Update of Market Conditions
Landmark/Van Dorn Plan Advisory Group

City of Alexandria, Virginia | March 17, 2008
Marc McCauley, Senior Principal
MARKET EVOLUTION OF VAN DORN AREA
FROM THIS...
MARKET EVOLUTION OF VAN DORN AREA
TO THIS...
MARKET EVOLUTION
WHAT DRIVES LAND USE SHIFTS?

• Logical Urban Infill Location Within Local and Regional Context
• Strong Demand Drivers
• Rising Land Values Require Density
  • Surface Parking Phased Out as a Financially Feasible Land Use
  • Phasing In of Higher-Density Product Types, Parking Solutions
• Strong Market Demand for Mixed and Integrated Multiple Use
• Availability of Numerous Redevelopment Sites
  • Aging Strip Retail Current Curse, But Long-Term Blessing
  • Which Sites/Projects Will Act as Catalysts?
• Planning and Infrastructure Investments are Critical
GROWTH PROJECTIONS REFLECT SHIFT
SIGNIFICANT SHIFT IN EMPLOYMENT PROJECTIONS

Employment Growth, 2005 to 2020, Van Dorn Area – MWCOG Projections

- **Round 6.4A**
  - 2005: 13,646
  - 2010: 13,595
  - 2020: 18,210

- **Round 7.1**
  - 2005: 13,646
  - 2010: 13,595
  - 2020: 18,210

Bar chart showing employment growth projections for the Van Dorn Area from 2005 to 2020, with two rounds of projections indicated.
GROWTH PROJECTIONS REFLECT SHIFT
SIMILAR SHIFT IN HOUSEHOLD PROJECTIONS

Household Growth, 2005 to 2020, Van Dorn Area – MWCOG Projections

- **2005**: Round 6.4A (12,882) and Round 7.1 (12,882)
- **2010**: Round 6.4A (13,306) and Round 7.1 (13,306)
- **2020**: Round 6.4A (16,294) and Round 7.1 (16,294)
PROJECTED GROWTH: IMPACT ON LAND USE WILL DRIVE MIX OF LAND USES

• Assumes Significant Redevelopment at Higher Densities

• Projections Reflect Strong Demand for Multiple Land Uses:
  • Residential: Multifamily housing, with density of product increasing over time as the market continues to shift
  • Retail: Strong existing demand, combined with household growth, will drive reinvention of retail environment
  • Retail: Mix of destination and neighborhood-serving retail options
  • Office: Strong local and community-serving boutique office opportunities as part of mixed-use cores
  • Office: Select opportunities for large, regional Class A office development, but requires creation of market that does not exist today
NEAR-TERM BEST CASE: SOFT LANDING
IS DC RECESSION PROOF?

Employment Projections for the Washington Region
2008 - 2011

SOURCE: Center for Regional Analysis, George Mason University
LONG-TERM VIEW, NEAR-TERM REALITIES
ASSUME MARKET CYCLES, BUT FUNDAMENTALS STRONG

• Plan Should Reflect Longer-Term Fundamentals
• Longer-Term Vision Should be Primary Focus of Planning Process
• Plan Should be Flexible:
  • With Regard to Land Uses & Built Forms
  • Allow For Inevitable Market Cycles
• Current Market Cycle: Challenges Ahead
  • Economic Slowdown Very Likely
  • Supply-Demand Imbalances in Variety of Product Types
  • Will Impact Timing, Character of First-Generation of Redevelopment Projects
Residential Market Opportunities
RESIDENTIAL MARKET OPPORTUNITIES
VAN DORN POISED FOR GROWTH IN THE LONG-TERM

• Emergence as Class A Multifamily Submarket

• Long-Term Growth Fundamentals Still Very Strong
  • Expect COG Projections by 2020 to Hold
  • Vast majority of New Housing Units Will Be MF
  • 2,000 – 3,000 Net New MF Units by 2020 in Van Dorn Area

• Significant Rehabilitation and Repositioning of Existing MF Housing Stock In Addition to Redevelopment
MF HOUSING TYPOLOGIES
MARKET WILL EVOLVE OVER TIME

• As Ability to Achieve Higher Rents/Prices Evolves, Market Will Deliver More Dense and More Costly Product Types

• Rents/Prices Very Sensitive to Site Location

• Height: Movement from Stick-Built Product (3 to 5 Stories) Into Mid-Rise (6 to 8 stories) and High-Rise (10+ Stories) Products

• Mixture of Uses: Movement from Limited Bottom Floor Retail to More Complicated Mixed-Use Projects

• Parking: Movement Away From Surface Parking, First to Structured Parking and Eventually to Underground Parking
WE ARE CURRENTLY IN A PERIOD OF RESIDENTIAL MARKET CORRECTION

Annual Percent Change Price
Recent Change from Recent Peak to January 2008

<table>
<thead>
<tr>
<th>City</th>
<th>Change from Recent Peak to January 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charlotte - NC</td>
<td>-19.1%</td>
</tr>
<tr>
<td>Dallas - TX</td>
<td>-18.7%</td>
</tr>
<tr>
<td>Atlanta - GA</td>
<td>-17.5%</td>
</tr>
<tr>
<td>Denver</td>
<td>-14.9%</td>
</tr>
<tr>
<td>Cleveland - OH</td>
<td>-13.3%</td>
</tr>
<tr>
<td>Composite-20</td>
<td>-11.4%</td>
</tr>
<tr>
<td>Washington</td>
<td>-10.5%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>-9.8%</td>
</tr>
<tr>
<td>Las Vegas</td>
<td>-9.2%</td>
</tr>
<tr>
<td>Miami</td>
<td>-6.5%</td>
</tr>
<tr>
<td>San Diego</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>

SOURCE: S&P/Case-Shiller Home Price Index
ALEXANDRIA NOT IMMUNE, BUT RESISTANT
PRICES HAVE STAGNATED, BUT GENERALLY HOLDING

Average Home Price (Resales), City of Alexandria, 2001 to 2007

Source: MRIS
REGIONAL MF DEMAND
~9,500 MF PERMITS PER YEAR IN RECENT PAST

Single-Family and Multifamily Housing Permits
Washington, DC Region, 2002 to 2007

2002: 30,279 SF Permits, 10,446 MF Permits
2003: 30,920 SF Permits, 7,634 MF Permits
2004: 30,532 SF Permits, 11,174 MF Permits
2005: 29,467 SF Permits, 10,692 MF Permits
2006: 21,570 SF Permits, 9,553 MF Permits
2007: 17,622 SF Permits, 7,021 MF Permits

SOURCE: US Census Bureau
EVEN IF RECENT PAST REFLECTS NEAR TERM ... THE 36-MONTH PIPELINE HAS ~7.5 YEARS OF SUPPLY

36 Month MF Pipeline in Washington DC Region

In 2005, rental apartments dropped to 25% to 30% of total MF pipeline, but climbed to over 50% by 4Q07.

SOURCE: RCLCO; Delta Associates
THE CONDOMINIUM MARKET
PIPELINE OUTPACED DEMAND EVEN BEFORE CRASH

SOURCE: RCLCO; Delta Associates
RENTAL APARTMENT MARKET
HISTORICALLY HEALTHY

Class A Stabilized Apartment Vacancy Rates, 3Q02 to 4Q07, HR & Garden Product, Washington, DC Region

SOURCE: RCLCO; Delta Associates
NET ABSORPTION OF CLASS A RENTALS
PIPELINE VERY IMPOSING

Annual Net Absorption of Class A Units From 1Q03 to 4Q07, and Current 36-Month Pipeline, Washington, DC Region

Annual Net Absorption, 1Q03 to 4Q07

- All HR: 1,380
- All Garden: 17,378

Current 36-Month Pipeline

- All Garden: 22,190

SOURCE: RCLCO; Delta Associates
MULTIFAMILY MARKET TRENDS
KEY ISSUES FOR VAN DORN

• Likely 3 to 4 Years of Market Imbalance in Regional MF Market

• No Submarkets Will be Immune, Established Submarkets/Locations Will Come Back First

• Near-Term Challenge for Van Dorn Area As It Works To Establish The Location Relative to Regional Competitors

• 2008 to 2012 Period Will Likely See Less New Household Growth in Van Dorn Area Than Expected

• Long-Term Fundamentals for Redevelopment Still Very Strong
MULTIFAMILY MARKET TRENDS
KEY ISSUES FOR VAN DORN

• MF Residential Has Been a Primary Driver of Infill Redevelopment in the Recent Past
  • What Will Replace MF Residential as a Financial Driver of Mixed-Use Projects?
  • Many Planned Projects Likely To Stall or Disappear Altogether
  • Stronger Projects Will Still be Viable
• MF Rents and Prices Will Continue to Lag Construction Costs
  • Preference for Less Expensive Product Types Is Likely in Near Term
  • Rehabilitation Preferred Over Redevelopment
• Impacts Expected Densities, Viability of More Complicated Mixed-Use Projects
Retail Market Opportunities
RETAIL MARKET OPPORTUNITIES
RETAIL REINVENTION

• Excellent Access and Visibility Along Corridor Will Drive Investments in Retail

• Existing Retail Base In Van Dorn Area Aged and Inadequate

• Strong Pent-Up Demand for Upgraded Retail Offerings

• New MF Development/Rehabilitation Creates Fertile Environment for Retail Investment

• Van Dorn Area Has Ability to Serve Multiple Retail Markets – Regional/Community, Neighborhood, and Local
RETAIL TYPOLOGIES
VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

• Regional/Community Retail: Typically 800K to 1M+ SF of retail serving broad market area. Anchored by big and medium box stores. Increasingly incorporating lifestyle retail component.
RETAIL TYPOLOGIES
VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

- Lifestyle Retail: Typically 200K to 600K SF. Focus on entertainment, restaurants, boutique retail; larger formats incorporate movie theater and medium box retailers as anchors, as well as more conventional in-line comparison retailers.
• Neighborhood Retail: 100K to 250K of retail, typically anchored by grocery store. Focus on convenience retail, but often incorporates local-serving restaurants as well. Urban neighborhood retail concepts are now more common.
Local-Serving Retail: 15K to 50K SF of local-serving convenience retail and restaurants. Very limited target market area; designed to serve primarily immediate residents and workers.
<table>
<thead>
<tr>
<th>Retail Type</th>
<th>Strength of Opportunity</th>
<th>Where</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional/Community</td>
<td>Strong in near and mid terms</td>
<td>Redevelopment of Landmark Mall</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>Strong in near and mid term</td>
<td>As part of Landmark Mall redevelopment; over time smaller lifestyle concentrations along Van Dorn Street</td>
</tr>
<tr>
<td>Neighborhood</td>
<td>Strong in near and mid term</td>
<td>Fronting Van Dorn, or immediately off of Van Dorn but fronting major side road</td>
</tr>
<tr>
<td>Local Serving</td>
<td>Strong in mid and long terms</td>
<td>Ground floor on side streets and parts of Van Dorn not established as a primary retail core</td>
</tr>
</tbody>
</table>
Retail Development Potential In Van Dorn Not Necessarily Driven by Projected HH Growth

- Strong Pent-Up Demand From Existing HH Base For Higher Quality Retail

- Ability to Draw From Larger Market Area With Destination Retail

Stalling of Residentially-Driven Mixed-Use Projects in Near Term Will Limit Ability to Deliver New Retail

- Economic Weakness Threatens Short-Term Performance of Lifestyle Retail Sector

- Near-Term Softness in Lifestyle Retail Sector
Office Market Opportunities
CLASS A MARKET OFFICE MARKET
VAN DORN TODAY: NOT A SIGNIFICANT OFFICE MARKET

SOURCE: RCLCO; Costar
CLASS A MARKET OFFICE MARKET
BUT IS LOCATED AT EDGE OF EXISTING CORES

SOURCE: RCLCO; Costar
CLASS A MARKET OFFICE MARKET
OVER 17.5M SF IN NEARBY SUBMARKETS

Class A Inventory, March 2008, Selected Submarkets

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Inventory Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eisenhower</td>
<td>3,135,555</td>
</tr>
<tr>
<td>I-395</td>
<td>4,846,758</td>
</tr>
<tr>
<td>Crystal City</td>
<td>4,276,846</td>
</tr>
<tr>
<td>Pentagon City</td>
<td>680,073</td>
</tr>
<tr>
<td>Old Town</td>
<td>4,592,158</td>
</tr>
</tbody>
</table>

SOURCE: RCLCO; Costar
Vacancy Rates, 1Q98 to March 2008, Selected Submarkets

SOURCE: RCLCO; Costar
CLASS A MARKET OFFICE MARKET MODERATE GROWTH IN SECONDARY CLASS A CORES

Class A Net Annual Absorption, 1Q98 to March 2008, Selected Submarkets

SOURCE: RCLCO; Costar
Net Absorption and Development Pipeline in Square Feet, March 2008, Selected Submarkets

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Annual Net Absorption</th>
<th>Pipeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eisenhower</td>
<td>267,656</td>
<td>1,257,684</td>
</tr>
<tr>
<td>I-395</td>
<td>119,841</td>
<td>2,651,137</td>
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<tr>
<td>Crystal City</td>
<td></td>
<td>1,595,502</td>
</tr>
<tr>
<td>Pentagon City</td>
<td>-27,019</td>
<td>830,073</td>
</tr>
<tr>
<td>Old Town</td>
<td>0</td>
<td>463,200</td>
</tr>
</tbody>
</table>

SOURCE: RCLCO; Costar
OFFICE MARKET OPPORTUNITIES
MIXED-USE ENVIRONMENT WILL DRIVE LOCAL OFFICE

• Local-Serving A & B Space: Strong Opportunity as Corridor Evolves Into Mixed-Use Environment

• Demand Drivers: Service Providers (Medical, Financial, etc.) and Small Businesses

• Extension of Existing Class B/C and Flex Market in Corridor, As Well as Alternative to Old Town

• Works Well With Retail – Many Tenants Want Similar Visibility

• Tenants Attracted by Vibrant Mix of Uses

• Typical Building: 25K to 75K SF

• Opportunity in Near Term Bolstered if Part of Large Catalytic Project
OFFICE MARKET OPPORTUNITIES
LARGER OFFICE OPPORTUNITY LIKELY A NICHE

• Van Dorn Not an Established Location for Larger-Scale Class A Office Construction

• Significant Current and Future Competition Regionally

• Near and Mid Terms: Potential for “Lightning Strike”
  • 100% Location – Landmark Mall Site Could Create a Trophy Office Location

• Impact of BRAC
  • Potential for 1.5M to 2.0M SF of Space
  • Van Dorn Corridor Not a Likely Destination
  • Finalists: Victory Center & Mark Center
  • Potential Reduction of Competitive Supply
Update of Market Conditions
Landmark/Van Dorn Plan Advisory Group

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