daw surrounding area, providing linkages to Ft. Belvoir to the south and to I-495, the City of Alexandria, and ultimately to Washington, DC, to the north. Richmond Highway is extremely automobile-oriented, with inconsistent and uninviting pedestrian access. In addition, though north-south transportation in the area is strong, there is a lack of strong east-west transportation routes, as Richmond Highway tends to isolate areas located on the east and west of the route from one another. The immediate vicinity of the study area is characterized by relatively narrow retail and multifamily development along Richmond Highway, with single family residential developments of varying ages spreading out to the east and west.

Nearby office development is concentrated to the north of the site in closer proximity to I-495. Further south, in proximity to Ft. Belvoir, some office development exists, with more expected as the functions located at Ft. Belvoir continue to expand. However, demand for office space related to Ft. Belvoir is not expected to extent as far north as the study area.

Site SWOT Analysis

Strengths:	**Weaknesses:**
• High traffic counts along Richmond Highway could benefit retail uses • Existing commercial development (mostly retail) and nearby residential neighborhoods contribute to the existing draw of the study area • Demand for multifamily housing in the area is projected to remain strong	• Lack of east/west connections in Richmond Hwy. corridor hinder transportation and accessibility • Lack of visibility and access from Richmond Hwy. diminish appeal for retailers • Study area is likely too far north to benefit from increased Ft. Belvoir-related office demand
Opportunities:	**Threats:**
• Political motivation and support exist to improve quality of life and public amenities in the Penn Daw study area • Community outreach and education could lead to increased acceptance of new rental housing, which could improve overall redevelopment viability	• Walmart opposite study area on Richmond Hwy. will dampen interest in study area from suitable anchor retail tenants, such as supermarket retailers • Neighborhood resistance to new rental housing may deprive new retail or office uses of sufficient customer and tenant bases

5.2 Interview Sources

Interview Sources

- Elizabeth Hagg, Office of Community Reinvestment and Revitalization, Fairfax County
- Tom Burke, Department of Transportation, Fairfax County
- Arpita Chatterjee, Department of Transportation, Fairfax County
- Meghan Van Dam, Department of Planning and Zoning, Fairfax County
- Holly Dougherty, Executive Director, Mount Vernon-Lee Chamber of Commerce
- Kyle Talente, Penn Daw Task Force

5.3 "Leakage Analysis" of Penn Daw's Probable Retail Trade Area

Data vendors such as ESRI generate retail demand/supply reports called "Leakage Studies" using ***estimated*** spending potential within a designated area and ***estimated*** retail sales in the designated area to indicate merchandise categories with sales voids.

These reports provide general guidance but should be viewed with healthy skepticism for two reasons. First, the calculations of "gaps" and "surpluses" in these reports are valid only to the extent that the vendor has accurately *estimated* the actual level of retail sales generated by businesses within the geographic study. These estimates are generated without a reliable government data source for this critical information. Second, these reports are based on the questionable assumption that retail space is allocated across a geographic area in a direct relationship to population and households. This is generally true of "convenience goods" retailers but not necessarily true of "shopper's goods" retailers. "Leakage" analyses ignore the tendency of "shopper's goods" retailers to cluster in shopping centers and nodes. ***Few retail categories would show a "balance" at a micro level such as a 10-minute drive area. A "balance" of demand and sales would be more likely to occur at macro levels such as an entire metropolitan area or state.***

Two trends that began in the 1950s dominate retailing in the U.S. today. These trends are generally not reflected in "Leakage" analysis.

1. Organized shopping centers have become the predominant model for clustering retailers into "critical masses" that have destination drawing power. The distance that a shopping center can pull shoppers on a routine basis is determined by a variety of factors but is most influenced by its overall size, the uniqueness of its merchandise offering, competitiveness of surrounding shopping centers, and general accessibility.
2. Most retailers have shifted their business model as it relates to margin, turnover, and profitability. In distinct contrast to the retail model featuring independent neighborhood stores with high margins, today's mass merchandisers must have a high volume of sales to compensate for low margins on each item sold. As a result, stores have become larger in size and dependent upon broader trade areas for support. The corner grocer that could make a profit in a store of 8,000 square feet has morphed into the supermarket that needs 45,000 square feet to generate sufficient sales to be profitable.

Figure 104 presents ESRI's projected 2015 dollar values of "leakage" as well as calculations of "leakage" as a percent of estimated spending by store category.

Figure 104. Penn Daw 10-Minute Drive Retail Trade Area Gap Analysis (Leakage Estimates) – 2015

PENN DAW 10-MINUTE DRIVE RETAIL TRADE AREA GAP ANALYSIS (LEAKAGE ESTIMATES) 2015	"LEAKAGE" (Millions)	"LEAKAGE" AS A PERCENT OF ESTIMATED DEMAND
"CONVENIENCE GOODS"		
Auto Parts Stores	$16.0	31%
Health and Personal Care Stores	$24.7	22%
Gas Stations	$105.8	17%
"FOOD AT HOME" AND ALCOHOLIC BEVERAGES		
Grocery Stores	$69.6	9%
Specialty Food Stores	$3.4	36%
Beer Wine and Liquor Stores	$5.8	16%
"SHOPPER'S GOODS"		
Department Stores	$3.2	2%
Clothing Stores	$80.2	46%
Shoe Stores	$9.8	49%
Furniture and Home Furnishings Stores	$19.5	13%
Electronics and Appliances Stores	$66.3	37%
Jewelry, Luggage and Leather Goods Stores	$18.4	69%
Sporting Goods, Hobby, Musical Instrument Stores	$11.1	42%
Books, Periodicals, Music Stores	$15.2	55%
Building Materials Stores	$57.8	40%
Lawn and Garden Supply Stores	$8.0	50%
Office Supplies, Stationery and Gift Stores	$16.0	40%
FOOD AWAY FROM HOME		
Full Service Restaurants	$111.7	30%
Limited Service Eating Places	$40.1	16%

Source: ESRI

By observation, the Richmond Highway corridor contains the merchandise lines/key retailers that would be expected in a commercial corridor not anchored by a regional or super-regional shopping center. The ESRI gap analysis results suggest that some merchandise categories are under-represented in the Richmond Highway corridor. In particular, there are large dollar value "gaps" in sales by electronics/appliance stores, building material stores, grocery stores, gas stations, health and personal care stores, clothing stores, and restaurants (both full-service and limited-service). In practice, some of these merchandise categories are typically under-represented in areas that lack a super-regional/regional shopping center.

Apparel/shoes and jewelry stores show some of the highest levels of "leakage" as a percent of estimated demand. Some of the under-representation by apparel /shoe stores and jewelry stores in the Richmond Highway corridor reflects the fact that these categories are primarily oriented to super-regional or regional shopping centers and nodes rather than neighborhood shopping centers or community shopping centers. It is not surprising, therefore, that a "gap" analysis would show this category to be under-represented in the Richmond Highway corridor.

An in-depth analysis of commissary spending at Fort Belvoir may explain some of the sales "gap" calculated for grocery stores.

The sales "gap" identified for building material stores is surprising since this category's two dominant competitors—Lowe's Home Improvement and The Home Depot—are both located in the Richmond Highway corridor within the 10-minute drive area surrounding Penn Daw.

Other categories with relatively high proportions of "leakage" are categories in which consumers would be expected to spend in businesses outside of their immediate neighborhoods. Consumers buy gas wherever they are when they need gas; they do not limit their fuel purchasing to their immediate neighborhood. Similarly, consumers spend in restaurants that are close to home as well as restaurants across town or when they are traveling out-of-town.

Retail Spending Data

Figure 105. Retail Gap Analysis Summary – Penn Daw Trade Area

2010 Industry Summary	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/ Surplus Factor
Total Retail Trade and Food & Drink	$18,809,822,077	$16,255,953,917	$2,553,868,160	7.3
Total Retail Trade	$15,929,822,571	$12,443,754,557	$3,486,068,014	12.3
Total Food & Drink	$2,879,999,506	$3,812,199,360	$-932,199,854	-13.9

Source: ESRI

Figure 106. Retail Gap Analysis by Category – Penn Daw Trade Area

2010 Industry Summary	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/ Surplus Factor
Motor Vehicle & Parts Dealers	$3,872,061,625	$3,179,423,578	$692,638,047	9.8
Food & Beverage Stores	$3,067,623,681	$2,649,894,428	$417,729,253	7.3
Food Services & Drinking Places	$2,879,999,506	$3,812,199,360	$-932,199,854	-13.9
Gasoline Stations	$2,349,980,713	$1,848,579,510	$501,401,203	11.9
General Merchandise Stores	$2,042,555,824	$998,736,566	$1,043,819,258	34.3
Clothing & Clothing Accessories	$956,822,779	$652,865,830	$303,956,949	18.9
Bldg Materials & Garden Equipment	$635,228,991	$359,681,375	$275,547,616	27.7
Electronics & Appliance Stores	$647,699,751	$512,234,320	$135,465,431	11.7
Furniture & Home Furnishings	$651,202,471	$633,044,903	$18,157,568	1.4
Health & Personal Care Stores	$646,907,553	$731,485,720	$-84,578,167	-6.1
Nonstore Retailers	$394,272,266	$400,049,960	$-5,777,694	-0.7
Miscellaneous Store Retailers	$392,275,863	$247,630,132	$144,645,731	22.6
Sporting Goods, Hobby, Book & Music	$273,191,054	$230,128,235	$43,062,819	8.6

Data Note: Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. The Leakage/Supply Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. The Retail Gap represents the difference between Retail Potential and Retail Sales. ESRI uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity. The vintage of the Retail Market Place data on this report is 2015.
Source: ESRI and Infogroup

5.4 Retail Market Coverage Analysis

A few of the "gaps" suggested in the ESRI "leakage" analysis coincide with market coverage voids in the Penn Daw trade area by key retailers. In particular, sporting goods and office supply stores have voids in market coverage in southeast Fairfax County. Key retailers in these categories could become prospects for Penn Daw or competing sites in the Richmond Highway corridor or in other established retail nodes in southeast Fairfax County.

Supermarket and Specialty Food Store Coverage

Most neighborhood shopping centers and many community shopping centers are anchored by a supermarket. Shoppers Food and Pharmacy opted to close its Penn Daw store rather than engage in head-to-head competition with the new Walmart across Richmond Highway. The pending openings of Costco and Wegman's in southeast Fairfax County will escalate the level of competition for grocery dollars. Dominant chains such as Safeway and Giant Food units are well-represented in the vicinity of Penn Daw and are unlikely candidates for the Penn Daw redevelopment. Whole Foods and Trader Joes are also unlikely to need additional coverage in southeast Fairfax. Based upon coverage void, the best prospect for a supermarket anchor at Penn Daw is Harris Teeter; however, this chain may feel the market is over-saturated with grocery options. Other candidates include international specialty grocers.

- Giant Food and Safeway are entrenched in the market and would not seem to be reasonable prospects for a supermarket at Penn Daw.

- Whole Foods is a highly selective specialty food retailer that has a location on Duke Street approximately 2.5 miles to the north of Penn Daw. Whole Foods hopes to achieve sales in excess of $20 million per unit in stores averaging 40,000 square feet. Whole Foods focuses on high-income areas with proportions of college graduates and post-graduates that are well above the national average of 30 percent.

- Trader Joe's is a popular specialty food store offering organic products, gourmet items, wine, and prepared foods. Its business model calls for stores with a minimum sales volume of $15 million. Because its prototypical store is 10,000 square feet, this translates into sales productivity of $1,500 per square foot. This level of performance is as much as 4 times higher than the sales productivity of traditional supermarkets. Trader Joe's existing stores in Old Town Alexandria (612 N. Saint Asaph Street) and Springfield Plaza are approximately 10 miles apart. This represents typical store spacing for Trader Joe's. The Springfield Plaza store is approximately 5.5 miles from Penn Daw; the Old Town store is less than 3 miles from Penn Daw.

- Harris Teeter has entered the metropolitan Washington, DC market with a relatively aggressive strategy. To date, this grocer has not opened any units in southeast Fairfax County. The supermarket sector in southeast Fairfax County is highly competitive; however, Harris Teeter may still target this area for a store.

- Asian and Hispanic supermarkets serve ethnic communities and are increasingly popular among “foodies.” Ethnic grocery stores compete with Walmart and traditional supermarkets by offering greater depth of specialized merchandise. There are already several small international markets in the Richmond Highway corridor; a large international food store could find a consumer base in southeast Fairfax County.

- Costco and Sam’s Wholesale Club are absent from southeast Fairfax County. Costco has plans to open on the site previously occupied by a multiplex cinema at the intersection of Sherwood Hall Lane and Richmond Highway. This precludes a Costco at Penn Daw. The absolute size of Sam’s Wholesale Club makes it an unreasonable candidate for the Penn Daw study area.

- Wegman’s has secured a site in the Newington area at the intersection of Telegraph Road and the Fairfax County Parkway. This location will be adequate to serve southeast Fairfax County. Wegman’s is not a realistic candidate for the Penn Daw study area because of the small size of the site and the general incompatibility of this very large retailer with a mixed-use development.

General Merchandise Store Coverage

Walmart and Target are the dominant general merchandise retailers in community shopping centers in the Washington, DC metropolitan area and throughout the U.S. These anchor retailers offer broad selections of family clothing, housewares, and other “shoppers’ goods” (including books, music, electronics and small appliances). Both retailers have expanded their offerings of groceries to gain greater shares of their patrons’ spending. In less than a decade, Walmart has become the nation’s second largest grocery retailer. Kohl’s is another general merchandise anchor found in community shopping centers and regional shopping centers. Because of established locations near Penn Daw, none of these retailers is a candidate for the retail redevelopment at Penn Daw.

- Target has three stores within close proximity of Penn Daw. The closest store is located less than 1 mile south of Penn Daw on Richmond Highway; other stores are approximately 5 miles to the west at Springfield Mall and just over 4 miles to the north in the Potomac Yard power center. Target identifies urban trade areas of 100,000 residents per store and the three trade areas of these existing stores “overlap” at Penn Daw. Target does not have a coverage gap in Alexandria/southeast Fairfax that warrants a store at Penn Daw.

- Walmart operates two stores in close proximity to Penn Daw. Walmart’s 80,000 square foot store located opposite Penn Daw is a neighborhood market with an edited general merchandise selection. The Walmart Super Center at 7910 Richmond Highway is a 200,000 square foot general merchandise store with full grocery selection. The smaller, new Walmart store may have been added to enable Walmart to attract patrons from

Alexandria since that city has been hostile to allowing Walmart within its boundaries. Per the store manager, 5-15 percent of this store's traffic/sales originates within neighboring Prince George's County where the closest Walmart is located on Branch Avenue in Clinton.

- Kohl's is a hybrid retailer that has a selective site selection strategy focusing on upper-middle income family households. Kohl's operates a store at Kingstowne Towne Center, approximately 3 miles from Penn Daw. Its next closest stores are in Waldorf, MD and Burke, VA. Given the proximity of its Kingstowne store and its need to open stores elsewhere in the metropolitan area, Kohl's is not a prospect for Penn Daw.

Movie Theater Coverage

Movie theaters can serve as anchors especially for centers with large restaurant components. The Richmond Highway corridor lost its multiplex cinema several years ago when the movie theater industry reinvented itself around state-of-the-art multiplexes.

- There is little opportunity for the Penn Daw site to attract a movie theater given the proximity of theaters at Kingstowne Towne Center (3 miles from Penn Daw) and Carlyle in Alexandria (3 miles from Penn Daw).

Store Coverage by Mid-Box Retailers

"Mid-box" retailers offer deep assortments in a narrow range of merchandise categories. Several "category killers" can establish drawing power similar to a single general merchandise store. For this reason, mid-box tenants make good anchors for community shopping centers.

- Sporting goods retailers have minimal coverage of southeast Fairfax County. This is reflected in the ESRI "gap" analysis. Modell's has market overage via a store at Springfield Mall; The Sports Authority and Dick's Sporting Goods may each be potential candidates for the Penn Daw site.

- The electronics/appliance sector is in transition following the bankruptcy of Circuit City. Best Buy is the national leader in electronics while Lowe's and Home Depot have become major vendors of appliances. H.H. Gregg is a regional electronics/appliance superstore that has entered the market to compete with Best Buy. Best Buy has reasonable market coverage in Alexandria/southeast Fairfax County via stores on Frontier Drive near Springfield Mall, Potomac Yard, and near Landmark Mall in Alexandria. H. H. Gregg's unit count in the Washington, DC region stands modest compared to Best Buy, but their early store openings included a store on Loisdale Road near Springfield Mall. Neither of these retailers appears to be strong prospects for Penn Daw.

- Office Max is absent from southeast Fairfax County and could be a candidate for Penn Daw. Staples and Office Depot—the industry's other leading national office supply superstores—are already located in the Richmond Highway corridor.

- Petco and PetSmart are already operating in the Richmond Highway corridor. These retailers are not candidates for Penn Daw.

- Family apparel retailers are strong anchors for community shopping centers. Marshall's and T.J. Maxx are located in the Mt. Vernon Plaza area of Richmond Highway and would not need additional stores at Penn Daw. Ross Dress for Less currently operates at Kingstowne Towne Center. None of these key anchor stores needs to add to their coverage of this portion of southeast Fairfax County.

- Major shoe retailers such as DSW and Off Broadway Shoes gravitate to fashion oriented shopping nodes with multiple department stores. The closest DSW store is at Pentagon Row adjacent to the Fashion Centre at Pentagon City. The Penn Daw site is not likely to evolve into a fashion destination of sufficient magnitude to attract either of these large shoe stores.

- Bookstore chains are struggling to a changing industry. Just as changes in the way consumers purchase recorded music made record/tape/CD stores obsolete, the way consumers buy books is threatening "bricks and mortar" bookstores. Borders Books and Music is closing all of its stores while Barnes & Noble is focus on electronic books. Industry observers wonder if large bookstores are relics of the past. Books-A-Million is a small regional retailer with uncertain long-term prospects. The Books-A-Million unit at Penn Daw is an inherited store from Crown Books; retaining this tenant and expanding it into a larger anchor is a possible strategy for Penn Daw.

- New retailers entering the market may be candidates for the Penn Daw study area although these merchants will naturally evaluate all location options. Predicting the entry of new stores and restaurants is beyond the scope of this assignment; however, brokers mention DD's Discounts (a division of Ross Dress for Less) and Dollar Tree Deals as retailers poised to enter the region with multiple units. The site selection criteria used by these retailers might be favorable to Penn Daw.

Restaurant Coverage

Restaurants are drawn to mixed-use settings as well as outparcel sites along busy commercial corridors. Full-service and limited-service chain restaurants and independent restaurants are prime candidates for the Penn Daw study area—especially of public areas that can be created to encourage social gathering.

- Independent restaurants can provide unique appeal to shopping centers and mixed-use projects. These entrepreneurial businesses succeed or fail on the basis of the skills of their owners. A mixture of independent restaurants and chain restaurants provides an opportunity to create stability (via the chains) with points of differentiation (via the independent operators).

- Many national chains operating in the Washington, DC metropolitan area have not yet found sites in the Richmond Highway corridor. The casual dining chains generally require 2,500 to 6,000 square feet and can occupy in-line (leased) space or freestanding buildings (on outparcels). Chain restaurants that have existing locations in the Richmond Highway corridor include Ruby Tuesday, Outback Steak House, Moe's Southwestern Grill, TGI Friday, Boston Market, Panera Bread, Applebee's and Famous Dave's BBQ. Family restaurant data for the Penn Daw trade area is included below in Figure 107.

Figure 107. Family Restaurant Data – Penn Daw Trade Area

Family Restaurants Visited in Last 6 Months	Expected Number of Adults	Percent	MPI
Applebee's	54,871	25.3%	98
Olive Garden	38,370	17.7%	104
Red Lobster	30,580	14.1%	97
Chili's Grill & Bar	28,830	13.3%	118
T.G.I. Friday's	28,788	13.3%	125
International House of Pancakes	28,174	13.0%	117
Outback Steakhouse	26,372	12.2%	102
Cheesecake Factory	22,323	10.3%	158
Denny's	20,115	9.3%	99
Cracker Barrel	19,853	9.2%	75
Ruby Tuesday	18,620	8.6%	96
Red Robin	12,120	5.6%	113
Friendly's	8,996	4.2%	110
Bennigan's	7,090	3.3%	114
Perkins	6,977	3.2%	86
Lone Star Steakhouse	6,166	2.8%	93

Data Note: A Market Potential Index (MPI) measures the relative likelihood of the adults in the specified trade area to exhibit certain consumer behavior or purchasing patterns compared to the U.S. An MPI of 100 represents the U.S. average.
Source: These data are based upon national propensities to use various products and services, applied to local demographic composition. Usage data were collected by GfK MRI in a nationally representative survey of U.S. households. ESRI forecasts for 2010.

5.5 Retailer Site Selection Process

Retailers evaluate potential sites in terms of consumer markets that can be attracted to a specific location. Few retailers feel compelled to operate at a potential site unless site criteria are met.

Most chain retailers select sites using sales projection models that incorporate population density, population growth rate, and consumer demographics including household income, age, and other factors. Retailers have established threshold levels of consumer support required for new stores by evaluating profitable operating stores. Often, they attempt to replicate the population density and demographics surrounding existing stores in trade areas that would be served by new stores.

Now more than ever, retailers know that maximum profitability can be achieved by operating the fewest possible number of stores. Sites are selected based upon analysis of "incremental sales volumes" with a focus on potential sales transfer (and profit transfer) from existing stores. Retailers resist opening a new store if their model projects a marginal level of sales or if the new store threatens the profitability of existing store(s) through cannibalization. Retailers have learned the painful lesson that over-expansion can quickly erode profits.

Retailers that are not currently covering Penn Daw's trade area have competing site options that might be perceived as superior in several ways:

- ***Established shopping centers and nodes may be viewed as "less risky" than a new development.***

- ***Existing shopping centers offer the traditional suburban format of retail storefronts facing surface parking lots.***

- ***Richmond Highway's largest "critical mass" of retailing is located south of Penn Daw in the Hybla Valley area. Prospective retailers may place a premium on the co-tenancy offered in this area. The destination drawing power of this retail concentration will increase when Costco opens its warehouse club in this node.***

It is also possible that retailers without representation in southeast Fairfax County have valid business reasons for not tapping into this consumer market. The area may not have desired/required demographics for some retailers; others may perceive this area to be excessively competitive.

Appendix 1 contains the published site criteria of selected retailers. A site that meets a retailer's demographics is not assured of attracting a retailer. Meeting a retailer's objective site criteria is the starting point in a site evaluation process that can become increasingly subjective. In recent years, most retailers have scaled back their expansion plans because

capital was not available for new stores. In such an environment, retailers naturally focus on the very best opportunities for their few new store opportunities. Most retailers have also curtailed store openings if they have reason to fear that sales will not quickly rise to a profitable level. This means that site options that are out of the ordinary or perceived as speculative are not well-received.

APPENDIX 6: BIBLIOGRAPHY OF SOURCE MATERIALS

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APPENDIX 7: ASSUMPTIONS AND LIMITING CONDITIONS

The preceding report is subject to the following assumptions and limiting conditions:

- The analyses set forth in this report are subject to the following assumptions and limiting conditions, all of which, for purposes of this report, have been accepted as true and correct without verification or investigation by A&M, which assumes no responsibility whatsoever therefore. None of the following particulars should be read to limit the generality of the foregoing qualification.
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- Oil, gas, mineral rights, and subsurface rights were not considered in making this valuation unless otherwise stated and are not a part of the analyses, if any exist.
- We assume no responsibility for any conditions, not readily observable from our customary inspection of the properties, which might affect the analyses. We reserve the right to change the analyses if so warranted, when supplied with further information, if that information dictates.
- No conclusions are intended to be expressed regarding matters that require legal expertise or specialized investigations or knowledge beyond that customarily employed by real estate advisory professionals.
- The title to the properties is free and clear of all liens and encumbrances, except as noted.
- We have made no architectural or engineering study, property survey, soil study or environmental investigation, and we assume that no problems exist in connection with such matters on any of the properties. The described physical condition of any improvements is based on visual external inspection only, and it is assumed that there are no hidden or unapparent physical conditions. Dimensions and areas are as supplied by others and are subject to survey.
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- The report was prepared for the purpose stated and should not be used for any other purpose.
- All direct and indirect written information supplied by the client, its agents and assigns, concerning the properties is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.
- This report is intended to be read and used as a whole and not in parts.
- Our analyses are based on currently available information, estimates and assumptions about future developments. We do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimated results.
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- With respect to our analyses, our work did not include an analysis of the potential impact of any unexpected sharp rise or decline in local or general financial markets or economic conditions or technological changes.
- Our report is dated October 20, 2011 (the "Report Date"). We cannot be held responsible for changes in the market conditions or properties which would have a material impact on the value(s) reported herein subsequent to our Report Date. It is

further stated the terms of our engagement did not provide for reporting on events and transactions which occurred subsequent to the Report Date.

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