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## Tall Oaks Market Analysis Peer Review

**To**

Barbara Byron, Director of  
the Office of Community  
Revitalization  
Fairfax County, VA

**From**

Kyle Talente, Vice President  
and Principal  
RKG Associates, Inc.

**Re**

Peer Review of the Retail  
and Residential Market  
Analysis for the Tall Oaks  
Shopping Center - DRAFT

### I. BACKGROUND

Tall Oaks Shopping Center was opened in 1974 as a grocery-anchored strip center to serve one of the five village centers in Reston. The shopping center totals approximately 72,000 square feet of leasable retail space. The center has not had a stable grocery anchor since 2007, when Giant grocery store vacated. Current occupancy rates are estimated to be 13% (approximately 9,400 square feet).

The site's current owner, Jefferson Apartment Group, currently is exploring the redevelopment potential of the shopping center with a mix of uses. As part of this process, the Reston Comprehensive Plan recommends conducting a market analysis to provide information on the existing and proposed development and the viability of the existing and proposed mix of uses. Jefferson Apartment Group hired Robert Charles Lesser & Co. Real Estate Advisors (RCLCO) to perform the market analyses. RCLCO analyzed the existing development as well as a proposed development program totaling 156 residential units (70 condominiums/flats, 42 two-over-two townhouses, and 44 townhouses) and 7,000 square feet of commercial space.

RKG Associates was retained by the Fairfax County Office of Community Revitalization on March 10, 2016 to critically review the retail and residential market analysis performed by RCLCO (analysis dated March 9, 2016) for the redevelopment of the Tall Oaks Shopping Center. RKG focused its peer review on the market research components of the study. The following elements were addressed with this analysis.

Retail Market:

- Definition of Primary and Secondary Trade Areas,
- Suitability of retail supply and demand data, sales per square foot by merchandise categories, household spending characteristics, etc.,
- Analysis of retail sales leakage and potential sales capture assumptions,
- Assessment of competitive retail space within the primary and secondary market,
- Justification for the applicant's proposed retail component (i.e., store types, store size, projected sales \$/SF).

Residential Market:

- Analysis of demographic and economic trends specifically driving the demand for new residential development at the Tall Oaks Village Center location in Reston,
- Review of locational attributes that make the site suitable for residential development (i.e., access to major transportation routes, public transit, proximity to employment centers, shopping, schools, etc.)

## RKG Associates, Inc.

Tel 703.739.0965  
Fax 703.739.0979

300 Montgomery Street #203  
Alexandria, VA 22314

[www.rkgassociates.com](http://www.rkgassociates.com)  
[kst@rkgassociates.com](mailto:kst@rkgassociates.com)



- Analysis of recent residential development and sales activity within the primary market to support the absorption of additional conventional townhomes, two-over-two townhomes, and condominium apartments.
- Analysis of competitive developments containing similar residential product types as those proposed for Tall Oaks Village Center. The analysis should include a breakdown of units by type, size configuration and price.

## II. RETAIL MARKET ANALYSIS REVIEW

### 1. Approach

RCLCO used a retail demand model to determine the potential capture for the Tall Oaks Shopping Center. Effectively, the analysis identifies the total demand for retail goods within a primary trade area and adjusts that demand for site, location, and competitive market factors. The resulting ‘potential capture’ is then adjusted by a ‘sales per square foot’ factor that retailers typically seek to meet their return goals. Sales per square foot estimates vary by retail category, and are well documented by a number of sources (i.e. Urban Land Institute). This is a common industry approach to determining retail market potential, but relies heavily on the expertise of the analyst to assess the site, location, and competitive market factors.

RCLCO’s approach to assessing site, location, and competitiveness involved a thorough assessment of the strengths and weaknesses of the subject property as well as analyzing the current and potential demand and competition within the market. RKG Associates’ site analysis of the Tall Oaks Shopping Center and the competitive market surrounding the site found RCLCO’s findings to be reasonable.

RCLCO used reasonable assumptions throughout the retail market analysis, including the estimated sales per square foot assumptions to determine market potential. RKG would not make any substantive changes to the performance assumptions used in the analysis.

The one area of the approach that RKG questions is the definition of the Primary Trade Area (PTA). A PTA typically is the area from which 70% of sales will be generated. RCLCO used a 1-mile radius area to determine demand. Given the transportation (Dulles Toll Road), physical (Lake Fairfax Park), and competitive environment (seven grocery stores within 2.5 miles of the subject property), RKG Associates would likely have used a drive time analysis to determine the Primary Trade Area. Drive time analyses account for these factors, and customize the boundary to a site’s true accessibility.

### 2. Data Sources

RCLCO’s local market performance analysis utilized the standard data sources used for these analyses. In addition to its own field research and assessment of primary market data (i.e. pipeline projects), RCLCO used sources such as CoStar, ESRI, retailer site location metrics to

determine market feasibility. These sources are industry standard, and provide the most accurate and complete data readily available for these analyses.

### 3. Completeness of the Analysis

RKG Associates believes the RCLCO analysis is complete and consistent with industry standards. RKG would not substantively change the depth of analysis followed by RCLCO.

### 4. Suitability of the Findings

RKG Associates reviewed the two primary findings from the retail market analysis; [1] the potential for a grocer at the study site, and [2] the total supportable square footage on the site.

#### *Site Location Factors*

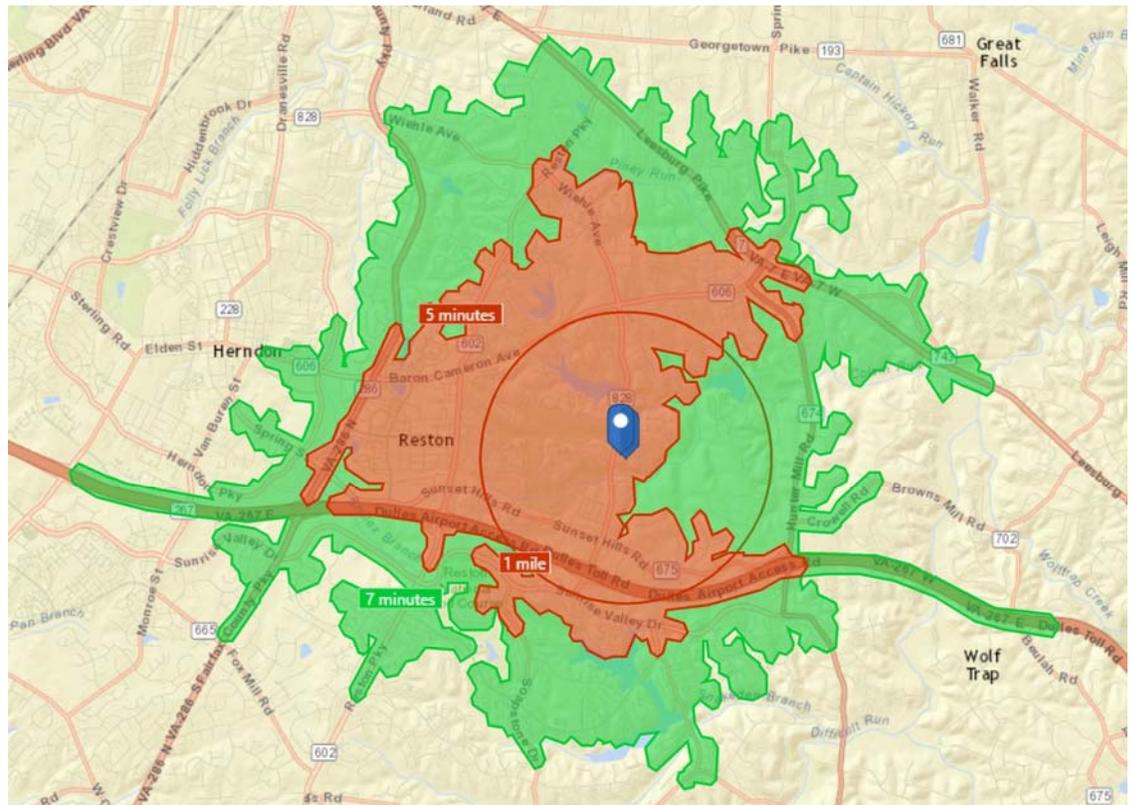
The RCLCO analysis identified a number of strengths and weaknesses of the subject property in its analysis. The following findings are most relevant to the critical review of that work.

- **Traffic** – North Shore Drive has fewer than 5,500 cars per day in front of the Tall Oaks entrance. While Wiehle Avenue traffic counts are consistent with other major commercial corridors in the area (i.e. Reston Parkway), the Tall Oaks site does not have any visibility or transportation access from Wiehle Avenue.
- **Accessibility** – North Shore Drive east of Wiehle Avenue is a dead-end street that ends at the edge of Lake Fairfax Park. This lack of connectivity is the primary reason for the low traffic counts. That said, the inability of Tall Oaks to improve visibility or gain vehicular access to Wiehle Avenue substantially inhibits the commercial potential of the site.
- **Orientation** – As noted, the ‘inward facing’ orientation of the site and its potential use/development is a limiting factor from a commercial viability perspective. The lack of visibility and access also adversely impacts the commercial center at Lake Anne. In contrast the other local commercial centers have substantial visibility and accessibility from their respective main thoroughfares (and are more viable in the marketplace).
- **Competition** – Since 1974, the Reston area of Fairfax County has grown substantially. The introduction of Reston Town Center and the expansion of Metro with the Silver Line are two more recent occurrences that have spurred the development of more modern, well situated, and competitive centers to Tall Oaks. Today, there are seven traditional groceries within 2.5 miles of the Tall Oaks property (Giant Foods, Whole Foods, Harris Teeter, Trader Joe’s, and three Safeway stores). Six of the seven of these groceries are in centers built since Tall Oaks was developed.

Grocery Anchor

RKG Associates performed a cursory retail leakage analysis using 5-minute and 7-minute drive time boundaries (see Map 1) to test the suitability of the 1-mile radius PTA demand approach. The leakage analysis identifies uncaptured sales by retail category within the defined boundary. The leakage approach using a drive time boundary for the PTA provides two comparative metrics against the RCLCO analysis. First, it adjusts the PTA boundaries to an area more consistent with the physical locational attributes of Reston. Simply put, it accounts for accessibility of Tall Oaks. Five-minute (conservative) and seven-minute (aggressive) boundaries are consistent for grocery-anchored shopping centers in communities like Reston in the greater Washington DC market. Second, it incorporates the capture of sales by other grocery stores within the PTA. This approach differs from a pure demand analysis approach used by RCLCO, as it accounts for the demand already being captured by competitors in the market.

Map 1 – Tall Oaks Shopping Center Drive Time and Radius PTA Boundaries



The analysis identified that the subject property has greater retail capture by local businesses within the 5-minute drive time than there is demand from area residents. The 7-minute drive time shows a sales leakage<sup>1</sup> of nearly \$35.6M for grocery sales (demand not captured by local businesses). The data indicate Tall Oaks would need to draw from a larger market than the immediate area in order to support a grocery store. Given the site challenges enumerated in the RCLCO analysis, this would be highly unlikely. Even if the site barriers could be addressed, the 7-minute drive time area market demand could support nearly 65,000 SF of grocery store (at RCLCO's \$550 PSF capture rate for specialty groceries<sup>2</sup>). That said, Tall Oaks would not be able to capture 100% of this leaked sales. Using RCLCO's 35% 'ideal' capture rate<sup>3</sup> for groceries yields less than 22,600 SF of supportable grocery store. When site limitations (low traffic counts/no through access on North Shore Drive, lack of vehicular and visual connectivity to Wiehle Avenue), an aggressive capture rate likely would be in the 20% range (or 13,000 SF). To this point, RCLCO's findings that Tall Oaks is not a suitable location for a grocer are substantiated.

#### Total Retail/Service Space

The site currently supports approximately 9,400 SF of tenants, including four delivery and take-out focused dining establishments, two pet-oriented service providers, a dry cleaner, and an early childhood education provider. The common link to these businesses is that they do not require high-traffic, high-visibility locations. In fact, the service-based businesses likely prefer the abundant parking that Tall Oaks offers.

To this point, the subject property will continue to be non-competitive due to its lack of visibility and lack of access from Wiehle Avenue. The type of retailers and service providers that will be attracted to the Tall Oaks site are those that serve the greater Reston market, but do not rely on high volume through traffic and walk-up business. The three most likely retail/service tenants of the new development will be neighborhood-serving businesses (i.e. dry cleaners, beauty salons...), destination businesses (i.e. pet daycare/grooming), and dining establishments that rely heavily on their take-out and delivery business. In short, Tall Oaks is attractive because it offers ample parking and a comparatively reduced rent rate (within Reston). Retailers that focus on in-store activity will seek locations at the many shopping centers along the major transportation corridors (i.e. Sunset Hills Road, Reston Parkway...).

In terms of total supportable retail space, RCLCO's findings are within a reasonable range. At a base level, the site currently supports 9,400 SF of users. Assuming a similar rent structure, the site likely could continue this level of activity after the redevelopment, especially with 156 new

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<sup>1</sup> 2015 ESRI Retail MarketPlace Profile

<sup>2</sup> RCLCO Study, Summary of Retail Demand Model, pp 15

<sup>3</sup> *ibid*

high-income households on the premises. The RCLCO analysis indicates that total unmet retail demand available to be captured on the site ranges between 9,000<sup>4</sup> square feet and 24,000<sup>5</sup> square feet (depending on the grocer assumptions). However, these totals do not account for minimum store footprints. For example, a new shoe store will not open if there is only enough demand to support 75 square feet of sales activity. RCLCO's conclusion that the site can support 6,000 square feet of retail activity reflects those categories where the supportable demand is greater than the minimum store size (restaurant/specialty foods and service use).

That said, the RCLCO analysis only accounts for 1,500 square feet of service-based business demand, or those commercial businesses that transact in services and not goods. The groomer, dry cleaner, and child education center are prime examples of these uses. At a base level, the site currently supports more than 4,000 square feet of service-based businesses. To this point, there likely will be more demand for these users above the 1,500 square feet presented in the analysis. Without performing a more detailed analysis, it is challenging to estimate what that demand would be. That said, it is reasonable to believe the site could support up to 10,000 square feet of service-based businesses with an appropriate design, pricing, and parking strategy.

It is important to note that increasing the total amount of retail/service space in the new development comes with some risk. Adding more commercial space to the new development likely will require the developer to price the space more competitively within the market to reach full occupancy. Given the current success at Tall Oaks relies on below-market cost space compared to elsewhere in Reston, heavier discounts will further negatively impact the financial performance of the project. This is particularly true when considering underlying cost per square foot is much higher for newly constructed space than for older, rehab space.

In any case, the type of commercial business will be consistent with existing patterns despite the amount of space. The Tall Oaks site is an 'off market' location within a highly competitive and better-positioned local marketplace.

### III. RESIDENTIAL MARKET ANALYSIS REVIEW

#### 1. Approach

RCLCO performed a thorough residential supply and demand analysis to understand the likely absorption rate, penetration rate, and price point for housing at the Tall Oaks site. The approach is consistent with industry standards. The assumptions used throughout the analysis are reasonable and consistent with the local market climate. RKG Associates would not make any substantive changes to the approach.

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<sup>4</sup> 2015 demand level, Trader Joe's scenario

<sup>5</sup> 2020 demand level, traditional grocer scenario

**2. Data Sources**

RCLCO used the most recent and appropriate data sources to perform the residential market analysis. In addition to using locally relevant comparable property data to determine market performance levels at the subject site, RCLCO also used a number of industry standard data sources (i.e. ACS, HUD, RealQuest...) to complete the analysis. RKG finds the data sources consistent with industry standards and would not substantially change the approach as followed by RCLCO.

**3. Completeness of the Analysis**

RKG Associates believes the RCLCO analysis is complete and consistent with industry standards. RKG would not substantively change the depth of analysis followed by RCLCO.

**4. Suitability of the Findings**

Given the approach, sources, and completeness of the residential market analysis are appropriate and within industry standards, the analysis findings are reasonable. RKG Associates sees no evidence or methodological flaws to refute the analysis findings. The site is a logical location for medium-density ownership and rental housing development given its proximity to Metro, Reston Town Center, Tyson's Corner and Washington DC.

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