

MARKET OBSERVATIONS
&
DEVELOPMENT ECONOMICS

PRESENTATION OUTLINE

- **Market Observations**
 - Regional Market Indicators
 - Office Trends
 - Residential Trends
- **Development Economics**
 - Braddock Rd Development Economics
 - Opportunities for District-wide Investment

Washington Metro Area

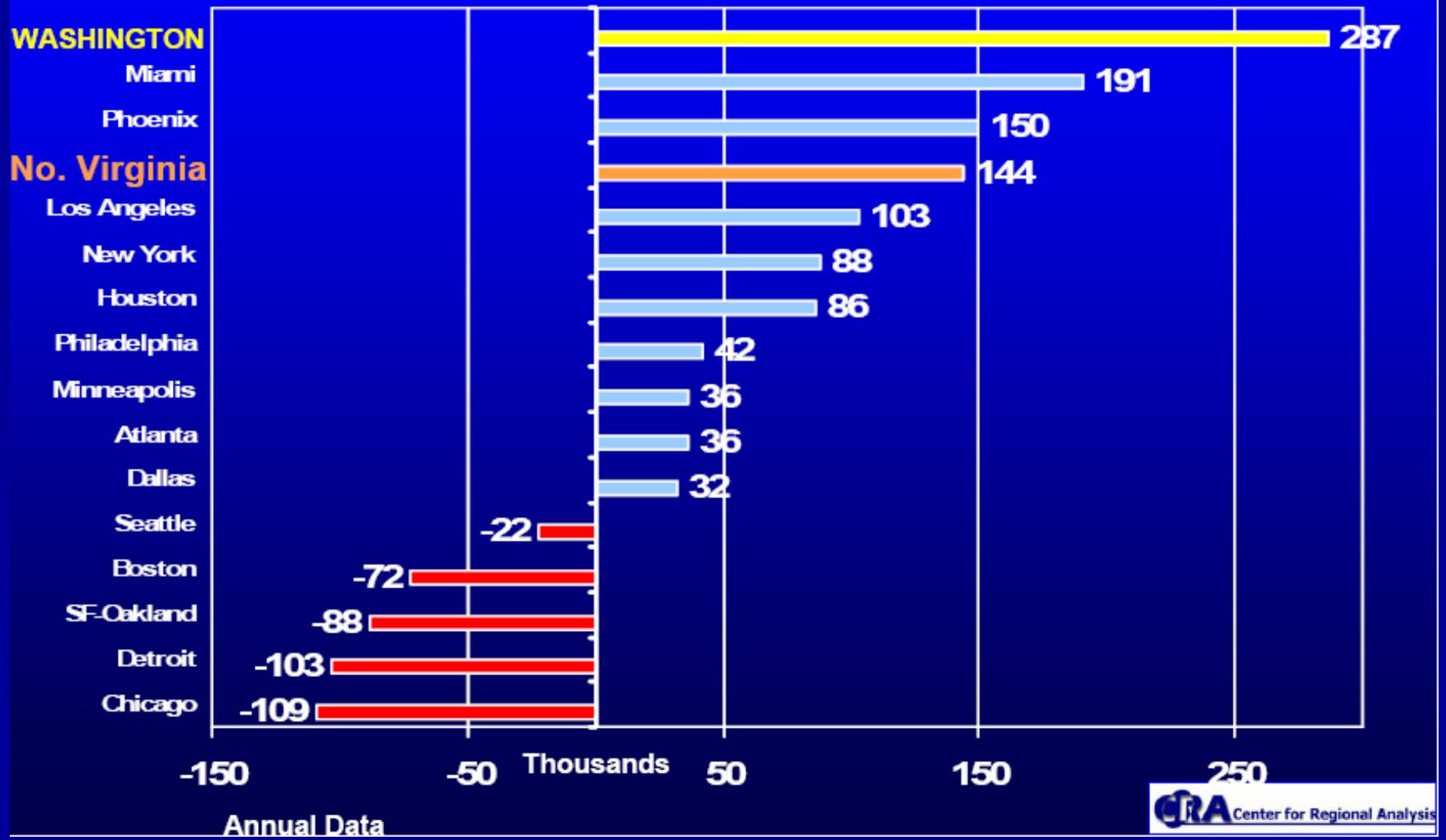
- **4th largest Metro Area in US**
- **Lead the nation in job growth from 2000 to 2005**
- **With a median income in excess of \$70,000, nation's wealthiest region**

Source: Greater Washington Initiative

Metro Comparisons

Job Change Last Five Years

15 Largest Metro Areas



Source: Center for Regional Studies, George Mason University

Alexandria

- 7th largest City in Virginia- 138,000+ residents
- Workforce of 95,000
- 2.7% Unemployment Rate (9/05)
- 4 Metro Stops (Braddock Road, King Street, Eisenhower Avenue and Van Dorn Street)
- Ranked Among America's Top *Digital Cities*

Alexandria Population Projections

Places: Alexandria city, VA

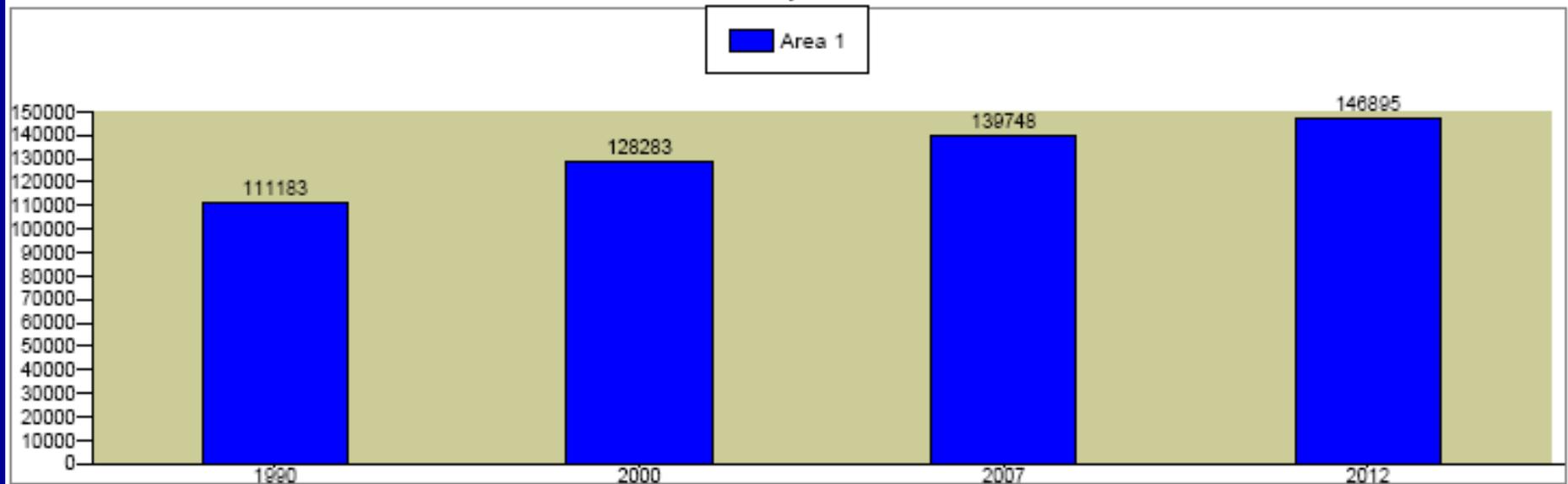
2000 - 2007 Population Annual Rate

1.38%

2007 - 2012 Population Annual Rate

1%

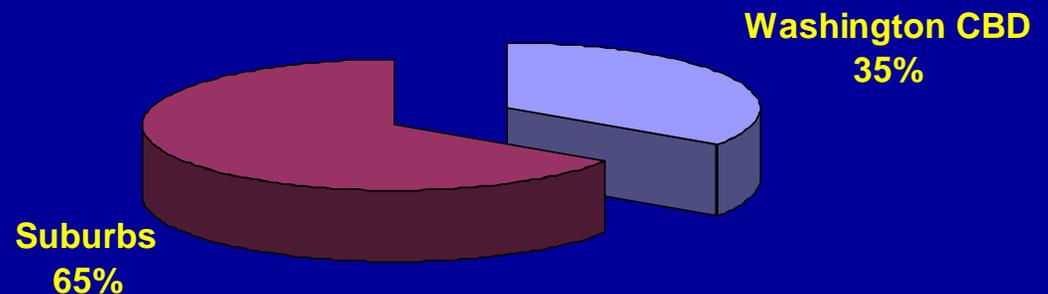
Total Population



Source: U.S. Bureau of the Census, 2000 Census of Population and Housing. ESRI converted 1990 Census data into 2000 geography. ESRI forecasts for 2007 and 2012.

Office Market Indicators

- 280 million square feet of office in Metro Area Mkt
- 11% vacancy rate
- 3.5 million square feet absorbed 3rd Qtr 2007



With approximately 13 million square feet of office in Mid-Year 2007, Alexandria accounts for 7% of the No. VA & suburban Maryland office supply.

Alexandria Office Market

Alexandria has a very high occupancy rate and strong office rents

Year to date absorption:
~100,000 sf

Sub-Market	Vacancy	Class A Rent
Arlington County	11%	\$37.34
Rosslyn	8%	\$43.17
Arlington Metro Center	10%	\$34.73
Ballston	5%	\$38.18
Crystal City/Pentagon City	15%	\$36.06
Alexandria	6%	\$36.43
Old Town	6%	\$37.42
I-395 Corridor	8%	\$27.50
Huntington/Eisenhower	5%	N/A
Fairfax County	11%	\$32.36
Loudoun County	23%	\$28.19
Northern VA	11%	\$34.05

Occupancy & rents are strongest among submarkets inside the Beltway.

Braddock Road Area Office

Braddock Road Area

510,500 square feet

6% Vacancy Rate

\$31.00+ rent

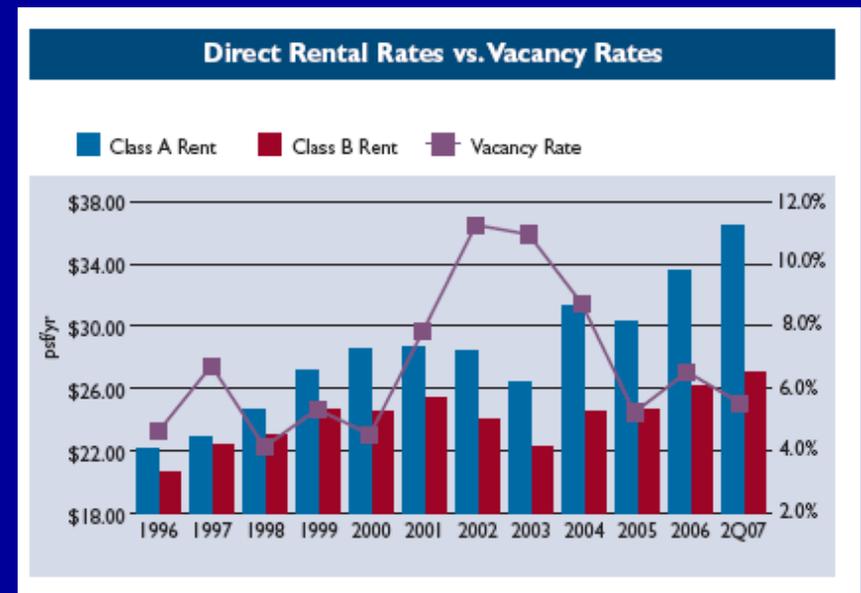
Braddock Place Near Metro

343,800 Square Feet

4% Vacancy Rate

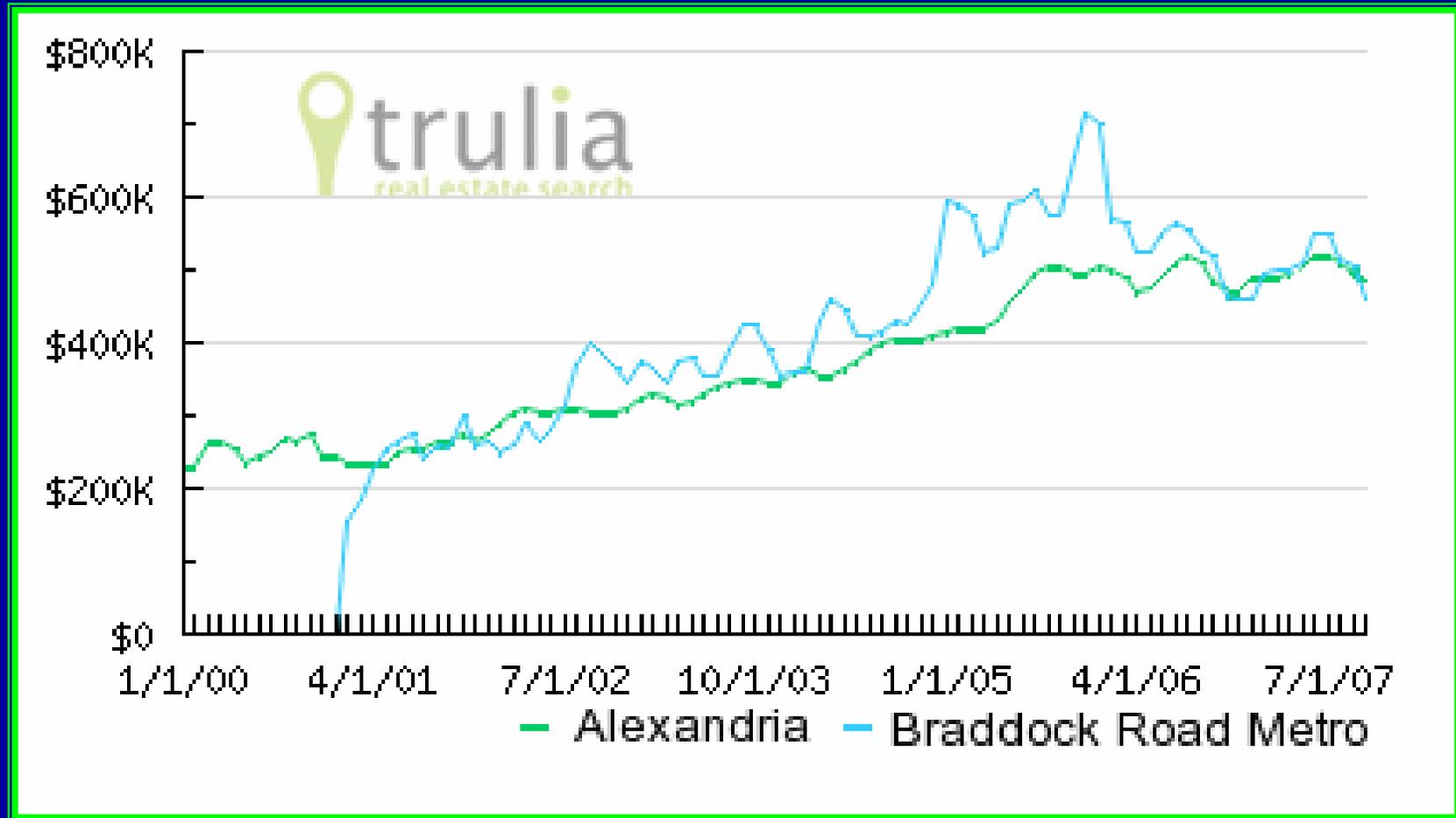
\$31.00 Rent

Alexandria Market Trends

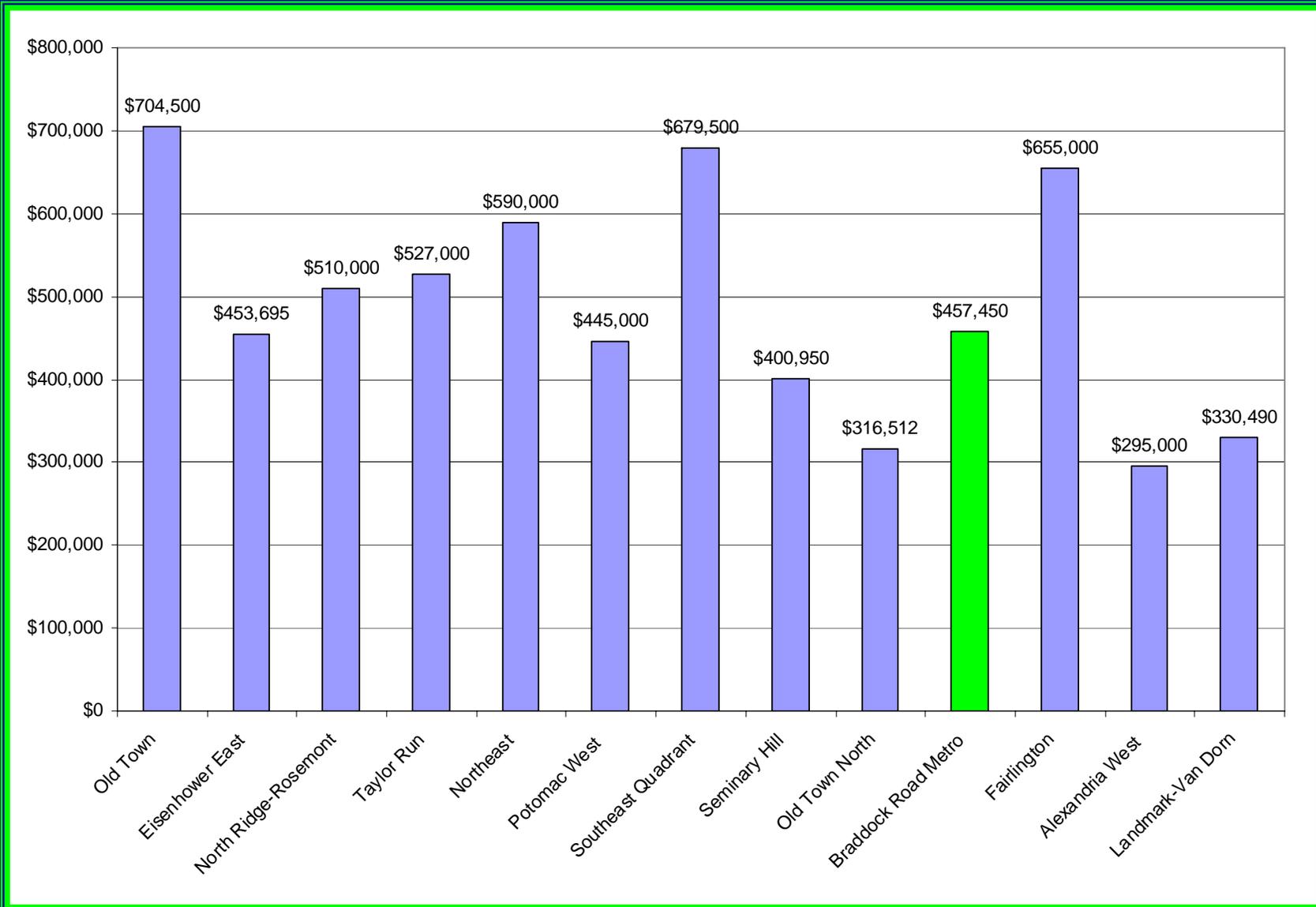


Source: Grubb & Ellis, 3rd Qtr

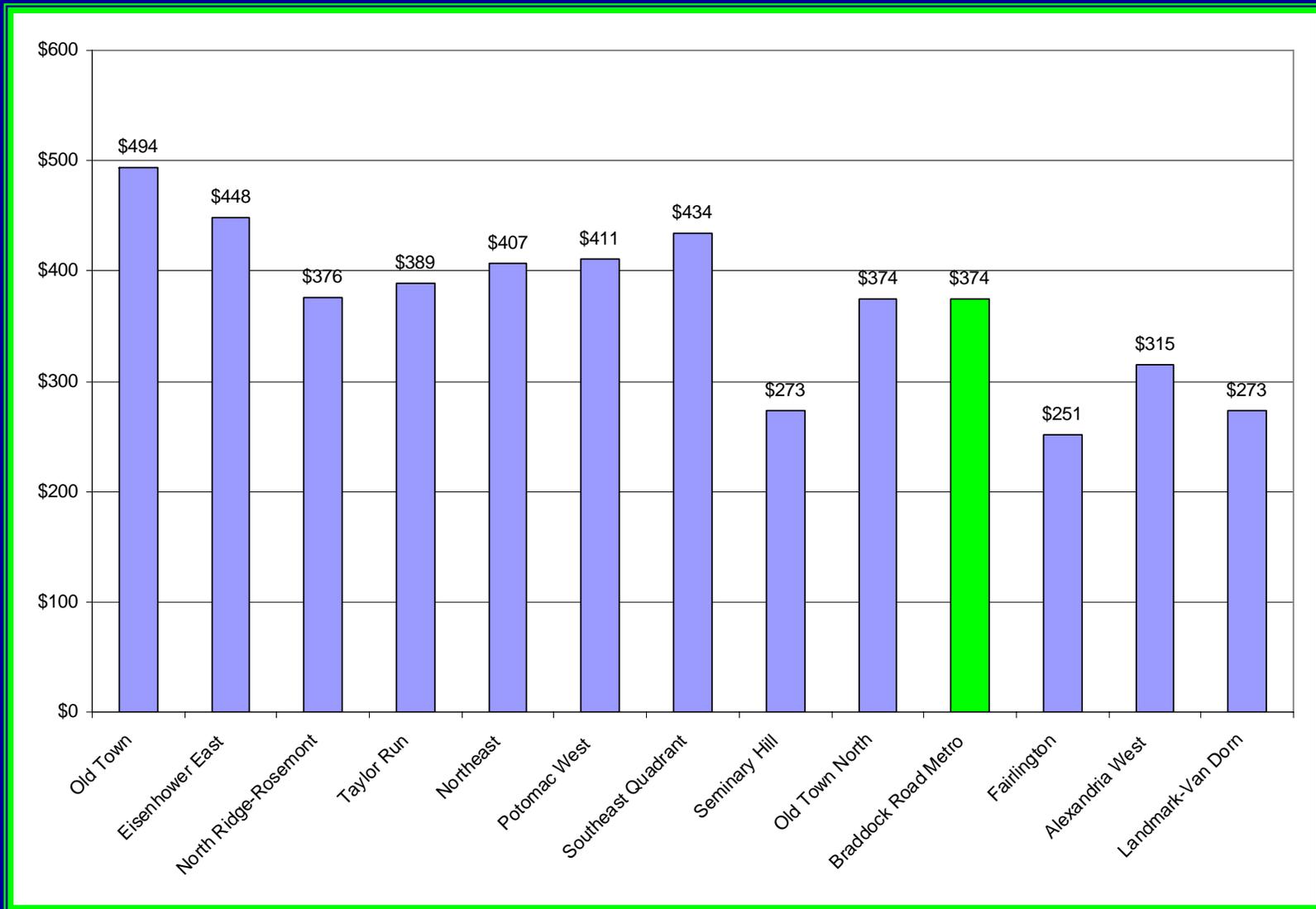
Housing Value Trends



Median Housing Sale Price Alexandria Neighborhoods



Avg. /Square Foot Sale Price Alexandria Neighborhoods



Recent Condo Sales Braddock

- 1200 Braddock Place (August)-- \$420 /sf
- 1200 Braddock Place (July) -- \$476 /sf
- 1200 Braddock Place (March) -- \$413 /sf

Market Implications

- Braddock Road can leverage Alexandria's market strength
- Braddock Road can capitalize on the value-added by Metro
- Strong market demand can potentially be leveraged to help pay for district-wide improvements

Development Economics

*How much financial benefit can
the community leverage from new
development?*

First, Start With Development Costs

Example: A Condo Project

		/GSF
Land Cost		\$56
Building & Contingency		\$160
Parking (Structured)		\$26
Infrastructure & Site		\$12
Sub-Total: Hard Costs		\$198
Soft Cost	16.0%	\$32
Fees	9.5%	\$19
Sub-Total: Development Cost		\$249
Financing	8%	\$20
Sub-Total: Development & Financing		\$269
Total Cost		\$325
Developer Profit %	20%	\$65
GRAND TOTAL		\$390

No two projects are alike so ranges are typical in such analyses. Not applied here for simplicity sake.

Land Cost

A function of:

- Strength of the Location
- Strength of the Market (Prices, Absorption, etc.)
- Zoning/development potential
- Other development costs

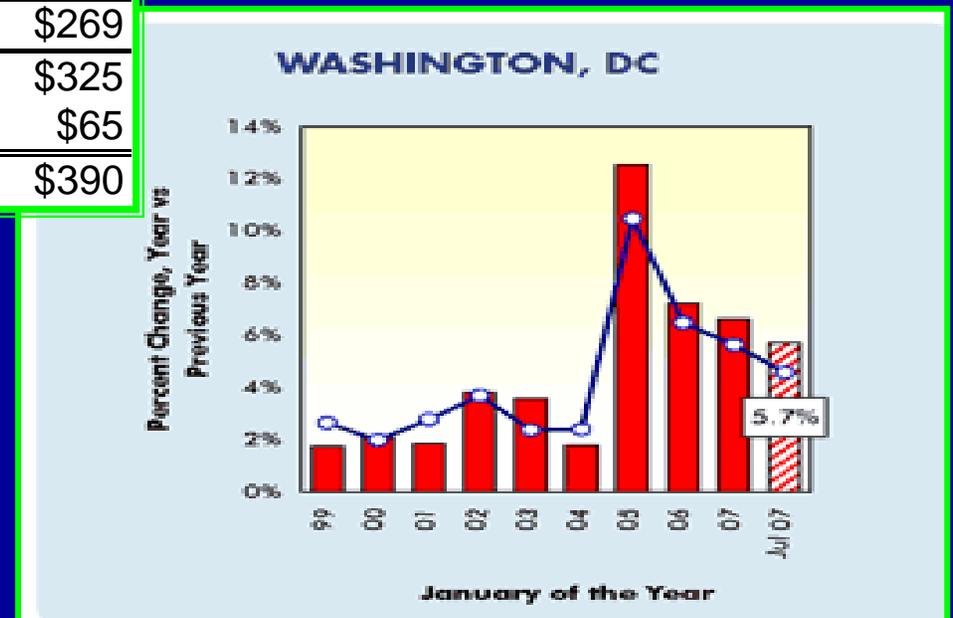
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When the public sector owns land it often applies its value to achieve community-related investment.

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Construction costs have escalated at rates exceeding inflation – this forces prices up.



Developer Costs

- Financing costs are a function of interest rates – when they go up the costs go up
- Developer return reflects the robustness of the market

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Second, Compare Revenues to Costs

Opportunity for Additional Investment

Obtain
community
benefit
through
approval
processes
(SUP or
Proffer or Joint
Development)

		/GSF
Total Cost to Develop		\$390
Sale Price /NSF	\$500	
Sale Price /GSF		\$425
Excess Return/Potential Public Benefit \$'s		\$35
Assume 100,000 SF Site 1.5 FAR		\$5,300,000

Public Benefit: Underground Parking

- The \$5.3 Million of potential community investment becomes \$1.9 Million with the underground parking requirement

		/GSF
Land Cost		\$56
Building & Contingency		\$160
Parking (Underground)		\$40
Infrastructure & Site		\$12
Sub-Total: Hard Costs		\$212
Soft Cost	16.0%	\$34
Fees	9.5%	\$20
Sub-Total: Development Cost		\$266
Financing	8%	\$21
Sub-Total: Development & Financing		\$287
Total Cost		\$343
Developer Profit %	20%	\$69
GRAND TOTAL		\$412
Sale Price /NSF	500	
Sale Price /GSF		425
Excess Return/Potential Public Benefit \$'s		\$12.99
Available for Public Benefit		
Assume 100,000 SF Site 1.5 FAR		\$1,900,000

Ways to Increase \$ Available for Community Benefit

Example: Increase FAR by 1.0

- Regulatory changes to allow higher intensity of development
- A tool used to obtain affordable housing

	Base	+1 FAR
Land Cost	\$56	\$28
Building & Contingency	\$160	\$160
Parking (Underground)	\$40	\$40
Infrastructure & Site	\$12	\$12
Sub-Total: Hard Costs	\$212	\$212
Soft Cost	16.0%	\$34
Fees	9.5%	\$20
Sub-Total: Development Cost	\$266	\$266
Financing	8%	\$21
Sub-Total: Development & Financing	\$287	\$287
Total Cost	\$343	\$315
Developer Profit %	20%	\$69
GRAND TOTAL	\$412	\$384
Sale Price /NSF	500	
Sale Price /GSF	425	425
Excess Return/Potential Public Benefit \$'s	\$13	\$41
Available for Public Benefit		
Assume 100,000 SF Site 1.5 FAR = 150,000 sf	\$1,900,000	
Assume Site w/ Additional 1.0 FAR = 100,000 sf		\$4,100,000
New Public Benefit Investment Potential	\$4,000,000 - \$6,000,000	

Issue

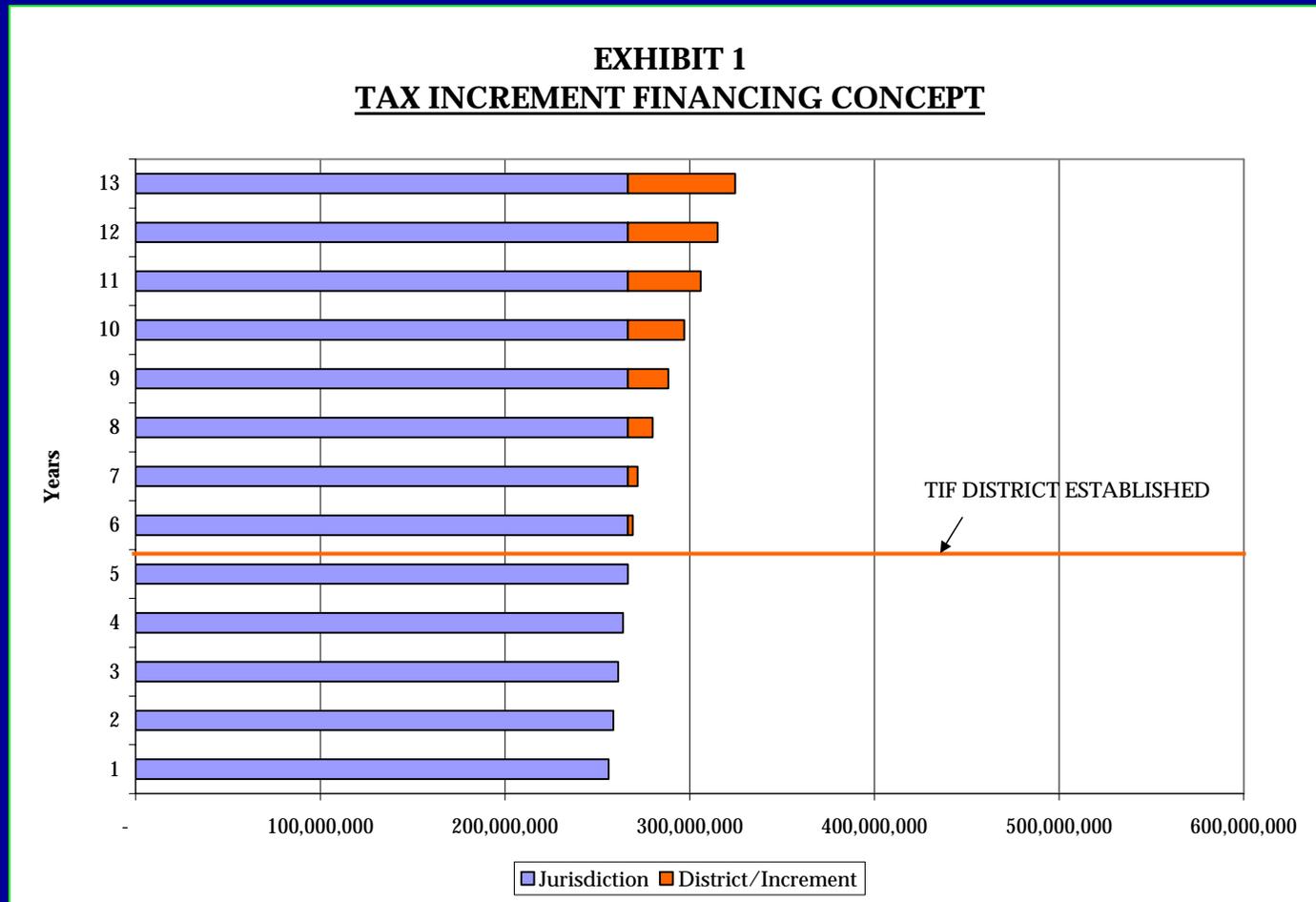
How to trap the community investment in the District?

As part of the strategic planning process identify community needs and establish specific funds ex: “District Open Space”, “Mixed-Use Housing Fund”, etc. for the District

Leverage the proffer system to achieve District-wide goals

Another typical approach...

Tax Increment Financing



Allows for the incremental increase in property taxes as a result of new development to be reinvested back into the District.

Tax Increment Example

Value /GSF		\$425	
New SF		250,000	
Value of the New Project		<u>\$106,250,000</u>	
Annual Property Taxes		\$882,000	
Assume Existing Taxes		<u>(\$200,000)</u>	
Annual Tax Increment		\$682,000	
Est. Supportable Bond	\$4,000,000	-	\$8,000,000

- Increment increases with the size of the project
- This source of financing can be added to proffers
- Requires a change in current public policy

The Challenge

Leverage the Braddock Road District's development potential in a manner that generates the public sector revenues necessary to achieve community goals.