PROJECT HORIZON

Use and Density Analysis for Project Horizon

903 North Henry Street, Alexandria, VA

Louis Molinini

Johns Hopkins University

ABSTRACT

Project Horizon is the proposed assemblage of 903 North Henry Street and 1112 First Street, in Alexandria, VA. Both parcels are currently zoned CRMU-H by the City of Alexandria, which permits a mixture of single-family, multi-family, townhouse, office, medical, and retail and a maximum FAR of 1.25 with a bonus 0.25 FAR for ground floor retail. However, an FAR of 2.5 is achievable with a Development Special Use Permit (D.S.U.P.) and the Development must have at least 50 percent of the floor area as residential use and the commercial use must not exceed a floor area ratio of 1.25. This paper analyzes four different use and density scenario's for the assemblage taking into account Development Costs, Market Supply and Demand, Income Projections, and projected sale proceeds. The recommended use mix and density will be the scenario which maximizes the return over the 10 year proposed holding period and minimizes financial risk as measured by the maximization of the return on cost.

Executive Summary

Project Summary

Project Horizon is the proposed assemblage of 903 North Henry Street and 1112 First Street, in Alexandria, VA. Both parcels are currently zoned CRMU-H by the City of Alexandria, which permits a mixture of single-family, multi-family, townhouse, office, medical, and retail and a maximum FAR of 1.25 with a bonus 0.25 FAR for ground floor retail. An FAR of 2.5 is achievable with a Development Special Use Permit (D.S.U.P.) and the Development must have at least 50 percent of the floor area as residential use and the commercial use must not exceed a floor area ratio of 1.25.

This paper analyzed four different use and density scenario's for the assemblage taking into account Development Costs, Market Supply and Demand, Income Projections, and projected sale proceeds. The four scenarios are as follows:

1. By-right development of a 1.25 FAR Multi-family apartment building
2. By-right development of a 1.25 FAR office building
3. D.S.U.P. development of a 2.5 FAR Multi-family apartment building
4. D.S.U.P. development of a 1.25 FAR office building and a 1.25 FAR Multi-family apartment building.

Return Summary & Key Metrics

The analysis results are as follows:

Scenario	Cash Equity	Return on Cost	Unleveraged IRR	Leveraged IRR
Scenario #1	$ 21,668,617	4.68	4.5	1.8
Scenario #2	$ 16,615,900	7.52	9.28	9.5
Scenario #3	$ 32,430,725	5.25	4.8	2.8
Scenario #4	$ 28,555,056	6.77	8.81	9.1

As depicted in the above table, Scenario #2: 1.25 FAR Office Building, provides the greatest Financial Return of all four scenarios. In addition to providing the greatest 10-year leveraged IRR, it also has the second lowest Development cost but has the highest loan to cost ratio resulting in the lowest cash equity requirement and lowest Developer Fee equity contributions of any of the four scenarios. As such, this report recommends a 1.25 FAR Office Building project with ground floor retail as the financially optimum development strategy for Project Horizon.

If the Developer were to proceed with pursuing Scenario #2, it is recommended that a Site Acquisition cost be negotiated in an amount not greater than $10,000,000 or $129 per ground square foot or $99 per FAR square foot. This Site Acquisition cost results in a return to cost of 8.75%, 10-year leveraged IRR of 15.5%, 5-year leveraged IRR of 18.5%, and a 10-year unleveraged IRR of 12%.

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Analysis Introduction & Methodology

The purpose of this analysis is to determine the financially optimum use and density for Project Horizon, the proposed assemblage of 903 North Henry Street and 1112 First Street, in Alexandria, VA. The recommended use mix and density will be the scenario which maximizes the internal rate of return (IRR) over the 10 year proposed holding period and minimizes financial risk which is measured by the maximization of the return on cost.

This report will analyze the following four development scenarios:

1. By-right development of a 1.25 FAR Multi-family apartment building
2. By-right development of a 1.25 FAR office building
3. D.S.U.P. development of a 2.5 FAR Multi-family apartment building
4. D.S.U.P. development of a 1.25 FAR office building and a 1.25 FAR Multi-family apartment building.

The origin of these four scenarios will be discussed further in subsequent sections but in brief, they represent acceptable use mixes as defined by the Zoning Ordinance and Master Plan as well as acceptable densities for both by-right development projects as well as projects pursuing a Development Special Use Permit (D.S.U.P.).

A condominium use was not explored given the fact that according to Delta Associates, the Washington, DC market has 14,000 units to sell which is equivalent to a 7.3 year inventory at current absorption rates. However, the Multi-Family scenarios are recommended to be designed, constructed, and legally established to facilitate a condominium exit strategy in case the condominium market is improved at the time of construction completion.

Area / Market Overview

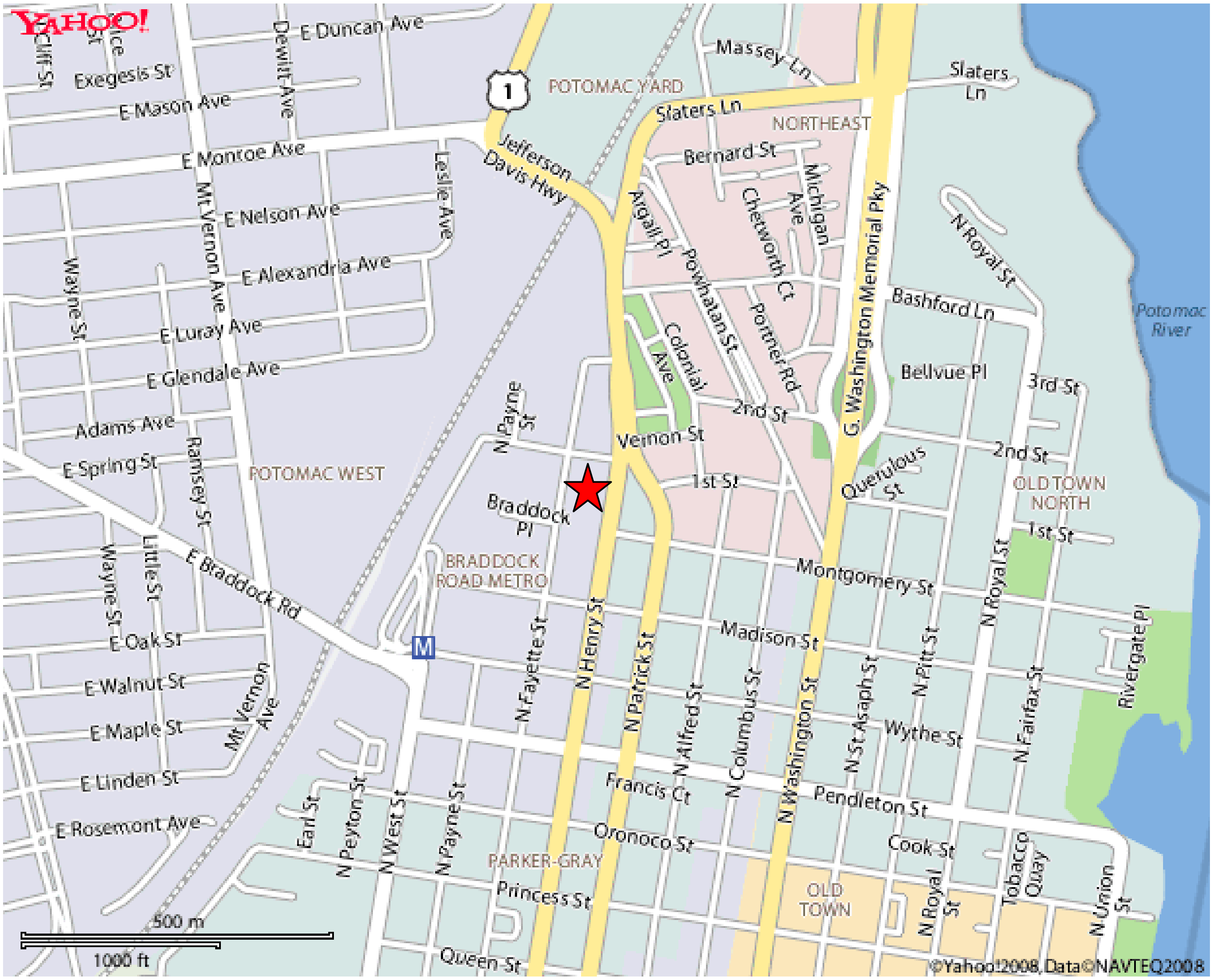
Site Summary

Project Horizon is the proposed assemblage of 930 North Henry Street (Carpenter Shelter Site) and 1112 First Street (Tony's Auto Site) in Alexandria, Virginia, located in North Alexandria, approximately 3 blocks from the Braddock Road Metro Station at the Intersection of Braddock Road and West St. The site is bordered by First Street to the North, North Henry Street to the East, Fayette Street to the West and the Madison Site to the South (see pages 10 and 11 for regional, local, and neighborhood maps).

The Shelter Site is 35,792 land square feet (0.82ac) and is currently occupied by Carpenter's Shelter, a one story homeless shelter approximately 18,988 building square feet (sf) with surface parking. Tony's Auto site is immediately to the west of the Shelter Site and is 41,600 land square feet (0.96ac) and is currently occupied by a 10,080sf automobile service garage with surface parking and storage yard.

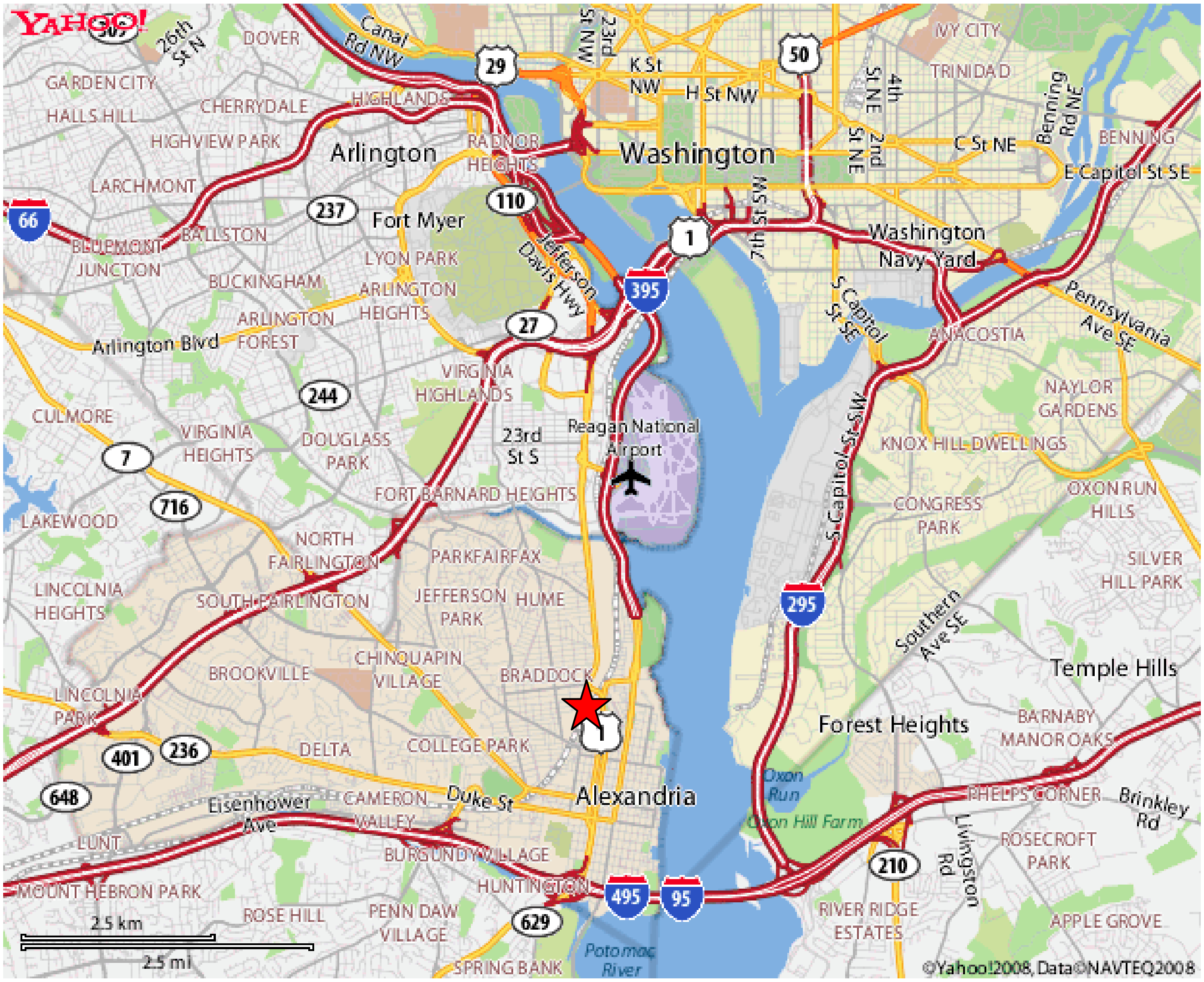
The site is located six miles south of Downtown Washington, DC, and four miles from the I-495 Beltway, four miles from I-395 and less than a half mile north of Historic King Street in Old Town Alexandria. The site is conveniently located to downtown Washington, Reagan National Airport, Arlington County, and The Pentagon and is an easy 5 minute walk to the Braddock Road Metro Station and Metro bus service is available across the street.

Local Site Map



Source: Yahoo Maps

Regional Map



Source: Yahoo Maps

Site Location

The Braddock Metro Neighborhood (BMN), as defined by the City of Alexandria Planning and Zoning Department, is a traditional historic neighborhood north of King Street in Old Town Alexandria, West of Washington St. (George Washington Parkway), and East of the Metro and Railroad tracks and includes the Parker-Gray Histories District as well as sixteen city blocks of Public Housing planned for redevelopment. The neighborhood is a mix of historic row houses, small apartment buildings, churches, community center, schools, and a metro station. The neighborhood is lacking community serving retail and high density housing or commercial office uses.

BMN was developed prior to the Civil War when the Alexandria and Washington railroad was built through the center of the neighborhood. There was little business activity during that time but the area began to develop during the late nineteenth century with the arrival of an ice house, hay and feed stores and a sugar refinery (Source: City of Alexandria Department of Planning and Zoning). The neighborhood was mostly industrial and warehouse uses that hugged the railroad at the turn of the century and as the auto replaced the railroad the neighborhood transformed to mostly auto related service industries. The presence of railroad and industry attracted African Americans and in the early twentieth century the neighborhood became the largest of Alexandria's historical African American neighborhoods. As the twentieth century progressed, the neighborhood maintained its industrial character and the Braddock Road Metro Station was introduced significantly increasing property values. However, the neighborhood has long been overlooked by the City during previous redevelopment efforts such as King Street, Waterfront, and Carlyle and was on the path towards becoming an anonymous part of Alexandria until the City of Alexandria enacted the Braddock Neighborhood Master Plan initiative.

Retail Amenities

There are very few existing retail amenities in the neighborhood that serve the residents such as a grocery store, restaurants, banks, coffee shops and café's, barbers, clothing retailers, etc. This lack of retail amenities has been a detractor for new residents or office tenants to relocate to the BMN. However, the planned redevelopment of BMN includes a retail "Main Street" two blocks from the site along Madison Street and a grocery store directly across Route 1 from the site. According to the Braddock Neighborhood Master Plan issued April 11, 2008, once the new office and residential development within the BMN is complete, the neighborhood will be able to support an additional 75,000sf of retail. In addition, a future neighborhood circulator bus will be available connecting the site to the metro as well as the future Potomac Yard Town Center which will greatly enhance the site's access to retail amenities.

Site Zoning

Both parcels are currently zoned CRMU-H by the City of Alexandria, which permits a mixture of single-family, multi-family, townhouse, office, medical, and retail and a maximum FAR of 1.25 with a bonus 0.25 FAR for ground floor retail. An FAR of 2.5 is achievable with a Development Special Use Permit (D.S.U.P.) and the Development must have at least 50 percent of the floor area as residential use and the commercial use must not exceed a floor area ratio of 1.25. This zone is purposefully vague with respect to setbacks and height limits and places the emphasis on the City of Alexandria's Department of Planning and Zoning Master Plan as well as the City of Alexandria's Planning Commission and Development Review Board to determine those parameters during the Site Plan review process.

Existing and Planned Adjacent Land Uses

The immediate area surrounding the site includes the Land Uses summarized in the below pictures and table:


Project Horizon Parcel #1 – Carpenter's Shelter

Project Horizon Parcel #2 – Tony's Auto Service


West – Meridian at Braddock Place


West – Braddock Place Office Building


West – Braddock Place Condominium

Northwest – Existing Warehouses. Planned Jaguar Mixed Use Development.


North – Existing McDonald's. Part of Planned Jaguar Mixed Use Development..


South – Vacant Warehouse. Planned The Madison Condominium Project.


East – Existing Samuel Madden Public Housing.


East – Route 1 Triangle Site

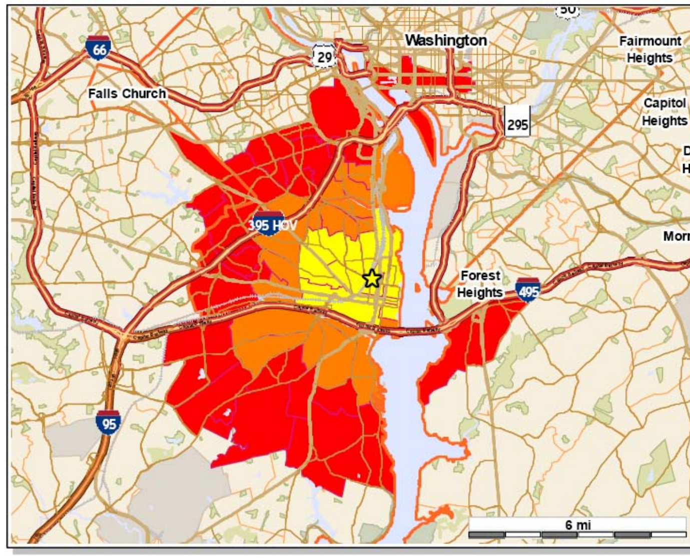
Lot	**Structure**	**Height**	**Zone**	**Location Reference**
054.01-03-06	The Madison – Proposed Condominium Project	90ft	CRMU-H	South
054.01-02-05, 06,	Meridian @ Braddock Place – Hi-rise apartment building	90ft	OCH	West
054.01-0A-00	Braddock Place Condominium – Hi-rise apartment building	90ft	CRMU-H	West
054.02-13-02,	Samuel Madden Uptown Public Housing Redevelopment – current planning is for retail, including Grocery Store, and small Office Building.	Pending	Pending	East
054.02-10-01	James Bland Uptown Public Housing Redevelopment – Approved mix of low rise multi-family and townhouses	Varies, 40ft max	CDD	East
054.01-03-02	McDonalds	15ft	CDD	North

The Madison Site to the South is a proposed 260,000 mixed use residential (344 dwelling units) and retail building. There is a proposed Service Alley between Project Horizon and the Madison Site. Across First Street to the North is currently a McDonalds and Car Wash but that area is Master Planned for high density residential or office with ground floor retail. To the East across North Henry Street is Public Housing which is Master Planned for small Office and Retail with a Grocery Store planned. To the West across Fayette St is Meridian, an existing high density two building multi-family complex, which is approximately 16 years old.

Existing Site Conditions

The Carpenter Shelter Site is 35,792 land square feet (0.82ac) and is currently occupied by Carpenter's Shelter, a two story homeless shelter approximately 18,988 building square feet (sf) with surface parking, operated by United Way. Tony's Auto site is immediately to the west of the Shelter Site and is 41,600 land square feet (0.96ac) and is currently occupied by a 10,080sf automobile service garage with surface parking and storage yard.

Demographic overview



The Primary Trade Area, as defined for the purpose of this analysis, for Project Horizon consists of the area within a 1-mile radius of the Braddock Road Metro Station at the intersection of Braddock Road and West Street. The Primary Trade Area is highly affluent as evidenced by the high percentage of residents with White Collar occupations and Bachelor's Degrees and should only improve given the demographic transformation from the redevelopment of the neighborhood public housing. The Primary trade area has higher white collar occupation as well as higher household income and effective buying income and superb education than surrounding neighborhoods. Population and number of households are projected to increase at rates higher than the surrounding areas. Additionally, because the Primary Trade Area is served by two Metro Stations, a higher percentage of residents use Public Transportation than the surrounding areas.

1. The majority of residents within a 1-mile radius are employed in white-collar occupations (87.7%) and 74.7% have a bachelor's degree or higher education and an additional 11.3% have an associate's degree (Asterop 2007).

2. Population and household growth in a 1-mile radius of the Property is strong, with a current base of approximately 43,479 persons and projected growth over 7.4% to over 46,709 people by 2012 (Asterop 2007).
3. Incomes within the Primary Trade Area are substantially higher than those within the greater area. Average family household income is $306,419 compared with $204,819 for the 5-mile radius (Asterop 2007).
4. The table on the following pages provides a snapshot of the 1, 3, and 5-mile radii demographics surrounding the Property (Asterop 2007).

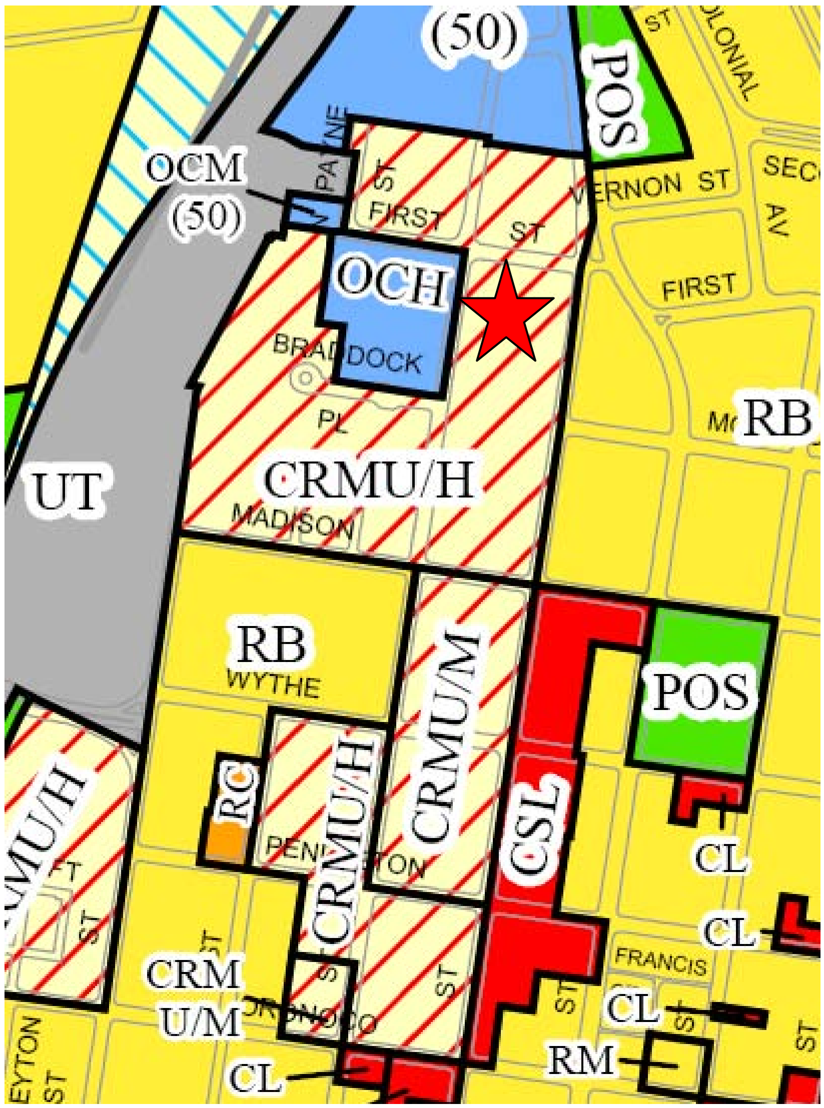
	0 - 1 miles	0 - 3 miles	0 - 5 miles
Current Year Population	43,479	126,952	351,104
5 Year Projected Population	46,709	132,203	367,853
Pop Growth Rate	7.4%	4.1%	4.8%
Current Year Households	20,901	59,827	159,955
5 Year Projected HH	22,420	62,168	167,926
HH Growth Rate	7.3%	3.9%	5.0%
Business population	61,526	101,146	231,939
Average HH Size	2.1	2.1	2.2
Homeowners	67.0%	61.8%	53.8%
POPULATION			
Median Age	40.5 years	39.8 years	38.3 years
Age: < 5 Years	7.0%	7.2%	7.8%
Age: 5 to 14 Years	8.1%	9.1%	10.4%
Age: 15 to 19 Years	2.6%	3.2%	3.9%
Age: 20 to 24 Years	4.5%	4.7%	5.0%
Age: 25 to 34 Years	16.7%	16.4%	16.5%
Age: 35 to 44 Years	20.0%	19.6%	19.4%
Age: 45 to 54 Years	14.4%	15.2%	15.1%
Age: 55 to 64 Years	13.1%	13.1%	11.5%
Age: 65+ Years	13.5%	11.6%	10.4%
EMPLOYMENT & EDUCATION			
Blue Collar	2.6%	7.2%	9.7%
White Collar	87.7%	79.8%	74.6%
Service and Farm	9.7%	13.0%	15.7%
4+ Years College	74.7%	65.2%	56.6%
<4 Years College	11.3%	14.7%	18.4%
No College	14.0%	20.0%	25.0%
INCOME			
Average HH Income	$130,024	$108,987	$93,145
Average Family HH Income	$306,419	$250,939	$204,819
Median HH Income	$117,235	$91,673	$77,040
Per Capita Income	$62,505	$51,361	$42,435
HH Income < $35,000	10.4%	14.0%	18.8%
HH Income < $50,000	16.8%	24.0%	30.7%
HH Income > $50,000	83.2%	76.0%	69.3%
HH Income > $75,000	71.4%	60.1%	51.3%
HH Income > $100,000	57.7%	45.0%	35.7%
HH Income > $150,000	35.4%	24.8%	17.4%
RACE & ETHNICITY			
White	81.9%	78.2%	69.0%
Black or African American	15.6%	15.2%	19.8%
Asian	1.7%	4.7%	8.4%
Hispanic or Latino	4.8%	13.8%	17.0%

Source: Asterop, Inc. 2007

Regulatory & Planning Framework

Existing Zoning

Project Horizon consists of 2 parcels, the “Tony’s Auto” parcel and the “Carpenter Shelter” parcel. The existing parcels are currently zoned CRMU-H, which is a high density mixed use district, which permits single-family, multi-family, townhouse, office, medical, and retail and a maximum FAR of 1.25 with a bonus 0.25 FAR for retail. The height is limited to 90 feet by the Neighborhood Plan and maximum Building and Parking Lot coverage is 60%.



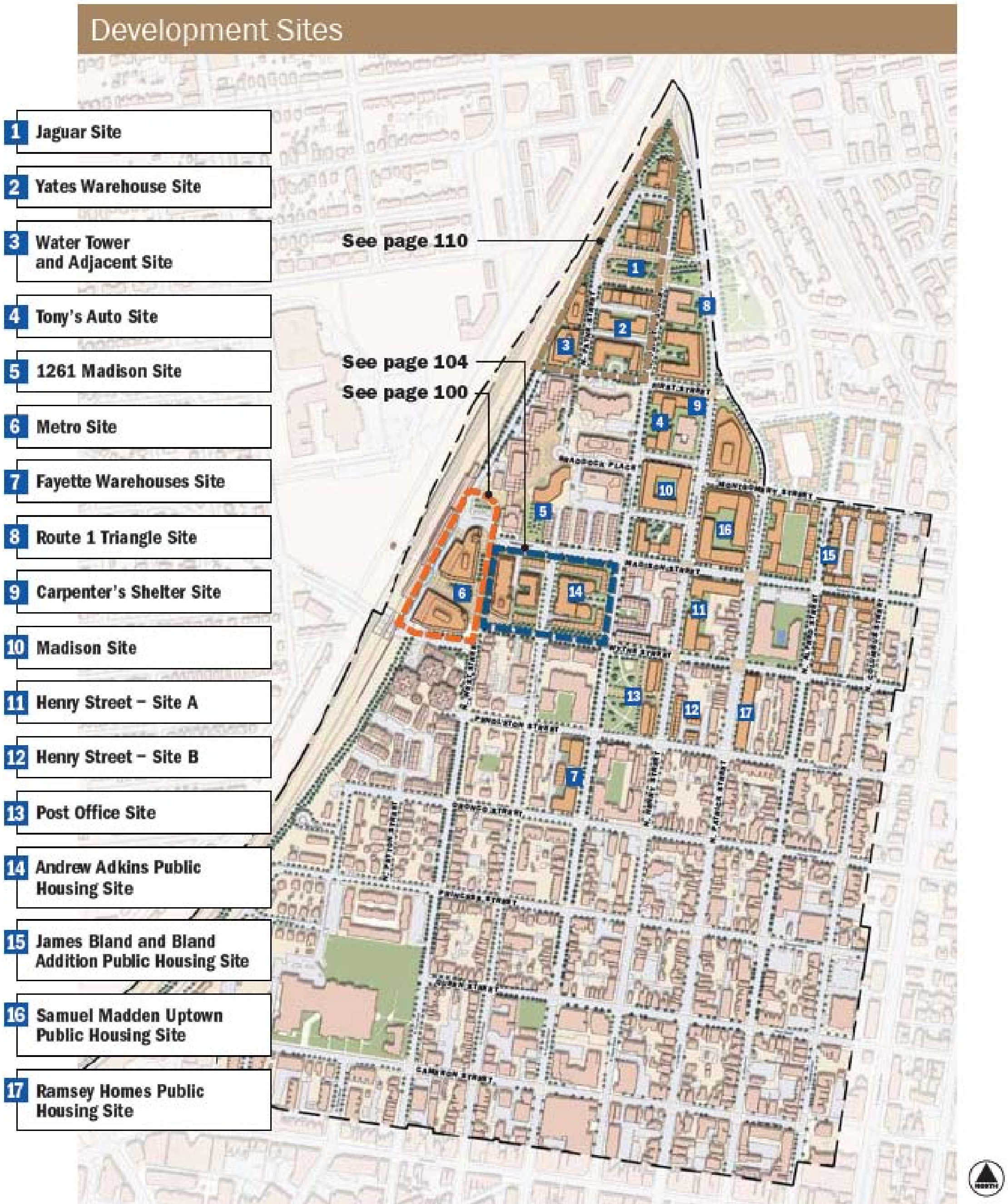
Neighborhood Plan

Project Horizon is located in the Braddock Metro Neighborhood and in March 2008, Alexandria Planning and Zoning Department published the Braddock Metro Neighborhood Plan. The Master Plan is recommending high density development with a maximum FAR of 2.5 with a 50ft to 90ft height limit. However, they are not recommending changing the zoning for the site but the increased density is allowed via a

Development Special Use Permit (D.S.U.P.). According to the Master Plan, the site is not recommended for retail as the main retail areas are planned to be along Madison Street and North Henry Street.

The Master Plan's goal is to create a safe walkable neighborhood with a variety of community serving open-spaces, retail, and increased commercial and residential density given the proximity to the Braddock Road Metro station. In concert with the new development plans, the Master Plan also seeks to preserve the historic aspects of the neighborhood, including the Parker-Gray Historic District, and redevelop the nine blocks of public housing in the center of the neighborhood into mixed income housing.

The Master Plan has identified approximately seventeen different sites for development and is proposing a mixture of medium to high density hotel, office, and residential. The residential component consists of townhouses and multi-family buildings. In addition, the Master Plan states the neighborhood can support 80,000sf or retail mostly along Madison Street from the Metro to North Henry and one block north on North Henry along the parcel where a grocery store is proposed.



Source: City of Alexandria Department of Planning and Zoning

Development Plan Review

In the City of Alexandria, there are two methods for development: By right development, also known as Site Plan Review, and Development Special Use Permit (D.S.U.P.). Site Plan Review development follows the regulations in the zoning code and the application is only reviewed for compliance with the zoning code as well as the negotiations of proffers and the review of the architectural design by the Development Division of The City of Alexandria's Department of Planning and Zoning as well as the Planning Commission.

A D.S.U.P application allows for modifications of the zoning code requirements as long as the modifications comply with the intent of the master plan and are approved by the Development Division and the Planning Commission. According to the City of Alexandria, both Site Plan review and D.S.U.P. applications can take the same amount of time averaging 24 months from preliminary concept review through receipt of Building Permit. The major difference between Site Plan Review and a D.S.U.P. application is that a D.S.U.P. application typically requires increased proffer amounts and other building design enhancements such as the incorporation of sustainable design elements.

Funding Public Amenities

The Master Plan calls for the funding of public amenities in the neighborhood by capturing revenue from new development. In the state of Virginia, this process is referred to as a proffer. According to Jeff Farner, Deputy Director of Development for the City of Alexandria, proffers are negotiated with the City for both types of Development scenarios, by-right and D.S.U.P. Recent project data show proffers for high density condominium projects ranging from $5/sf to $10/sf. Proffer negotiations depend upon the Commercial Real Estate market and the level of profit the Developer is expected to earn.

Public amenities to be funded by new Development include streetscape improvements, bike paths, traffic calming, a new community park, pocket parks/plazas, and neighborhood retail subsidies. The Public Amenity funding process consists of a Public Improvement Fund created by the City which the Developer will pay into an amount that is agreed upon during the Development Review process.

Affordable Housing

The City can only negotiate an affordable housing component for the project when submitting under a D.S.U.P application, according to Mr. Farner. The Master Plan establishes that a contribution to the City's Affordable and Public Housing Redevelopment Fund is expected in the amount of at least $2 per gross square foot of residential development, $1.50 per gross square foot of commercial development and $4 per square foot on the additional square footage that is bonus or height density plus 1/3 of any units made possible by bonus or height density set aside as affordable.

Regulatory Issues

During a preliminary discussion of Project Horizon with Mr. Farner, he indicated the following issues should be taken into account during any development analysis in the City of Alexandria:

1. Underground parking – required under D.S.U.P. application to maximize FAR but not required under Site Plan review process to maximize by-right FAR
2. Underground Utilities – depending upon site location this can be problematic and costly and time intensive to resolve given the process to extend and/or replace existing sewer lines to serve the increased density or change of use of a site. Mr. Farner indicated

Project Horizon’s site was adjacent to the sewer main below Route 1 and therefore is not a problem to connect any size development to the City’s water and sewer system.

3. Increased Architectural Costs – the City of Alexandria has a very stringent review process and high expectations for the Building façade design which results in higher architectural costs and premiums for façade materials and designs.
4. Sustainable Design – The city is currently drafting legislation requiring LEED Certification (exact Certification Level is unknown) for new construction over certain size thresholds. Jeff indicated Project Horizon would be subject to these requirements. LEED Certification is currently required for D.S.U.P. applications.

Parking

The Neighborhood plan parking recommendations are currently being amended into the Zoning Code according to Mr. Farner and are therefore available for use in both by-right Development as well as Development Special Use Permit applications. As noted above under Regulatory Issues, Site Plan development applications are allowed to utilize surface or structured parking whereas D.S.U.P. applications must utilize underground parking. The following are the parking requirements.

LAND USE	BRADDOCK METRO NEIGHBORHOOD PARKING DISTRICT RATIOS*
SINGLE-FAMILY RESIDENTIAL, TWO-FAMILY AND ROW OR TOWNHOUSE DWELLINGS	1.5 spaces per dwelling unit (DU) plus 15% visitor parking**
MULTI-FAMILY RESIDENTIAL	1.0 spaces per DU of less than 3 bedrooms or 1.5 per DU of 3 bedrooms or more, plus 15% visitor parking**
HOTELS	0.7 spaces per 1 guest room plus 1 employee parking space per 15 guest rooms. Additional off-street parking for auxiliary uses will be determined at the time of development review.
RETAIL	3.0 spaces per 1,000 SF. First 15,000 SF of grocery stores and first 1,200 SF of all other retail exempt.**
RESTAURANTS	1 space per 4 seats. First 60 seats exempt.
OFFICE	1.67 space per 1,000 SF

* Provided however that in the cases of fractional spaces, the parking requirement may be rounded up or down to the nearest whole number without requiring SUP.

** In the event that new development increases the net number of on-street parking spaces available, the increase in on-street spaces shall apply to the visitor or retail parking requirement.

Source: City of Alexandria Department of Planning and Zoning

Development Scenarios

As stated above, the purpose of this analysis is to determine the optimum development density and use for Project Horizon. Based on the existing zoning and proposed use and densities for the site as defined in the Braddock Metro Neighborhood Plan, the analysis will examine the following four development scenarios:

1. By-right development of a 1.25 FAR Multi-family apartment building
2. By-right development of a 1.25 FAR office building
3. D.S.U.P. development of a 2.5 FAR Multi-family apartment building
4. D.S.U.P. development of a 1.25 FAR office building and a 1.25 FAR Multi-family apartment building.

As stated above, both multi-family and office uses are acceptable uses in the Zoning Ordinance as well as the Master Plan. The other uses that are acceptable in the Zoning Ordinance, such as Single Family, Townhouse, Medical, and Retail were not explored as these uses were not endorsed by the Master Plan.

Condominium development was not explored by this analysis given the poor state of the condominium market in 2008. According to Delta Associates, the Washington, DC market has 14,000 units to sell which is equivalent to a 7.3 year inventory at current absorption rates. However, the Multi-Family scenarios are recommended to be designed, constructed, and legally established to facilitate a condominium exit strategy in case the condominium market is improved at the time of construction completion providing the project with a more profitable return.

Development Scenario 1 – 1.25 FAR Multi-family

Scenario #1 Overview

Project Horizon Development Scenario 1 is development of a multi-family apartment building with a 1.25 FAR plus ground floor retail. This scenario represents an acceptable use and maximum FAR established in the existing zoning ordinance without having to go through the D.S.U.P. process. As such, the proffers are kept to a minimum.

Multi-family apartment product was analyzed in lieu of condominiums given the current state of distress of the condominium market in Northern Virginia and Metropolitan Washington DC. The Zoning ordinance does allow condominium development and it is recommended that the multi-family apartment building be developed to condominium standards to facilitate a condominium exit strategy for the developer in the event the condominium market turns around. Historically there is a 10 – 15% premium to design to condominium standards according to Dietze Construction.

Development Overview

Project Horizon Development Scenario 1 is to remove the existing structures, and construct a five story building with a detached two story parking garage. The building will be a multi-family apartment building with a 1.25 FAR and bonus ground floor retail density. Based on the below Retail rental market analysis, the Ground Floor Retail will be approximately 4,000sf of warm lit retail shell space, which is less than the retail analysis recommendation and less than the 0.25 retail bonus FAR. Lot occupancy will be 50% including the parking garage. The open space will be accessible to the public and will be appropriately landscaped including a water feature, public artwork, and seating areas. A portion of the site will house an outdoor recreation area for the residents with an outdoor pool, picnic and grilling area, and open space.

In addition there will be a small rooftop terrace. The parking garage will be two stories and will house the amended Zoning Ordinance required 123 parking spaces.

The five story building will have a 20,148sf floorplate and will be podium construction with a concrete ground floor structure and wood framed construction on floors two through five as recommended by Morgan Gick McBeath (Architect) as a means to minimize the residential construction cost while facilitating high-bay ground floor retail space. The ground floor will be the approximate 4,000sf of warm lit retail shell space, a 3,000sf apartment building entrance, fitness center, Resident’s lounge, back of house spaces, and a small number of one bedroom apartments. Floors two through five will be 20,148SF each with 22 fully finished apartments and a 2,772sf core area consisting of a public corridor, two elevators, two stairwells, Mechanical Room, Electrical Room, and Janitor’s Closet. Apartments will consist of fifteen 1 bedroom, four 1 bedroom plus den, and four two bedroom units ranging from 700sf to 1100sf. The floor to floor height of the first floor is 20ft and Floors 2 through 5 are 10 feet (each unit has 9ft ceilings) each resulting in a total building height of 60 feet, well below the 90ft height limit.

The building façade will be constructed using a combination of light colored precast concrete materials, brick, and large six foot punched windows as recommended by Morgan Gick McBeath as these are standard, cost effective design materials and features for the City of Alexandria Development and pose the greatest chance of receiving Design Review Board approval. The parking garage will have a traditional townhouse façade with color scheme matching the building in an effort to hide the parking structure and vehicles as required to receive Design Review Board approval in lieu of construction underground parking as required by the Master Plan. The townhouse façade will have the appearance of punched windows without the glazing to allow adequate ventilation within the parking garage.

The apartments will be finished to a condominium grade or luxury apartment level with nine foot ceilings, large six foot windows, base and crown molding throughout, spacious closets, washer and dryer, granite countertops, stainless steel appliances, maple cabinets, ceramic tile flooring in kitchen and foyer, premium quality bath fixtures, and high efficiency HVAC and water heating. The condominium grade finish is recommended to facilitate a condo exit strategy should the condominium market improve as the return on cost for condominium sale is greater than multi-family apartment leasing.

Building Façade Examples:

Source: www.apartments.com

Source: www.apartments.com

Building Interior Examples:

Source: WRIT Residential – The Clayborne

Source: WRIT Residential – The Clayborne

Source: WRIT Residential – The Clayborne

Source: WRIT Residential – The Clayborne

Building Program

Development Scenario #1 Building program is as follows:

Ground Floor	Size	Qty	Total Area
Retail	4,000	1	4000
Entrance & Lobby	3,000	1	3000
Elevators	100	2	200
Trash Room	300	1	300
Electrical Room	100	1	100
Mechanical Room	100	1	100
Stairs	200	2	400
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Unit 1BR	700	8	5600
Unit 1BR + Den	900	2	1800
Unit 2BR	1100	2	2200
	Subtotal Grd Floor		20100
Typical Floor			
Elevators	100	2	200
Electrical Room	100	1	100
Mechanical Room & Janitor's Closet	100	1	100
Stairs	200	2	400
Elevator Lobby & Hallways	1950	1	1950
Unit 1BR	700	15	10500
Unit 1BR + Den	900	4	3600
Unit 2BR	1100	3	3300
	Subtotal Typ Floor		20150
Entire Building			
Retail	4,000	1	4000
Entrance & Lobby	3,000	1	3000
Elevators	100	10	1000
Trash Room	380	1	380
Electrical Room	100	5	500
Mechanical Room & Janitor's Closet	100	5	500
Stairs	200	10	2000
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Elevator Lobby & Hallways	1950	4	7800
Unit 1BR	700	68	47600
Unit 1BR + Den	900	18	16200
Unit 2BR	1100	14	15400
	Subtotal Bldg		100780

Market Analysis - Apartment Rental Market Overview–

According to Delta Associates' Mid Year 2008 Report on Mid-Atlantic Class A Apartment Market issued June 30, 2008, the vacancy rate for stabilized investment grade apartments in Northern Virginia is 3.3%, which is one of the lowest vacancy rates of any metro area in the nation according to Delta Associates. However, during 2007 the pipeline of multi-family projects grew significantly and as a result Supply is expected to outpace Demand through 2011. As such, stabilized vacancy rate is expected to climb above 5% by 2011 according to Delta. During this same time period, rents are projected to increase but at rates of less than 2% which is well below the long term average of 4.5% per year, according to Delta.

In Northern Virginia, effective rent for Class A apartments was $1,581 per unit in mid-year 2008 compared to $2,416 per unit in the District of Columbia. Although located in a redeveloping neighborhood, Project Horizon will attract renters motivated by the desire to live close to Metro, Downtown Washington, DC, Crystal City and Potomac Yard as well as the amenities of Old Town Alexandria.

A new rental community located four blocks south of Project Horizon called the Monarch provides some insight on achievable rents. The Monarch is a 141 unit Mid-Rise Class A multifamily project with initial occupancy in February 2008. The project features one and two Bedroom units ranging from $1,745 to $3,415 per month, one month free rent, and has similar amenities to Project Horizon, which include a fitness club, rooftop terrace, Resident's Lounge, and Concierge Service. Initial lease rates ranged from $2.36 to $2.61 per sf for one bedroom units and $2.22 to $2.26 per sf for two bedroom units and based on the unit mix results in an estimated weighted average lease rate of $ 2.36 per sf. Based on current Monarch rents and 2% annual rent growth from 2008 to 2012, Project Horizon could support units in 2012 renting at approximately $2.42 - $2.71 per square foot, weighted average of $ 2.64 or absolute rents ranging from approximately $1,900 to $2,700 for one- and two-bedroom units sized between 700 to 1100 square feet and parking fees of $150 per space. A brief snapshot of existing area multi-family developments is as follows:

Property	Distance to Project Horizon	Year Built	Avg. Rent PSF	Notes
Meridian at Braddock Place	1 Block West; Braddock		$1.94	Same location; 480 unit high rise; rooftop pool; fitness center; older building; walk to Metro
Meridian at Carlyle	1 mile south; Carlyle	2007	$2.53	New Building; Carlyle/Duke St. amenities; Hi-rise; Pool; 10 minute walk to King St. Metro
The Monarch	4 Blocks south – Braddock Road Neighborhood	2008	$2.30	New Building; Condo finish and large units; similar amenities; Starbucks; walk to Metro
Camden	1 mile North – Potomac Yard	2008	$2.57	Harris Teeter next store; pool; no metro;

Source: www.apartments.com

Retail Market

The retail market for the Primary Trade Area is concentrated on King Street and consists of single-story, street front retail that is tenanted by national chains and local family owned/operated businesses. In the Braddock Metro Neighborhood plan, retail is planned for a centralized "Main Street" along Madison Ave. to the south of Project Horizon and north along Route 1 to the Samuel Madden Uptown site where a grocery store and additional retail is planned.

A Retail Market analysis performed during the development of the Braddock Metro Neighborhood Plan, determined that the area could support 75,000sf of new retail. The Project Horizon site was not planned to have retail other than small office or apartment tenant serving retail such as a café, deli, drycleaners or other retailer not requiring vehicular traffic to drive business. Based on the surrounding density of Project Horizon, 480 units at Meridian apartment building across the street with no service retail, along with the proposed project occupancy of 100 units, and approximately 10 square feet of retail per unit (Source: Alexandria Dept of Planning and Zoning Braddock Master Plan), Project Horizon can support a maximum of approximately 5,800sf of retail assuming a 100% capture rate of the adjacent Meridian apartments. Utilizing a more conservative 65% capture rate of the Meridian building, Project Horizon can support approximately 4,120sf of ground floor retail as calculated below.

Retail SF Calculations	# Units	SF/unit	Supportable Retail sf	Meridian Capture Rate
Meridian Apartments	480	10	3,120	65% est
Project Horizon	100	10	1,000	
		TOTAL	4,120	

SF/Unit Source: Alexandria Dept of Planning and Zoning

According to Jackson Prentice Real Estate, current asking rents for North Old Town average $35/sf. Assuming 2% rent growth from 2008 to 2012, Project Horizon can expect initial retail rent of approximately $38/sf.

Residential Demand Analysis

Demographic data for the Primary Trade area was gathered from Asterop, Inc. and it reflects a 2007 household population within a 1-mile radius of 20,901 and is projected to increase to 22,420 by 2012. The percentage of homeowners in the primary trade area is 67% and taking a conservative approach to the analysis, this percentage will be decreased 10 – 15% over the next five years due to the current financial crisis and the large supply of multi-family rental projects in development versus the small supply of residential ownership projects.

In order to determine the new demand for Project Horizon, the analysis first had to determine the target demographics' income qualifications which was based on the project's anticipated rent levels and the fact that on average a household's rent should be less than 35% of its gross monthly income. This analysis resulted in a target demographic with a household income in excess of $ 75,000 per year. Based on the project's urban in-fill location, proximity to metro, and mid-rise design with minimal amenities, the project's target demographic age group is age 20 to 44. Based on the determination of this targeted demographic information, the total new demand for Project Horizon was estimated by determining the change in total target households from year 2007 to 2012. This was accomplished by subtracting from the primary trade area household population, the population of homeowners and those households that earn less than $75,000 and are outside of the age 20 to 44 bracket. The result was a new target household demand of 939 in the primary trade area.

Residential Demand Analysis Primary Trade Area - 0 - 1 mile radius	**Current Year**	**Projected 5-year**	**Notes**
Total # Households	20901	22420	
% Homeowners	67%	55%	Decrease due to stalled housing market
Income Qualifications > $75,000	71%	71%	
Target Age Group Ages 20 – 44	41%	41%	
Total Target Households	2029	2968	
Total Increase in Target Housholds		939	

Source: Asterop, Inc. 2007

Recent and Future Multi-Family Rental Deliveries

`There is a significant amount of future multi-family rental development planned for the City of Alexandria. In the next 18 – 36 months a total of 3,083 units are planned to deliver in the primary trade area (1 mile radius of Braddock Road Metro Station). However, for the immediate area (0.25 mile radius) a total of 1144 units are projected to deliver.

FUTURE SUMMARY	DELIVERIES
Rental Units	3083
Less Hoffman	1681

FUTURE MULTI-FAMILY DELIVERIES IN BRADDOCK ROAD NEIGHBORHOOD						
Project	**Units**	**Proper Zoning?**	**Approvals**	**Site Plan Approval**	**Building Permits**	**Est. Completion**
The Madison	344	Yes	Yes	Yes	Yes	2011
Braddock Gateway	616	Yes	Yes	Yes	No	2012
621 N Payne St	184	Yes	No	No	No	2012

Source: Source: City of Alexandria Department of Planning and Zoning

An overview of several of the major projects in the Braddock Metro neighborhood is provided below.

The Monarch – The Monarch is a fractured condominium project which turned to rental following poor condominium presales. The development consists of 168 units (140 rental, and 28 condominium) with 45,561 sf of retail. The majority of the retail space is vacant but the development does include a Starbucks and LA Boxing Fitness Club. The units were designed and constructed to condominium standards so they are larger than most multi-family developments and contain higher end finishes. As such, asking rents are higher than most new multi-family projects and as a result absorption has been extremely slow, averaging four units per month. At that rate it will take through July 2011 for the building to stabilize. The project has numerous fine amenities including the Starbucks, rooftop terrace, fitness center, Resident's Lounge, and Concierge Service. The Monarch is located four blocks south of Project Horizon and is a similar distance to the Metro Station. The Monarch is an excellent comparable to Project Horizon.

The Madison – The Madison is a proposed 344 unit multi-family project with 23,070sf of retail which lies one block south of Project Horizon. The project recently could not come to lease terms with a Harris Teeter grocery store and does not have a retail tenant prospects at this time. The south façade of the Madison is along Madison Street which is the proposed retail "Main Street" of the Braddock Road Metro Neighborhood Master Plan. The Madison's retail will be concentrated along this "Main Street" as well as North

Henry Street (Route 1 South) which currently experiences in excess of 20,000 vehicles per day according to CBRE. Similar to The Monarch, The Madison was originally planned as a condominium project but converted to multi-family during the planning process. However, it is likely that the Madison will be constructed to condominium standards as the project start continues to be delayed and the long term prospects for a resurgence in the condominium market continue to improve.

***Braddock Gateway* –** Braddock Gateway is a proposed mixed use development consisting of a 616 unit high rise multi-family building, a 70,000sf office building, 15,000sf of retail, and a 145 room hotel. The project has been approved by the City of Alexandria and currently is finalizing its application for Building Permit.

***James Bland Redevelopment* –** James Bland Redevelopment is the approved redevelopment by AHRA and EYA of the James Bland public housing development which covers five city blocks. The approved plan consists of 379 units with a mix of multi-family buildings and townhomes. The mix of owned versus rental units is unknown at this time.

PRIMARY TRADE AREA - FUTURE MULT-FAMILY DEVELOPMENT

Property	Distance to Project Horizon	Size	Status	Notes
Potomac Yard Fire Station	0.3 mi.	12 1-bedroom; 48 2-bedroom; 4 3-bedroom	Under construction Deliver 2009	
Mt Vernon Commons	0.25 mi.	91 1-bedroom; 50 2-bedroom	Approved Est. 2010 delivery	
James Bland Redevelopment	0.1 mi.	245 market rate units; 134 public housing units	Est 2010 – 2015 delivery	
621 N Payne St	0.1 mi.	184 units	Under Review Est 2012 delivery	
The Madison	0 mi.	242 1-bedroom; 102 2-bedroom	Approved Est. 2011 delivery	
Carlyle Block O	0.5 mi.	332 units	Approved Est. 2011 delivery	
Braddock Gateway	0 mi.	616 units	Approved Est. 2012 delivery	
Hoffman 4 & 5	0.5 mi.	236 units	Approved Est. 2012 delivery	
Hoffman 11 & 12	0.5 mi.	794 units	Approved Est. 2012 delivery	
Hoffman 24 & 25A	0.5 mi.	372 units	Approved Est. 2012 delivery	

Note: In addition there are 486 units available in recently delivered buildings.

Source: Delta Associates and City of Alexandria Department of Planning and Zoning

Residential Capture Rate

As discussed above in the Residential Rental Market Overview, current vacancy rates are low but are expected to rise and supply is anticipated to exceed demand over the next five to seven years. This is evident in the lower than average monthly absorption rates for Class A Investment Grade apartments for both the primary trade area, 14 units per month for 2007, and the entire Washington Metro Area, 16 units per month at mid-year 2008, as reported by Delta Associates. In addition, The Monarch has experienced a very low monthly absorption rate of only 4 units per month since February 2008 as well as The Clayborne which has absorbed only 3 units per month since pre-leasing began in December 2007. In addition, the two most recently stabilized Class A investment grade multi-family projects, experienced monthly absorption rates of 8, The Tuscany, and 13, Post Carlyle Square with one month and three months of pre-leasing, respectively.

RECENT AND ONGOING ABSORPTION RATES IN THE PRIMARY TRADE AREA

Property	Type	Absorption Rate	Date Pre-leasing Began	Notes
Monarch	Mid-rise	4	2/08	
Clayborne	Low-rise	3	12/07	
Post Carlyle Square	High-rise	13	9/06	Stabilized
The Tuscany	Low-rise	8	7/07	Stabilized
Camden	Mid-rise	12	9/07	
Meridian at Eisenhower	High-rise	16	6/07	
Carlyle Place	High-rise	13	7/07	

Source: Delta Associates

Project Horizon's fair share of the current supply pipeline calculated by dividing the 100 units proposed for Project Horizon by the total number of units proposed in the Primary Trade Area (see Table Above: Primary Trade Area - Future Multi-Family Development) including the two multi-family projects that delivered in 2008, The Monarch and The Clayborne, is 4%. Based on a 4% capture rate of the projected 939 new target household demand, Project Horizon could expect to absorb 38 units per year or approximately 3 units per month.

Development Costs

A brief summary of the budgeted development costs are as follows. Reference Exhibit 1 for a more detailed breakdown of development costs.

	Cost	**Cost per Unit**	**Cost per Square Foot**
Acquisition costs	$ 15,942,752	$ 159,428	$ 158
Soft costs	$ 3,311,588	$ 33,116	$ 33.11
Sitework & Demolition	$ 822,980	$ 8,230	$ 8.17
Parking Garage	$ 1,851,000	$ 18,510	$ 18.37
Hard Costs	$ 16,118,400	$ 161,184	$ 160.00
Financing costs	$ 1,049,693	$ 10,497	$ 10
TOTAL (includes items not listed above)	$ 40,975,651	$ 409,757	$ 407

These costs are based on discussions with Ross Development, Jones Lang LaSalle Investment Banking, Jones Lang LaSalle Construction, Dietze Construction Group, Morgan Gick McBeath and Associates, as well as Lane Development.

The total budgeted cost of $ 258,038 per unit, not including Site Acquisition, is in line with DC market averages according to Jones Lang LaSalle Investment Banking (JLLIB) as well as Lane Development. According to JLLIB, projects with underground parking and vertical transportation are averaging close to $300,000 per unit, excluding land across the Metro Area. Project Horizon is slightly less than average given the fact that parking is structured and it has a reduced parking ratio compared to the requirements of the Alexandria Zoning Ordinance and other suburban location due to its proximity to the Braddock Road Metro Station.

Site Acquisition

The site acquisition cost of $15.9 million ($ 206 per ground square foot, $ 165 per FAR square foot, or $ 159,429 per unit) was based on a recent comparable of the sale of 621 N. Payne St. The comparable site is a similar underutilized warehouse site near the Braddock Road Metro station and has the same zoning as the Project Horizon site and the sale closed in June 2008. This sale price was much higher than the sale of The Madison site which closed in June 2005 for $133 per ground square foot or $106 per FAR square foot or any of the other comparables listed below:

Project	Location	Price	$/Unit	Date	Type
Comp #1	621 N. Payne	$ 18,000,000	$ 163,604	June-08	Mid-rise
Comp #2	The Madison	$ 15,000,000	$ 105,403	June-05	Mid-rise
Comp #3	Arlington, VA	$ 28,904,268	$ 87,324	May-07	High-rise
Comp #4	Arlington, VA	$ 30,771,656	$ 85,476	May-07	High-rise
Comp #5	Arlington, VA	$ 7,000,000	$212,121	Jan-08	High-rise
Average	**n/a**	**n/a**	**$130,786**	**n/a**	

Source: City of Alexandria Department of Real Estate Assessments and Delta Associates, Inc.

Soft Costs

The soft costs include Design and Engineering, Legal, Permits and Fees, Tenant Improvements and Leasing Commissions, Marketing, Insurance, Proffers, and Tap Fees. Design and Engineering costs were based on survey data compiled by Ross Development. City of Alexandria permit costs and fees were based on information gathered from the City of Alexandria website. The City has substantial tap fees that equal $3,716 per unit for sanitary connections.

Soft Costs	Cost	$/Unit	$/SF	Notes and Sources
Architectural & Engineering	$ 402,960	$ 4,030	4.00	$4/sf – Ross Development
MEP	$ 100,740	$ 1,007	1.00	$1/sf – Ross Development
Legal	$ 35,000	$ 350	0.35	Land Use and Contracts – Estimate
Permits & Fees	$ 50,000	$ 500	0.50	City of Alexandria Website Estimates
Real Estate Taxes	$ 129,933	$ 1,299	1.29	$0.8150 per $100 value of acquisition – City of Alexandria Department of Taxation
Office Tenant Improvement	$ -	$ -	-	
Retail Tenant Improvement	$ 200,000	$ 2,000	1.99	$50/sf – Jackson Prentice Real Estate
Leasing Commission	$ 80,000	$ 800	0.79	$20/sf (~6%) – Jackson Prentice Real Estate
Marketing	$ 273,215	$ 2,732	2.71	Concessions = 9.9% of face rent + Marketing – Delta Associates, Inc.
Insurance & Bonds	$ 413,432	$ 4,134	4.10	2% of Hard Costs – Dietze Construction Company
Tap Fees	$ 371,600	$ 3,716	3.69	$3716 per unit for sanitary – City of Alexandria Website
Other	$ 250,000	$ 2,500	2.48	Proffer – Estimate for by-right development – 50% of comps for D.S.U.P. development
Development fee	$ 847,013	$ 8,470	8.41	4% of Hard and A&E Costs – JLL
Contingency	$ 157,695	$ 1,577	1.57	5% of Soft Costs

Hard Costs

The hard costs were quoted directly from Dietze Construction Company and Jones Lang LaSalle Construction who both indicated construction of a mid-rise multi-family apartment building with podium construction averages $160/sf, excluding parking. In speaking with MJ Wells & Associates, traffic consultants, suburban low-rise structured parking garages are averaging $15,000 per parking space. In addition, modest site work and landscaping costs of $5 per land square foot and building demolition costs of $0.75/cu foot of existing structure are included. Lastly, the analysis includes a 10% contingency factor.

Development Timeline

The overall development is expected to last three years with the first two years dedicated to site acquisition, design and regulatory approvals, site demolition and footings and foundations. Upon receipt of all permits and zoning approval, construction will commence and last for 12 months. If land acquisition closing occurs on or before December 31, 2008, apartments will be ready for occupancy no later than January 1, 2012.

Analysis Assumptions

Apartment Rent

The analysis has assumed a blended monthly market rent of $2.64 psf as of mid-year 2012 on the 100 market rate units. There are no Affordable Dwelling Units (ADUs) set aside as Development Scenario #1 is a by-right or Site Plan development whereby the City of Alexandria is not allowed to negotiate ADU set asides. A detailed rent schedule is set forth below.

Unit Type	Quantity	Average SF	Avg. Monthly Rent	Avg. Rent PSF
1-BR/1BA	68	700	$ 1,894	$ 2.71
1-BR+den/1BA	18	900	$ 2,377	$ 2.64
2BR/1BA	14	1100	$ 2,667	$ 2.42
Average/Sum	100	792	$ 2,089	$ 2.64

These rents are based on The Monarch Project with 2% rent growth from 2008 to 2012. The Monarch comparable is a conservative estimate based on the following comparables summarized as follows:

Property	Distance to Project Horizon	Year Built	Avg. Rent PSF	Notes
Meridian at Braddock Place	1 Block West; Braddock		$1.94	Same location; 480 unit high rise; rooftop pool; fitness center; older building; walk to Metro
Meridian at Carlyle	1 mile south; Carlyle	2007	$2.53	New Building; Carlyle/Duke St. amenities; Hi-rise; Pool; 10 minute walk to King St. Metro
The Monarch	4 Blocks south – Braddock Road Neighborhood	2008	$2.30	New Building; Condo finish and large units; similar amenities; Starbucks; walk to Metro
Camden	1 mile North – Potomac Yard	2008	$2.57	Harris Teeter next store; pool; no metro;
The Clayborne	0.5 miles south	2008	$2.56	New Building; Mid-rise; High-end retail strip adjacent; no metro; pool

Absorption

The analysis utilized Project Horizon's Fair Share capture rate of 3 units per month and two months worth of pre-leasing which is consistent with recently delivered projects in Arlington and Alexandria.

Vacancy

Despite the fact Project Horizon is located in a transformative neighborhood with immediate access to Metro and public transportation, the market analysis predicts apartment supply will outpace demand. As such, this analysis has projected only 3.0% annual rent growth throughout the 10-year hold period. In addition, the analysis utilizes the Delta Associates calculated stabilized vacancy rate of 5.1% for Northern Virginia.

Apartment Expenses

Apartment expenses for Project Horizon in today's dollars represent a 25% expense margin[1] or approximately $7,200 per unit per year which is consistent with the Institute of Real Estate Management's 2007 Survey data which was $7,035 per unit per year in buildings with elevators. The largest operating expenses borne by the building include real estate taxes ($0.8150 per $100 of assessed value as set by City of Alexandria), property management (6.0% of gross receipts as recommended by Ross Development), and miscellaneous operating expenses ($2,900 per unit) which include cleaning, common area utilities, maintenance and repairs, insurance, and security. Expenses are anticipated to grow at an average rate of 3.0% per annum.

Exit

Project Horizon underwriting utilizes a 6.5% exit cap rate, which represents a 50-100 bp premium over recent market sales of new, Class A apartment buildings in Northern Virgina according to Eastdil Secured. This exit pricing equates to $39.7 million or $396,995 per unit on a gross basis in 2021. This compares favorably to many other new apartment projects, including many in inferior suburban locations which do not have access to metro that have recently traded at over $400,000 per unit. Examples include:

Project	Location	Price	$/Unit	Date	Type
Comp #1	Falls Church, VA	$ 101,000,000	$ 439,130	Sept-07	High-rise
Comp #2	Arlington, VA	$ 99,500,000	$ 407,787	Aug-07	High-rise
Comp #3	Alexandria, VA	$ 76,000,000	$ 439,306	Jan-07	High-rise
Comp #4	Herndon, VA	$ 59,000,000	$ 349,112	May-07	Mid-rise
Comp #5	Arlington, VA	$ 85,000,000	$ 352,697	April-08	High-rise
Average	**n/a**	**$72,028,000**	**$418,200**	**n/a**	

Source: Delta Associates, Inc.

In addition, sales costs upon exit are underwritten at 5.0% of gross proceeds.

[1] Expense Margin = Operating Expenses / Revenues.

Retail Revenue

Retail Rent

The City of Alexandria, particularly along Route 1 north of King Street has long been underserved by service retail such as restaurants, cafes, barbers, clothing retailers, etc.. The Braddock Road Neighborhood Plan plans for an additional 80,000sf of retail mostly along Madison St. and north along North Henry St.

Based on information from Jackson Prentice Real Estate, Project Horizon expects retail rent of almost $38 NNN in 2012, which is based on $35/sf NNN in 2008 with a 2% growth factor.

Additional lease assumptions include 10 year terms, 6.0% commissions, 3.0% market rent growth, 3.0% annual lease escalation, and 5.0% vacancy, all of which are consistent with market.

Financing

Construction Loan Assumptions

The analysis reflects the use of construction financing in addition to the Land value, Developer Fee used as equity. The actual value of the construction loan is based on the amount of the permanent loan attainable which is $19,256,088 or 47% loan to cost. The general construction loan assumptions provided by Jones Lang LaSalle Investment Banking are outlined below:

- 60% Maximum Loan to cost
- Non-recourse
- Completion guaranty
- 3 years with two, one-year options to extend

- 250 bps + 30 day Libor (estimated to be 7% at the time of the analysis)
- Interest only during term
- 1% lender fee in

Permanent Loan Assumptions

The analysis assumes that immediately upon stabilization in Year 3, Project Horizon will refinance with permanent financing. The project will be valued at a 6.5% cap rate based on recommendations from Eastdil Secured Investment Banking. In addition, the value of the permanent loan will be underwritten with a maximum 70% loan to value ratio and a 1.20 debt service coverage ratio based on the recommendations of Jones Lang LaSalle Investment Banking. The interest rate is assumed to be 6.75% at the time of refinancing. The loan will be fully amortizing over a 25 year amortization but the term of the loan will only be 10 years.

Financial Summary

The projected unleveraged return on cost is 4.68% and unleveraged IRR is 4.5% with a 10 year hold period and 6.5% cap rate at exit. The return on cost is less than the cap rate and therefore the project would lose money if sold at Development completion. Leveraged IRR over the 10-year hold period is 1.8%.

This result is most sensitive to cap rate on sale and operating expenses. If the exit cap rate were reduced to 5.5%, the 10-year leveraged IRR would increase to 4.3%. If the operating expenses were reduced 30%, the 10-year leveraged IRR would increase to 4.4%.

No downside scenarios were explored due to the exceptionally low return on cost, equity IRR, and fundamental infeasibility of this scenario.

Development Scenario 2 – 1.25 FAR Office

Scenario #2 Overview

Project Horizon Development Scenario 1 is development of an office building with a 1.25 FAR plus ground floor retail. This scenario represents an acceptable use and maximum FAR established in the existing zoning ordinance without having to go through the D.S.U.P. process. As such, the proffers are kept to a minimum.

Development Overview

Project Horizon Development Scenario 2 is to remove the existing structures, and construct a five story office building with a detached three story parking garage. The building will be an office building with a 1.25 FAR and bonus ground floor retail density. Based on the below Retail rental market analysis, the Ground Floor Retail will be approximately 4,000sf of warm lit retail shell space, which is slightly more than the retail analysis recommendation and less than the 0.25 retail bonus FAR. Lot occupancy will be 50% including the parking garage. The open space will be accessible to the public and will be exquisitely landscaped including a water feature, public artwork, and seating areas. The parking garage will be two stories and will house the amended Zoning Ordinance required 170 parking spaces.

The five story building will have a 20,148sf floorplate and will be cast-in-place concrete construction with a building envelope mix of glass curtain wall, precast concrete panels, brick and punched windows as recommended by Morgan Gick McBeath (Architect) as a means to minimize construction cost while maintaining a similar envelope appearance to other new construction in the City of Alexandria. Common area finishes will be of Class A office construction and column spacing will be maximized to make Tenant space planning as efficient as possible. Based on similar office building designs and for analysis purposes only, the ground floor will house approximately 4,000sf of warm lit retail shell space, a 1,500sf entrance and Lobby, 1,000sf fitness center, back of house spaces, and 10,000sf of office space. Floors two through five will be 20,148 SF each consisting of warm lit shell office space ready for Tenant fit out and a 2,660sf core area with three elevators, two stairwells, Mechanical, Electrical, and Telephone Rooms, Janitor's Closet, and Men's/Women's Restrooms.

The parking garage will be constructed of cast in place concrete and will have a traditional townhouse façade with color scheme matching the building in an effort to hide the parking structure and vehicles as required to receive City of Alexandria Design Review Board approval. The townhouse façade will have the appearance of punched windows without the glazing to allow adequate ventilation within the parking garage.

The floor to floor height of the first floor is 20ft and Floors 2 through 5 are 12 feet each allowing a 9ft ceiling height and three feet for plenum and structure, resulting in a total building height of 68 feet, well below the 90ft height limit.

Building Façade Example:

Source: www.simpsondev.com

Source: www.costar.com

Building Program

Development Scenario #2 Building program is as follows:

Ground Floor	Size	Qty	Total Area
Retail	4,000	1	4000
Entrance & Lobby	1,500	1	1500
Elevators	100	3	300
Trash Room	400	1	400
Electrical Room	120	1	120
Telephone Closet	120	1	120
Mechanical Room	320	1	320
Stairs	200	2	400
Restrooms	200	2	400
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Hallways	1200	1	1200
Office	10000	1	10000
	Subtotal Grd Floor		20160
Typical Floor			
Elevators	100	3	300
Electrical Room	120	1	120
Telephone Closet	120	1	120
Mechanical Room	320	1	320
Stairs	200	2	400
Restrooms	200	2	400
Hallways	1,000	1	1000
Office	17500	1	17500
	Subtotal Typ Floor		20160
Entire Building			
Retail	4,000	1	4000
Entrance & Lobby	1,500	1	1500
Elevators	100	15	1500
Trash Room	400	1	400
Electrical Room	120	5	600
Telephone Closet	120	5	600
Mechanical Room	320	5	1600
Stairs	200	10	2000
Restrooms	200	10	2000
Mgmt & Leasing	400	1	400
Fitness Center	1,000	1	1000
Hallways			5200
Office			80000
	Subtotal Bldg		100800

Market Analysis - Office Rental Market Overview

According to the Delta Associates' Mid-Year 2008 Report: The Washington/Baltimore Office Market issued June 30, 2008, the direct vacancy rate at the end of Quarter 2 of 2008, for stabilized office product within the City of Alexandria is 4.7% compared with 7.7% in Arlington County and 10.9% in Fairfax County. According to the same report, vacancies are projected to continue to remain tight, effective rents should rise due to the pressure on the rental market. According to CoStar, the average direct rental rate for Class A property in the Primary Trade Area is $38.63/sf per year full service, up from $34.49/sf per year in 2005. Although located in a redeveloping office market, Project Horizon should attract tenants motivated by the desire to work close to Metro, Old Town and King Street, and a short drive to downtown Washington, DC or the Pentagon. A summary of comparable buildings in the Primary Trade is in the following table with 2331 Mill Road very comparable to Project Horizon with its proposed construction, size (90,955sf) and minimal ground floor retail, 4,525sf.

Property	Distance to Project Horizon	Year Built	Avg. Rent PSF	Notes
1330 Braddock Place	0.10 mi	1985	$35.00	Adjacent to Braddock Metro Station
1925 Ballenger Ave	1 mi	2006	$46.00	Adjacent to PTO
2331 Mill Road	1 mi	2008	$38.50	Low-rise. 4,525sf GFR.
2318 Mill Road	1 mi	2008	$43.00	High-rise. Few amenities. Delivered mostly vacant.
1340 Braddock Place	0.10 mi	1985	$35.00	Adjacent to Braddock Metro Station
44 Canal Center	0.25 mi	1987	$35 - $37	River views
66 Canal Center	0.25 mi	1987	$35 - $37	River views
Hoffman Town Center	1 mi	Under Construction	$45.00	Town Center Concept with Amenities
Source: CoStar				

Retail Market

The retail market for the Primary Trade Area is concentrated on King Street and consists of single-story, street front retail that is tenanted by national chains and local family owned/operated businesses. In the Braddock Metro Neighborhood plan, retail is planned for a centralized “Main Street” along Madison Ave. to the south of Project Horizon and north along Route 1 to the Samuel Madden Uptown site where a grocery store and additional retail is planned.

A Retail Market analysis performed during the development of the Braddock Metro Neighborhood Plan, determined that the area could support 80,000sf of new retail. The Project Horizon site was not planned to have retail other than small office or apartment tenant serving retail such as a café, deli, drycleaners or other retailer not requiring vehicular traffic to drive business. Based on the surrounding density of Project Horizon, 480 units at Meridian apartment building across the street with no service retail, along with the proposed project occupancy of 100 units, and approximately 9 square feet of retail per 1,000sf of office (Source: Alexandria Dept of Planning and Zoning Braddock Master Plan), using the same calculation methodology performed above under Scenario #1, Project Horizon can support a maximum of approximately 5,671sf of retail assuming a 100% capture rate of the adjacent Meridian apartments. Utilizing a more conservative 65% capture rate of the Meridian building, Project Horizon can support approximately 3,991sf of ground floor retail (rounded up to 4,000sf for the analysis) as calculated below:

Retail SF Calculations	# Units	SF/unit	Office SF	Retail SF/ Office SF	Supportable Retail sf	Meridian Capture Rate
Meridian Apartments	480	10	-		3,120	65% est
Project Horizon	100	10	97,000	.009	873	
				TOTAL	3,993	

SF/Unit and Retail SF/Office SF Sources: Alexandria Dept of Planning and Zoning

. According to Jackson Prentice Real Estate, current asking rents for North Old Town average $35/sf. Assuming 2% rent growth from 2008 to 2012, Project Horizon can expect initial retail rent of approximately $38/sf.

Office Demand Analysis

Employment data was gathered for this analysis from the Virginia Employment Commission. The Virginia Employment Commission provided Total Employment by Industry data for the City of Alexandria for 2007 and the State of Virginia for 2006 as well as estimated statewide employment in 2016. The compounded annual growth rate (CAGR) calculated for the State of Virginia by industry for the period from 2006 to 2016 was applied to the City of Alexandria 2007 employment to project Citywide employment for 2014.

City of Alexandria Employment Analysis	Alexandria Employment		
	2007	State CAGR 2006-2016 Projection	2014 Estimate
Professional, Scientific & Technical Svc	17,511	3.58%	22,399.70
Public Administration	14,897	2.09%	17,217.94
Other Services (except Public Admin.)	10,885	1.26%	11,882.12
Retail Trade (44 & 45)	8,593	0.76%	9,060.70
Accommodation and Food Services	7,788	1.08%	8,396.20
Admin., Support, Waste Mgmt, Remediation	7,354	2.09%	8,499.75
Health Care and Social Assistance	6,755	2.75%	8,167.67
Education Services	5,044	1.82%	5,722.78
Construction	3,611	0.99%	3,868.80
Transportation and Warehousing (48 & 49)	3,482	1.20%	3,785.23
Finance and Insurance	3,401	1.74%	3,837.50
Real Estate and Rental and Leasing	3,214	1.54%	3,576.89
Information	2,446	0.86%	2,597.10
Wholesale Trade	2,028	0.74%	2,135.41
Manufacturing (31-33)	1,569	-0.71%	1,492.66
Arts, Entertainment, and Recreation	1,201	2.30%	1,408.23
Management of Companies and Enterprises	865	2.05%	997.03
Utilities	465	-0.14%	460.46
Total	101,109		115,506

Source: Virginia Employment Commission

The analysis resulted in a projected total employment for the City of Alexandria of 115,606 employees. This analysis did not take into account the potential increase of 6,200 jobs from the WHS Headquarters relocation to Alexandria.

Based on the projected total employment in year 2014 for Alexandria in the above table, calculated applicable office space demand (assuming 275 SF per employee based on guidance from Economic Research Associates, Inc.) is 19,072,375 SF.

CATEGORY	% OF OFFICE USERS	SQ. FT. PER OFFICE USER	Total Office Space Demand: City (In Square Feet) 2007 - 2014
		1/	
Nat. Resources & Construction	10%	275	106,392
Manufacturing	20%	275	82,096
Transportation/Communication/Utilities	40%	275	467,026
Wholesale & Retail Trade	30%	275	1,732,544
Finance / Insurance / Real Estate	90%	275	8,268,537
Services	40%	275	3,769,954
WHS - 6200 Job Campus	100%	275	1,705,000
Government	90%	275	2,940,824
Total Demand (Sq. Ft.)		**275**	**19,072,375**

According to the Delta Associates Office Report, as of July 2008 there was approximately 16.8 million ("M") square feet ("SF") of total office space in Alexandria, VA including Eisenhower Avenue, Old Town, and the I-395 Corridor. With the addition of 10% frictional vacancy and 7.5% cumulative replacement demand, calculated total new office space required to be built in Alexandria, including the WHS Campus Headquarters which is relocating to Mark Center in Alexandria, VA, over the next seven years is 5,617,610 SF.

CATEGORY		Total Office Space Demand: Alexandria (In Square Feet) 2014
Total Demand (Sq. Ft.)		**19,072,375**
Plus / Minus		
- **Current Built Space**		**16,792,390**
+ Vacancy Adjustment (Rounded)	2/	1,430,428
+ Cumulative Replacement Demand (Rounded)	3/	1,907,238
Total Office Space Demand		**5,617,610**

2/ Assumes 7.5% "frictional" vacancy rate

3/ This represents new space required by existing businesses to replace obsolete or otherwise unusable space. This is assumed to represent 10.0% of total demand.

Recent and Future Office Deliveries

FUTURE DELIVERIES SUMMARY	
Office sf Approved	5.36 million
Office sf Under Review	2.13 million
Total	7.8 million

There is a significant amount of office development planned for the City of Alexandria with currently 5.36 million square feet of office projects currently approved by the City of Alexandria Planning and Zoning Department and another 2.13 million square feet under review. Approximately 89% of these projects, or 6.96 million square feet, are large urban developments in excess of 300,000 square feet and given the current market conditions won't be moving forward until they are at least 50% pre-leased and once they receive the appropriate financing would take minimum 24 months to deliver.

Planned office development for the Braddock Road Metro neighborhood is only 326,000 square feet, whereas the Eisenhower Corridor and Carlyle have 4.2 million square feet planned and the I-395 Corridor has 1.74 million square feet planned at Mark Center. The majority of these large projects are planned only and will likely not move forward unless a large anchor tenant is secured.

City of Alexandria Office Supply Analysis					
	Office				
Project	Space	% Of Growth	Status	Submarket	Comments
Project Horizon	**96,000**	**1.23%**	Not submitted	Braddock	
Route 1 Triangle Site	80,000	1.03%	Not submitted	Braddock	
Braddock Metro Site	80,000	1.03%	Not submitted	Braddock	
Carlyle Project, Ballenger East	32,594	0.42%	Under construction	Carlyle	
Carlyle Project, Ballenger West	52,037	0.67%	Under construction	Carlyle	
Mark Center	1,008,113	12.92%	Approved, Not Under Construction	I-395	Pending Anchor Tenant
Victory Center	512,089	6.56%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Potomac Yard - Land Bay H	51,616	0.66%	Approved, Not Under Construction	Potomac Yard	Pending Anchor Tenant or Metro
Edmundson Plaza - 1701 Duke St.	101,108	1.30%	Approved, Not Under Construction	Old Town / Carlyle	Breaking Ground
Carlyle Block P	364,416	4.67%	Approved, Not Under Construction	Carlyle	Pending Anchor Tenant
Hoffman 2 & 3	770,000	9.87%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Hoffman 4 & 5	436,000	5.59%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Hoffman 8	470,784	6.03%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Hoffman 9a & 9b	800,000	10.25%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Hoffman 24 & 24a	180,000	2.31%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
ATA Office	585,000	7.50%	Approved, Not Under Construction	Eisenhower	Pending Anchor Tenant
Braddock Gateway	70,000	0.90%	Approved, Not Under Construction	Braddock	

Project	Office Space	% Of Growth	Status	Submarket	Comments
Potomac Yard - Blocks I & J	478,765	6.14%	Under review	Potomac Yard	Pending Anchor Tenant or Metro
Potomac Yard - Land Bay G	800,000	10.25%	Under review	Potomac Yard	Pending Anchor Tenant or Metro
Bldg 5 Mark Center	359,387	4.61%	Under review	I-395	Pending Anchor Tenant
Bldg 6 Mark Center	374,626	4.80%	Under review	I-395	Pending Anchor Tenant
TOTAL	7,803,535				
Old Town Supply Analysis					
Project Horizon	**96,000**	**16.56%**	Not submitted	Braddock	
Route 1 Triangle Site	80,000	13.80%	Not submitted	Braddock	
Braddock Metro Site	80,000	13.80%	Not submitted	Braddock	
Edmundson Plaza - 1701 Duke St.	101,108	1.30%	Approved, Not Under Construction	Old Town / Carlyle	Breaking Ground
Armed Forces Benefit	101,000	1.29%	Under review	Old Town	
Potomac Yard - Land Bay H	51,616	0.66%	Approved, Not Under Construction	Potomac Yard	Pending Anchor Tenant or Metro
Braddock Gateway	70,000	12.07%	Approved, Not Under Construction	Braddock	
TOTAL	579,724				

Submarket Growth: Source Alexandria Department of Planning & Zoning

Office Capture Rate

Project Horizon's Fair Share of the overall Alexandria supply is 1.23%. The fair share is calculated by dividing Project Horizon's square footage by the overall office supply square footage of approximately 7.8 million square feet. However, this includes projects that are in excess of 300,000sf which may not move forward or are pending a large anchor tenant or metro construction at Potomac Yard. In addition, the majority of the supply is in the Eisenhower Corridor and I-395 Submarkets, which have historically drawn a different tenant mix than the Old Town Submarket according to local developer Lane Development. Most of the projects in the Eisenhower and I-395 Submarkets are in excess of 300,000sf whereas the Old Town Submarket projects are mostly 100,000sf or less.

Historically the Old Town Submarket has had an absorption rate that is 10% - 20% of the City of Alexandria's overall absorption, according to Delta Associates statistics. Analyzing the Old Town, Braddock, and Potomac Yard supply only, results in a Project Fair Share Capture Rate of 16.56% of that submarket's growth only. The large urban office projects slated for Potomac Yard that are in excess of 400,000sf were excluded from this analysis as those projects won't likely proceed without the Potomac Yard metro station.

		Submarket Share of Region Growth		
		10.0%	15.0%	20.0%
Site Share of Trade Area Growth	11.6%	64,900 SF	97,400 SF	129,900 SF
	16.6%	93,000 SF	139,500 SF	186,100 SF
	21.6%	121,100 SF	181,700 SF	242,200 SF

Utilizing a submarket share of City growth of 15% and the site's fair share of submarket growth of 16.6%, a 139,500sf office building can be supported on the site.

According to Jones Lang LaSalle Investment Banking, it is recommended that the pro-forma analysis reflect a minimum 50% pre-lease requirement prior to commencing with construction as this is becoming a standard underwriting criteria for most lenders. In addition, resulting from the Fair Share analysis, a 20,000sf per year lease up rate is utilized in the analysis.

Development Costs

A brief summary of the budgeted development costs are as follows. Reference Exhibit 2 for a more detailed breakdown of development costs.

	Cost	**Cost per SF**
Acquisition costs	$ 15,942,752	$ 158
Soft costs	$ 8,321,633	$ 83
Sitework & Demolition	$ 822,980	$ 8.17
Parking Garage	$ 2,549,337	$ 25.31
Hard Costs	$ 12,088,800	$ 120
Financing costs	$ 1,499,607	$ 15
Total Cost	$ 42,771,221	$ 424.57

These costs are based on discussions with Jones Lang LaSalle Investment Banking, Jones Lang LaSalle Construction, Dietze Construction Group, Morgan Gick McBeath and Associates, as well as Lane Development.

Site Acquisition

The site acquisition cost of $15.9 million ($ 206 per ground square foot, $ 165 per FAR square foot, or $ 159,429 per unit) was based on a recent comparable of the sale of 621 N. Payne St. The comparable site is a similar underutilized warehouse site near the Braddock Road Metro station and has the same zoning as the Project Horizon site and the sale closed in June 2008. This sale price was much higher than the sale of The Madison site which closed in June 2005 for

$133 per ground square foot or $106 per FAR square foot or any of the other comparables listed below:

Soft Costs

The soft costs include Design and Engineering, Legal, Permits and Fees, Tenant Improvements and Leasing Commissions, Marketing, Insurance, Proffers, and Tap Fees. Design and Engineering costs were based on survey data compiled by Ross Development. City of Alexandria permit costs and fees were based on information gathered from the City of Alexandria website. The City has substantial tap fees that equal $3,716 per unit for sanitary connections.

Soft Costs	Cost	$/SF	Notes and Sources
Architectural & Engineering	$ 280,016	2.78	$2.40/sf for office; $0.75/sf for garage – Morgan, Gick, McBeath (MGMA)
MEP	$ 80,839	0.80	$0.60/sf for office; $0.40/sf for garage – MGMA
Structural	$ 80,839	0.80	$0.60/sf for office; $0.40/sf for garage – MGMA
Civil	$ 96,740	0.96	$1.25/ ground sf – MGMA
Legal	$ 35,000	0.35	Land Use and Contracts – Estimate
Permits & Fees	$ 50,000	0.50	City of Alexandria Website Estimates
Real Estate Taxes	$ 129,933	1.29	$0.8150 per $100 value of acquisition – City of Alexandria Department of Taxation
Office Tenant Improvement	$ 3,385,900	33.61	$35/sf – Jones Lang LaSalle
Retail Tenant Improvement	$ 200,000	1.99	$50/sf – Jackson Prentice Real Estate
Leasing Commission	$ 2,014,800	20.00	$20/sf (~6%) – Jackson Prentice Real Estate
Marketing	$ 20,000	0.20	Marketing – Estimate
Insurance & Bonds	$ 340,145	3.38	2% of Hard Costs – Dietze Construction Company
Tap Fees	$ 123,891	1.23	Lump sum fee for 4” tap – City of Alexandria website
Other (Proffer)	$ 250,000	2.48	Proffer – Estimate for by-right development – 50% of comps for D.S.U.P. development
Development fee	$ 837,262	8.31	4% of Hard and A&E Costs – JLL
Contingency	$ 396,268	3.93	5% of Soft Costs

Hard Costs

The hard costs were quoted directly from Dietze Construction Company and Jones Lang LaSalle Construction who both indicated construction of a mid-rise office building with concrete construction averages $110 - $120 per sf, excluding parking. In speaking with MJ Wells & Associates, traffic consultants, suburban low-rise structured parking garages are averaging $15,000 per parking space. In addition, modest site work and landscaping costs of $5 per land square foot and building demolition costs of $0.75/cu foot of existing structure are included. Lastly, the analysis includes a 10% contingency factor.

Development Timeline

The overall development is expected to last three years with the first two years dedicated to site acquisition, design and regulatory approvals, site demolition and footings and foundations. Upon receipt of all permits and zoning approval, construction will commence and last for 12 months. If land acquisition closing occurs on or before December 31, 2008, the building will be ready for occupancy no later than January 1, 2012..

Analysis Assumptions

Office Rent

The analysis has assumed annual market rent of $41.67 psf for the office space for FY2012. This base rent is based on 2331 Mill Road comparable with a 2% rent growth from 2008 to 2012. 2331 Mill Road is comparable to Project Horizon with its proposed construction type, size (90,955sf) and minimal ground floor retail, 4,525sf. A summary of other offices comparables is as follows:

Property	Distance to Project Horizon	Year Built	Avg. Rent PSF	Notes
1330 Braddock Place	0.10 mi	1985	$35.00	Adjacent to Braddock Metro Station
1925 Ballenger Ave	1 mi	2006	$46.00	Adjacent to PTO
2331 Mill Road	1 mi	2008	$38.50	Low-rise. 4,525sf GFR.
2318 Mill Road	1 mi	2008	$43.00	High-rise. Few amenities. Delivered mostly vacant.
1340 Braddock Place	0.10 mi	1985	$35.00	Adjacent to Braddock Metro Station
44 Canal Center	0.25 mi	1987	$35 - $37	River views
66 Canal Center	0.25 mi	1987	$35 - $37	River views
Hoffman Town Center	1 mi	Under Construction	$45.00	Town Center Concept with Amenities
Source: CoStar				

Absorption

The analysis utilized Project Horizon's Fair Share capture rate of 20,000sf per year with the project delivering 50% pre-leased due to strict lender requirements as discussed in the above Office Market Analysis.

Vacancy

Despite the fact Project Horizon is located in a transformative neighborhood with immediate access to Metro and public transportation, the market analysis predicts office supply will outpace demand. As such, this analysis has projected only 3.0% annual rent growth throughout the 10-year hold period. In addition, the analysis utilizes the Delta Associates calculated stabilized vacancy rate of 5.0% which is slightly higher than current vacancy rates in the city of Alexandria.

Tenant Rollover

For simplification purposes, 25% of the office tenants are analyzed as rolling at the end of years 3, 5, 7, and 9 with $ 35/sf in Tenant Improvement allowances, $20/sf in Leasing Commissions, and 6 months of rent downtime.

Office Expenses

Office expenses for Project Horizon in today's dollars represent a 22% expense margin[2] or approximately $ 10 per square foot per year which is consistent with currently operating properties in Northern Virginia according to Jones Lang LaSalle's Property Management division. The largest operating expenses borne by the building include real estate taxes ($0.8150 per $100 of assessed value as set by City of Alexandria), property management (4.0% of gross receipts), utilities ($ 2.50/sf) and miscellaneous operating expenses ($2.45/sf) which include cleaning, common area utilities, maintenance and repairs, insurance, and security. Expenses are anticipated to grow at an average rate of 3.0% per annum.

Exit

Project Horizon underwriting utilizes an 8.0% exit cap rate, which represents current cap rates according to Jones Lang LaSalle Investment Banking Division. This exit pricing equates to $52.5 million or $522 per sf on a gross basis in 2021. In addition, sales costs upon exit are underwritten at 5.0% of gross proceeds.

Retail Rent

The City of Alexandria, particularly along Route 1 north of King Street has long been underserved by service retail as stated above in Scenario #1. The Braddock Road Neighborhood

[2] Expense Margin = Operating Expenses / Revenues.

Plan plans for an additional 80,000sf of retail mostly along Madison St. and north along North Henry St.

Based on information from Jackson Prentice Real Estate, Project Horizon expects retail rent of almost $38 NNN in 2012, which is based on $35/sf NNN in 2008 with a 2% growth factor.

Additional lease assumptions include 10 year terms, 6.0% commissions, 3.0% market rent growth, 3.0% annual lease escalation, and 5.0% vacancy, all of which are consistent with market.

Financing

Construction Loan Assumptions

The analysis reflects the use of construction financing in addition to the Land value, Developer Fee used as equity. The actual value of the construction loan is based on the amount of the permanent loan attainable which is $26,088,612 or 60% loan to cost. The general construction loan assumptions provided by Jones Lang LaSalle Investment Banking are outlined below:

- 60% Maximum Loan to cost
- Non-recourse
- Completion guaranty
- 3 years with two, one-year options to extend
- 250 bps + 30 day Libor (estimated to be 7% at the time of the analysis)
- Interest only during term
- 1% lender fee in

Permanent Loan Assumptions

The analysis assumes that immediately upon stabilization in Year 3, Project Horizon will refinance with permanent financing. The project will be valued at an 8.0% cap rate based on recommendations from Jones Lang LaSalle Investment Banking. In addition, the value of the permanent loan will be underwritten with a maximum 65% loan to value ratio and a 1.20 debt service coverage ratio based on the recommendations of Jones Lang LaSalle Investment Banking. The interest rate is assumed to be 6.75% at the time of refinancing. The loan will be fully amortizing over a 25 year amortization but the term of the loan will only be 10 years.

Financial Summary

The projected unleveraged return on cost is 7.31% and unleveraged IRR is 9.25% with a 10 year hold period and 8.0% cap rate at exit. The return on cost is less than the cap rate and therefore the project would lose money if sold at Development completion. Leveraged IRR over the 10-year hold period is 8.5%.

No downside scenarios were explored due to the exceptionally low return on cost, equity IRR, and fundamental infeasibility of this scenario.

Development Scenario 3 – 2.5 FAR Multi-Family

Scenario #3 Overview

Project Horizon Development Scenario 3 is development of a multi-family apartment building with a 2.5 FAR plus ground floor retail. This scenario represents an acceptable use and maximum FAR established in the existing zoning ordinance and Master Plan but requiring approval via the D.S.U.P. As such, the negotiated proffers are much higher than Scenario #1.

Scenario #3 pro-forma analysis utilizes the exact same construction type, market analysis, absorption rates, and analysis assumptions as Scenario #1 with exceptions noted below.

Development Overview

Project Horizon Development Scenario 3 is to remove the existing structures, and construct two five story buildings with an underground parking garage. Each building will be a multi-family apartment building with a 1.25 FAR and ground floor retail. Based on the below Retail rental market analysis, the Ground Floor Retail will be approximately 5,000sf of warm lit retail shell space, which is slightly less than the retail analysis recommendation and less than the 0.25 retail bonus FAR. Lot occupancy will be 50%. The open space will be accessible to the public and will be appropriately landscaped including a water feature, public artwork, and seating areas. A portion of the site will house an outdoor recreation area for the residents with an outdoor pool, picnic and grilling area, and open space. In addition there will be a small rooftop terrace. The underground parking garage will be two levels and will house the amended Zoning Ordinance required 232 parking spaces.

Each five story building will have a 19,348 floorplate and will be podium construction with a concrete ground floor structure and wood framed construction on floors two through five as recommended by Morgan Gick McBeath (Architect) as a means to minimize the residential construction cost while facilitating ground floor retail. For planning purposes, the ground floor in each building will be the approximate 2,500sf of warm lit retail shell space, a 3,000sf apartment building entrance, fitness center (in one building only), Resident's lounge, back of house spaces, and a small number of one bedroom apartments. Floors two through five will be 19,348SF each with 21 fully finished apartments and a 2,648sf core area consisting of a public corridor, two elevators, two stairwells, Mechanical Room, Electrical Room, and Janitor's Closet. Apartments will consist of fourteen 1 bedroom, four 1 bedroom plus den, and three two bedroom units ranging from 700sf to 1100sf. The floor to floor height of the first floor is 20ft and Floors 2 through 5 are 10 feet (each unit has 9ft ceilings) each resulting in a total building height of 60 feet, well below the 90ft height limit.

The building façade will be constructed using a combination of light colored precast concrete materials, brick, and large six foot punched windows as recommended by Morgan Gick McBeath as these are standard, cost effective design materials and features for the City of Alexandria Development and pose the greatest chance of receiving Design Review Board approval.

The apartments will be finished to a condominium grade or luxury apartment level with nine foot ceilings, large six foot windows, base and crown molding throughout, spacious closets, washer and dryer, granite countertops, stainless steel appliances, maple cabinets, ceramic tile flooring in kitchen and foyer, premium quality bath fixtures, and high efficiency HVAC and water heating. The condominium grade finish is recommended to facilitate a condo exit strategy should the condominium market improve as the return on cost for condominium sale is greater than multi-family apartment leasing.

Building Program

Development Scenario #3 Building program is as follows for each building:

Ground Floor	Size	Qty	Total Area
Retail	2,500	1	2500
Entrance & Lobby	3,000	1	3000
Elevators	100	2	200
Trash Room	380	1	380
Electrical Room	100	1	100
Mechanical Room	100	1	100
Stairs	200	1	200
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Unit 1BR	700	8	5600
Unit 1BR + Den	900	2	1800
Unit 2BR	1100	2	2200
	Subtotal Grd Floor		18,480
Typical Floor			
Elevators	100	2	200
Electrical Room	100	1	100
Mechanical Room & Janitor's Closet	100	1	100
Stairs	200	1	200
Elevator Lobby & Hallways	2048	1	2048
Unit 1BR	700	14	9800
Unit 1BR + Den	900	4	3600
Unit 2BR	1100	3	3300
	Subtotal Typ Floor		19348
Entire Building			
Retail	2,500	1	2500
Entrance & Lobby	3,000	1	3000
Elevators	100	10	1000
Trash Room	380	1	380
Electrical Room	100	5	500
Mechanical Room & Janitor's Closet	100	5	500
Stairs	200	5	1000
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Elevator Lobby & Hallways	2172	4	8688
Unit 1BR	700	64	44800
Unit 1BR + Den	900	18	16200
Unit 2BR	1100	14	15400
	Subtotal Bldg		96368

Market Analysis - Apartment and Retail Rental Market Overview–

The Apartment and Retail Rental Market analyses for Scenario #1 apply to Scenario #3 as follows:

1. Initial apartment rents in 2012 renting at approximately $2.42 - $2.71 per square foot, weighted average of $ 2.64 psf or absolute rents ranging from approximately $1,900 to $2,700 for one- and two-bedroom units sized between 700 to 1100 square feet and parking fees of $150 per space.

2. Based on the surrounding density of Project Horizon, 480 units at Meridian apartment building across the street with no service retail, along with the proposed project occupancy of 192 units, and approximately 10 square feet of retail per unit (Source: Alexandria Dept of Planning and Zoning Braddock Master Plan), Project Horizon can support a maximum of approximately 5,800sf of retail assuming a 100% capture rate of the adjacent Meridian apartments. Utilizing a more conservative 65% capture rate of the Meridian building, Project Horizon can support approximately 5,040sf of ground floor retail as calculated below. According to Jackson Prentice Real Estate, current asking rents for North Old Town average $35/sf. Assuming 2% rent growth from 2008 to 2012, Project Horizon can expect initial retail rent of approximately $38/sf.

Retail SF Calculations	# Units	SF/unit	Supportable Retail sf	Meridian Capture Rate
Meridian Apartments	480	10	3,120	65% est
Project Horizon	192	10	1,920	
		TOTAL	5,040	

SF/Unit Source: Alexandria Dept of Planning and Zoning

Residential Demand Analysis

The Residential Demand Analysis for Scenario #1 applies to Scenario #3 as follows:

1. New target household demand of 939 in the primary trade area.

Residential Demand Analysis Primary Trade Area - 0 - 1 mile radius	Current Year	Projected 5-year	Notes
Total # Households	20901	22420	
% Homeowners	67%	55%	Decrease due to stalled housing market
Income Qualifications			
> $75,000	71%	71%	
Target Age Group			
Ages 20 – 44	41%	41%	
Total Target Households	2029	2968	
Total Increase in Target Housholds		939	

Source: Asterop, Inc. 2007

Recent and Future Multi-Family Rental Deliveries

The Multi-family supply analysis for Scenario #1 applies to Scenario #3 as follows:

1. In the next 18 – 36 months a total of 3,083 units are planned to deliver in the primary trade area (1 mile radius of Braddock Road Metro Station).
2. For the immediate area (0.25 mile radius) a total of 1144 units are projected to deliver.

FUTURE MULTI-FAMILY DELIVERIES IN BRADDOCK ROAD NEIGHBORHOOD

Project	Units	Proper Zoning?	Approvals	Site Plan Approval	Building Permits	Est. Completion
The Madison	344	Yes	Yes	Yes	Yes	2011
Braddock Gateway	616	Yes	Yes	Yes	No	2012
621 N Payne St	184	Yes	No	No	No	2012

Source: Source: City of Alexandria Department of Planning and Zoning

Residential Capture Rate

The Residential Capture rate analysis for Scenario #1 applies to Scenario #3 as follows:

1. Project Horizon's fair share of the current supply pipeline calculated by dividing the 192 units proposed for Project Horizon by the total number of units proposed in the Primary Trade Area including the two multi-family projects that delivered in 2008, The Monarch and The Clayborne, is 4%. Based on a 4% capture rate of the projected 939 new target household demand, <u>Project Horizon could expect to absorb 38 units per year or approximately 3 units per month.</u>

Development Costs

A brief summary of the budgeted development costs are as follows. Reference Exhibit 3 for a more detailed breakdown of development costs.

	Cost	**Cost per Unit**	**Cost per Square Foot**
Acquisition costs	$ 15,942,752	$ 159,428	$ 158
Soft costs	**$** 6,418,784	$ 33,431.17	$ 33.18
Sitework & Demolition	$ 822,980	$ 8,230	$ 8.17
Parking Garage	$ 8,127,000	$ 42,328	$ 42.00
Hard Costs	$ 30,956,800	$ 161,233	$ 160.00
Financing costs	$ 2,357,438	$ 12,278	$ 12.18
TOTAL (includes items not listed above)	$ 68,763,519	$ 358,143	$ 355

<u>Site Acquisition</u>

Scenario #3 utilizes the same site acquisition cost of $15.9 million ($ 206 per ground square foot) as Scenario #1

<u>Soft Costs</u>

The soft costs include Design and Engineering, Legal, Permits and Fees, Tenant Improvements and Leasing Commissions, Marketing, Insurance, Proffers, and Tap Fees. Design and Engineering costs were based on survey data compiled by Ross Development. City of Alexandria permit costs and fees were based on information gathered from the City of Alexandria website. The City has substantial tap fees that equal $3,716 per unit for sanitary connections. The costs are pro-rated increases from Scenario #1 on either a per square foot basis or per unit basis except as noted below:

1. Legal and permitting fees are greater due to the D.S.U.P. process and estimated to be $100,000 each.
2. Proffer fee is estimated to be four times the proffer of Scenario #1 totaling $1 million which is reportedly comparable to the per unit proffer cost of the Madison and Monarch projects according to Lane Development

Soft Costs	Cost	$/Unit	$/SF	Notes and Sources
Architectural & Engineering	$ 773,920	$ 4,030	4.00	$4/sf – Ross Development
MEP	$ 193,480	$ 1,007	1.00	$1/sf – Ross Development
Legal	$ 100,000	$ 520	0.35	Land Use and Contracts – Estimate – increased from Scenario #1 to account for D.S.U.P.
Permits & Fees	$ 100,000	$ 520	0.50	City of Alexandria Website Estimates
Real Estate Taxes	$ 129,933	$ 676	1.29	$0.8150 per $100 value of acquisition – City of Alexandria Department of Taxation
Office Tenant Improvement	$ -	$ -	-	
Retail Tenant Improvement	$ 250,000	$ 1,302	1.99	$50/sf – Jackson Prentice Real Estate
Leasing Commission	$ 100,000	$ 521	0.79	$20/sf (~6%) – Jackson Prentice Real Estate
Marketing	$ 528,427	$ 2,752	2.71	Concessions = 9.9% of face rent + Marketing – Delta Associates, Inc.
Insurance & Bonds	$ 877,949	$ 4,573	4.10	2% of Hard Costs – Dietze Construction Company
Tap Fees	$ 713,472	$ 3,716	3.69	$3716 per unit for sanitary – City of Alexandria Website
Other	$ 1,000,000	$ 5,208	2.48	Proffer – Comparable to Madison and Monarch Proffers
Development fee	$ 1,350,018	$ 7.031	8.41	3% of Hard and A&E Costs – JLL
Contingency	$ 312,648	$ 1,628	1.57	5% of Soft Costs

<u>Hard Costs</u>

The hard costs were quoted directly from Dietze Construction Company and Jones Lang LaSalle Construction who both indicated construction of a mid-rise multi-family apartment building with podium construction averages $160/sf, excluding parking. In speaking with MJ Wells & Associates, traffic consultants, underground parking garages are averaging $35,000 per parking space. In addition, modest site work and landscaping costs of $5 per land square foot and building demolition costs of $0.75/cu foot of existing structure are included. Lastly, the analysis includes a 10% contingency factor.

Development Timeline

The overall development is expected to last three and a half years with the first two years dedicated to site acquisition, design and regulatory approvals, site demolition, parking garage excavation and footings and foundations. Upon receipt of all permits and zoning approval, construction will commence and last for 14 - 18 months. If land acquisition closing occurs on or before December 31, 2008, apartments will be ready for occupancy on or about May 1, 2012.

Analysis Assumptions

Apartment Rent

The analysis has assumed a blended monthly market rent of $2.64 as of mid-year 2012 psf on the 192 market rate units. A detailed rent schedule is set forth below, which is the same as Scenario #1.

Unit Type	**Quantity**	**Average SF**	**Avg. Monthly Rent**	**Avg. Rent PSF**
1-BR/1BA	68	700	$ 1,894	$ 2.71
1-BR+den/1BA	18	900	$ 2,377	$ 2.64
2BR/1BA	14	1100	$ 2,667	$ 2.42
Average/Sum	100	792	$ 2,089	$ 2.64

Absorption

The analysis utilized Project Horizon's Fair Share capture rate of 3 units per month and two months worth of pre-leasing which is consistent with recently delivered projects in Arlington and Alexandria and the same as Scenario #1.

Vacancy

This analysis has projected only 3.0% annual rent growth throughout the 10-year hold period, same as Scenario #1. In addition, the analysis utilizes the Delta Associates calculated stabilized vacancy rate of 5.1% for Northern Virginia, same as Scenario #1.

Apartment Expenses

Apartment expenses for Project Horizon in today's dollars represent a 25% expense margin[3] or approximately $7,227 per unit per year which is consistent with the Institute of Real Estate Management's 2007 Survey data (retrieved from Delta Associates Mid-Year 2008

[3] Expense Margin = Operating Expenses / Revenues.

Apartment Report) which was $7,035 per unit per year in buildings with elevators, which is also consistent Scenario #1. The largest operating expenses borne by the building include real estate taxes ($0.8150 per $100 of assessed value as set by City of Alexandria), property management (6.0% of gross receipts as recommended by Ross Development), and miscellaneous operating expenses ($2,945 per unit) which include cleaning, common area utilities, maintenance and repairs, insurance, and security. Expenses are anticipated to grow at an average rate of 3.0% per annum.

Exit

Project Horizon underwriting utilizes a 6.5% exit cap rate, which represents a 50-100 bp premium over recent market sales of new, Class A apartment buildings in Northern Virgina according to Eastdil Secured and is the same as Scenario #1. This exit pricing equates to $ 74.6 million or $ 390,599 per unit on a gross basis in 2021. In addition, sales costs upon exit are underwritten at 5.0% of gross proceeds, same as Scenario #1.

Retail Revenue

Scenario #3 utilizes the same Retail Rent as Scenario #1 which is $38 NNN in 2012, which is based on $35/sf NNN in 2008 with a 2% growth factor. Additional lease assumptions include 10 year terms, 6.0% commissions, 3.0% market rent growth, 3.0% annual lease escalation, and 5.0% vacancy, all of which are consistent with market.

Financing

Construction Loan Assumptions

Scenario #3 utilizes the same construction financing assumptions as Scenario #1. The analysis reflects the use of construction financing in addition to the Land value, Developer Fee used as equity. The actual value of the construction loan is based on the amount of the permanent loan attainable which is $36,185,980 or 53% loan to cost. The general construction loan assumptions provided by Jones Lang LaSalle Investment Banking are outlined below:

- 60% Maximum Loan to cost
- Non-recourse
- Completion guaranty
- 3 years with two, one-year options to extend
- 250 bps + 30 day Libor (estimated to be 7% at the time of the analysis)
- Interest only during term
- 1% lender fee in

Permanent Loan Assumptions

The analysis assumes that immediately upon stabilization in Year 4, Project Horizon will refinance with permanent financing. The project will be valued at a 6.5% cap rate based on recommendations from Eastdil Secured Investment Banking. In addition, the value of the permanent loan will be underwritten with a maximum 70% loan to value ratio and a 1.20 debt service coverage ratio based on the recommendations of Jones Lang LaSalle Investment Banking. The interest rate is assumed to be 6.75% at the time of refinancing. The loan will be fully amortizing over a 25 year amortization but the term of the loan will only be 10 years.

Financial Summary

The projected unleveraged return on cost is 5.25% and unleveraged IRR is 4.8% with a 10 year hold period and 6.5% cap rate at exit. The return on cost is less than the cap rate and therefore the project would lose money if sold at Development completion. Leveraged IRR over the 10-year hold period is 2.8%.

No downside scenarios were explored due to the exceptionally low return on cost, equity IRR, and fundamental infeasibility of this scenario.

Development Scenario 4 – 1.25 FAR Multi-Family and 1.25 FAR Office

Scenario #4 Overview

Project Horizon Development Scenario 4 is development of two buildings on the site, a multi-family apartment building with a 1.25 FAR and an office building with a 1.25 FAR including ground floor retail. This scenario represents an acceptable mix of uses and maximum FAR established in the existing zoning ordinance and Master Plan requiring approval via the D.S.U.P. process. As such, the negotiated proffers are much higher than Scenarios #1 and #2.

Scenario #4 pro-forma analysis utilizes the exact same construction type, market analysis, absorption rates, and analysis assumptions as both Scenarios #1 and #2 except where noted below.

Development Overview

Project Horizon Development Scenario 4 is to remove the existing structures, and construct two five story buildings with an underground parking garage. The buildings will be a multi-family apartment building with a 1.25 FAR and an office building with a 1.25 FAR including ground floor retail. Based on the below Retail rental market analysis, the Ground Floor Retail will be approximately 4,800sf of warm lit retail shell space, which is slightly less than the retail analysis recommendation and less than the 0.25 retail bonus FAR. Lot occupancy will be 50%. The open space will be accessible to the public and will be appropriately landscaped including a water feature, public artwork, and seating areas. A portion of the site will house an outdoor recreation area for the residents with an outdoor pool, picnic and grilling area, and open space. In addition there will be a small rooftop terrace on the multi-family building. The underground parking garage will be two levels and will house the amended Zoning Ordinance required 278 parking spaces.

Multi-Family Building Overview

The multi-family building will have a 19,348 floorplate and will be podium construction with a concrete ground floor structure and wood framed construction on floors two through five as recommended by Morgan Gick McBeath (Architect) as a means to minimize the residential construction cost while facilitating ground floor retail. For planning purposes, the ground floor will have a 3,000sf apartment building entrance, fitness center, Resident's lounge, back of house spaces, ten one bedroom apartments, three one bedroom plus den units, and three two bedroom units. Floors two through five will be 19,348SF each with 21 fully finished apartments and a 2,750sf core area consisting of a public corridor, two elevators, two stairwells, Mechanical Room, Electrical Room, and Janitor's Closet. Apartments will consist of fifteen 1 bedroom, three 1 bedroom plus den, and three two bedroom units ranging from 700sf to 1100sf. The floor to floor height of the first floor is 20ft and Floors 2 through 5 are 10 feet (each unit has 9ft ceilings) each resulting in a total building height of 60 feet, well below the 90ft height limit.

The building façade will be constructed using a combination of light colored precast concrete materials, brick, and large six foot punched windows as recommended by Morgan Gick McBeath as these are standard, cost effective design materials and features for the City of Alexandria Development and pose the greatest chance of receiving Design Review Board approval.

The apartments will be finished to a condominium grade or luxury apartment level with nine foot ceilings, large six foot windows, base and crown molding throughout, spacious closets, washer and dryer, granite countertops, stainless steel appliances, maple cabinets, ceramic tile flooring in kitchen and foyer, premium quality bath fixtures, and high efficiency HVAC and water heating. The condominium grade finish is recommended to facilitate a condo exit strategy should the condominium market improve as the return on cost for condominium sale is greater than multi-family apartment leasing.

Office Building Overview

The five story office building will have a 19,348sf floorplate and will be cast-in-place concrete construction with a building envelope mix of glass curtain wall, precast concrete panels, brick and punched windows as recommended by Morgan Gick McBeath (Architect) as a means to minimize construction cost while maintaining a similar envelope appearance to other new construction in the City of Alexandria. Common area finishes will be of Class A office construction and column spacing will be maximized to make Tenant space planning as efficient as possible. Based on similar office building designs and for analysis purposes only, the ground floor will house approximately 4,800sf of warm lit retail shell space, a 1,500sf entrance and Lobby, back of house spaces, and 10,000sf of office space. Floors two through five will be 19,348 SF each consisting of warm lit shell office space ready for Tenant fit out and a 2,660sf core area with three elevators, two stairwells, Mechanical, Electrical, and Telephone Rooms, Janitor's Closet, and Men's/Women's Restrooms.

The floor to floor height of the first floor is 20ft and Floors 2 through 5 are 12 feet each allowing a 9ft ceiling height and three feet for plenum and structure, resulting in a total building height of 68 feet, well below the 90ft height limit.

Building Program

Development Scenario #4 Building programs are as follows:

Multi-Family Building

			Total
Ground Floor	**Size**	**Qty**	**Area**
Entrance & Lobby	3,000	1	3000
Elevators	100	2	200
Trash Room	380	1	380
Electrical Room	100	1	100
Mechanical Room	100	1	100
Stairs	200	1	200
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Unit 1BR	700	10	7000
Unit 1BR + Den	900	3	2700
Unit 2BR	1100	3	3300
	Subtotal Grd Floor		19,500
Typical Floor			
Elevators	100	2	200
Electrical Room	100	1	100
Mechanical Room & Janitor's Closet	100	1	100
Stairs	200	1	200
Elevator Lobby & Hallways	1950	1	1950
Unit 1BR	700	15	10500
Unit 1BR + Den	900	3	2700
Unit 2BR	1100	3	3300
	Subtotal Typ Floor		19250
Entire Building			
Entrance & Lobby	3,000	1	3000
Elevators	100	10	1000
Trash Room	380	1	380
Electrical Room	100	5	500
Mechanical Room & Janitor's Closet	100	5	500
Stairs	200	10	2000
Mgmt & Leasing	400	1	400
Fitness Center	1000	1	1000
Resident's Lounge	1000	1	1000
Elevator Lobby & Hallways	1950	4	7800
Unit 1BR	700	70	49000
Unit 1BR + Den	900	15	13500
Unit 2BR	1100	15	16500
	Subtotal Bldg		96580

Office Building

			Total
Ground Floor	**Size**	**Qty**	**Area**
Retail	4,800	1	4000
Entrance & Lobby	1,500	1	1500
Elevators	100	3	300
Trash Room	400	1	400
Electrical Room	120	1	120
Telephone Closet	120	1	120
Mechanical Room	320	1	320
Stairs	200	2	400
Restrooms	200	2	400
Mgmt & Leasing	400	1	400
Hallways	1200	1	1200
Office	10000	1	10000
	Subtotal Grd Floor		19960
Typical Floor			
Elevators	100	3	300
Electrical Room	120	1	120
Telephone Closet	120	1	120
Mechanical Room	320	1	320
Stairs	200	2	400
Restrooms	200	2	400
Hallways	1,000	1	1000
Office	17500	1	16600
	Subtotal Typ Floor		19260
Entire Building			
Retail	4,800	1	4800
Entrance & Lobby	1,500	1	1500
Elevators	100	15	1500
Trash Room	400	1	400
Electrical Room	120	5	600
Telephone Closet	120	5	600
Mechanical Room	320	5	1600
Stairs	200	10	2000
Restrooms	200	10	2000
Mgmt & Leasing	400	1	400
Hallways			5200
Office			76400
	Subtotal Bldg		97000

Market Analysis – Apartment, Office and Retail Rental Market Overview–

The Apartment, Office and Retail Rental Market analyses for Scenarios #1 and #2 apply to Scenario #4 as follows:

1. Initial apartment rents in 2012 renting at approximately $2.42 - $2.71 per square foot, weighted average of $ 2.64 or absolute rents ranging from approximately $1,900 to $2,700 for one- and two-bedroom units sized between 700 to 1100 square feet and parking fees of $150 per space.
2. The office analysis has assumed annual market rent of $41.67 psf for the office space for FY2012. This base rent is based on 2331 Mill Road comparable with a 2% rent growth from 2008 to 2012. 2331 Mill Road is comparable to Project Horizon with its proposed construction type, size (90,955sf) and minimal ground floor retail, 4,525sf.
3. Based on the surrounding density of Project Horizon, 480 units at Meridian apartment building across the street with no service retail, along with the proposed project occupancy of 100 units and approximately 10 square feet of retail per unit as well as and 91,940sf of office at approximately 9 square feet of retail per 1,000sf of office (Source: Alexandria Dept of Planning and Zoning Braddock Master Plan), Project Horizon can support a maximum of approximately 6,627sf of retail assuming a 100% capture rate of the adjacent Meridian apartments. Utilizing a more conservative 65% capture rate of the Meridian building, Project Horizon can support approximately 4,947sf of ground floor retail as calculated below. According to Jackson Prentice Real Estate, current asking rents for North Old Town average $35/sf. Assuming 2% rent growth from 2008 to 2012, Project Horizon can expect initial retail rent of approximately $38/sf.

Retail SF Calculations	# Units	SF/unit	Office SF	Retail SF/ Office SF	Supportable Retail sf	Meridian Capture Rate
Meridian Apartments	480	10			3,120	65% est
Project Horizon – Apts	100	10			1,000	
Project Horizon – Office			91,940	.009	827	
		TOTAL			4,947	

SF/Unit Source: Alexandria Dept of Planning and Zoning

Residential Demand Analysis

The Residential Demand Analysis for Scenario #1 applies to Scenario #4 as follows:

1. New target household demand of 939 in the primary trade area.

Residential Demand Analysis Primary Trade Area - 0 - 1 mile radius	Current Year	Projected 5-year	Notes
Total # Households	20901	22420	
% Homeowners	67%	55%	Decrease due to stalled housing market
Income Qualifications			
> $75,000	71%	71%	
Target Age Group			
Ages 20 – 44	41%	41%	
Total Target Households	2029	2968	
Total Increase in Target Housholds		939	

Source: Asterop, Inc. 2007

Recent and Future Multi-Family Rental Deliveries

The Multi-family supply analysis for Scenario #1 applies to Scenario #3 as follows:

1. In the next 18 – 36 months a total of 3,083 units are planned to deliver in the primary trade area (1 mile radius of Braddock Road Metro Station).

2. For the immediate area (0.25 mile radius) a total of 1144 units are projected to deliver.

FUTURE MULTI-FAMILY DELIVERIES IN BRADDOCK ROAD NEIGHBORHOOD						
Project	**Units**	**Proper Zoning?**	**Approvals**	**Site Plan Approval**	**Building Permits**	**Est. Completion**
The Madison	344	Yes	Yes	Yes	Yes	2011
Braddock Gateway	616	Yes	Yes	Yes	No	2012
621 N Payne St	184	Yes	No	No	No	2012

Source: Source: City of Alexandria Department of Planning and Zoning

Residential Capture Rate

The Residential Capture rate analysis for Scenario #1 applies to Scenario #3 as follows:

1. Project Horizon's fair share of the current supply pipeline calculated by dividing the 192 units proposed for Project Horizon by the total number of units proposed in the Primary Trade Area including the two multi-family projects that delivered in 2008, The Monarch and The Clayborne, is 4%. Based on a 4% capture rate of the projected 939 new target household demand, <u>Project Horizon could expect to absorb 38 units per year or approximately 3 units per month.</u>

Office Demand Analysis

The Office Demand Analysis for Scenario #2 applies to Scenario #4 as follows:

1. The demand analysis resulted in a projected total employment for the City of Alexandria of 115,606 employees. This analysis did not take into account the potential increase of 6,200 jobs from the WHS Headquarters relocation to Alexandria.

2. Based on the projected total employment in year 2014 for Alexandria in the above table, calculated applicable office space demand (assuming 275 SF per employee based on guidance from Economic Research Associates, Inc.) is 19,072,375 SF.

3. According to the Delta Associates Office Report, as of July 2008 there was approximately 16.8 million ("M") square feet ("SF") of total office space in Alexandria, VA including Eisenhower Avenue, Old Town, and the I-395 Corridor. With the addition of 10% frictional vacancy and 7.5% cumulative replacement demand, calculated total new office space required to be built in Alexandria, including the WHS Campus Headquarters which is relocating to Mark Center in Alexandria, VA, over the next seven years is 5,617,610 SF.

Recent and Future Office Deliveries

The Office supply analysis for Scenario #2 applies to Scenario #4 as follows:

1. There is a significant amount of office development planned for the City of Alexandria with currently 5.36 million square feet of office projects currently approved by the City of Alexandria Planning and Zoning Department and another 2.13 million square feet under review. Approximately 89% of these projects, or 6.96 million square feet, are large urban developments in excess of 300,000 square feet and given the current market conditions won't be moving forward until they are at least 50% pre-leased and once they receive the appropriate financing would take minimum 24 months to deliver.

2. Planned office development for the Braddock Road Metro neighborhood is only 326,000 square feet, whereas the Eisenhower Corridor and Carlyle have 4.2 million square feet planned and the I-395 Corridor has 1.74 million square feet

planned at Mark Center. The majority of these large projects are planned only and will likely not move forward unless a large anchor tenant is secured.

Office Capture Rate

1. Utilizing a submarket share of City growth of 15% and the site's fair share of submarket growth of 16.6%, a 139,500sf office building can be supported on the site.
2. According to Jones Lang LaSalle Investment Banking, it is recommended that the pro-forma analysis reflect a minimum 50% pre-lease requirement prior to commencing with construction as this is becoming a standard underwriting criteria for most lenders.
3. In addition, resulting from the Fair Share analysis, a 20,000sf per year lease up rate is utilized in the analysis.

Development Costs

A brief summary of the budgeted development costs are as follows. Reference Exhibit 4 for a more detailed breakdown of development costs.

	Cost	Cost per Unit	Cost per Square Foot
Acquisition costs	$ 15,942,752		
Soft costs – Multi-Family	$ 4,408,190	$ 44,081	
Soft Costs – Office	$ 6,544,587	-	$ 71
Hard Costs – Multi-Family inc. Garage	$ 22,303,674	$ 223,036.74	-
Hard Costs – Office inc Garage	$ 19,096,762	-	$ 208
Financing costs	$ 2,426,814	-	$ 12.54
TOTAL (includes items not listed above)	$ 70,722,780	-	$ 366

Site Acquisition

Scenario #4 utilizes the same site acquisition cost of $15.9 million ($ 206 per ground square foot) as Scenarios #1, 2, and 3.

Soft Costs

The soft costs include Design and Engineering, Legal, Permits and Fees, Tenant Improvements and Leasing Commissions, Marketing, Insurance, Proffers, and Tap Fees. Design and Engineering costs were based on survey data compiled by Ross Development. City of Alexandria permit costs and fees were based on information gathered from the City of Alexandria website. The City has substantial tap fees that equal $3,716 per unit for sanitary connections. The costs are pro-rated increases from Scenarios #1 and 2 on either a per square foot basis or per unit basis except as noted below:

1. Legal and permitting fees are greater due to the D.S.U.P. process and estimated to be $100,000 each.
2. Proffer fee is estimated to be four times the proffer of Scenario #1 totaling $1 million which is reportedly comparable to the per unit proffer cost of the Madison and Monarch projects according to Lane Development

Hard Costs

The hard costs were quoted directly from Dietze Construction Company and Jones Lang LaSalle Construction who both indicated construction of a mid-rise multi-family apartment building with podium construction averages $160/sf, excluding parking. In addition, both firms quoted approximately $120/sf for office construction, excluding parking. In speaking with MJ Wells & Associates, traffic consultants, underground parking garages are averaging $35,000 per parking space. In addition, modest site work and landscaping costs of $5 per land square foot and building demolition costs of $0.75/cu foot of existing structure are included. Lastly, the analysis includes a 10% contingency factor.

Development Timeline

The overall development is expected to last three and a half years with the first two years dedicated to site acquisition, design and regulatory approvals, site demolition, parking garage excavation and footings and foundations. Upon receipt of all permits and zoning approval, construction will commence and last for 14 - 18 months. If land acquisition closing occurs on or before December 31, 2008, apartments will be ready for occupancy on or about May 1, 2012.

Multi-Family Analysis Assumptions

Apartment Rent

The analysis has assumed a blended monthly market rent of $2.64 as of mid-year 2012 psf on the 192 market rate units. A detailed rent schedule is set forth below, which is the same as Scenario #1.

Unit Type	Quantity	Average SF	Avg. Monthly Rent	Avg. Rent PSF
1-BR/1BA	68	700	$ 1,894	$ 2.71
1-BR+den/1BA	18	900	$ 2,377	$ 2.64
2BR/1BA	14	1100	$ 2,667	$ 2.42
Average/Sum	100	792	$ 2,089	$ 2.64

Absorption

The analysis utilized Project Horizon's Fair Share capture rate of 3 units per month and two months worth of pre-leasing which is consistent with recently delivered projects in Arlington and Alexandria and the same as Scenario #1.

Vacancy

This analysis has projected only 3.0% annual rent growth throughout the 10-year hold period, same as Scenario #1. In addition, the analysis utilizes the Delta Associates calculated stabilized vacancy rate of 5.1% for Northern Virginia, same as Scenario #1.

Apartment Expenses

Apartment expenses for Project Horizon in today's dollars represent a 25% expense margin[4] or approximately $7,227 per unit per year which is consistent with the Institute of Real Estate Management's 2007 Survey data (retrieved from Delta Associates Mid-Year 2008

[4] Expense Margin = Operating Expenses / Revenues.

Apartment Report) which was $7,035 per unit per year in buildings with elevators, which is also consistent Scenario #1. The largest operating expenses borne by the building include real estate taxes ($0.8150 per $100 of assessed value as set by City of Alexandria), property management (6.0% of gross receipts as recommended by Ross Development), and miscellaneous operating expenses ($2,945 per unit) which include cleaning, common area utilities, maintenance and repairs, insurance, and security. Expenses are anticipated to grow at an average rate of 3.0% per annum.

Office Analysis Assumptions

<u>Office Rent</u>

The analysis has assumed annual market rent of $41.67 psf for the office space for FY2012. This base rent is based on 2331 Mill Road comparable with a 2% rent growth from 2008 to 2012. 2331 Mill Road is comparable to Project Horizon with its proposed construction type, size (90,955sf) and minimal ground floor retail, 4,525sf.

<u>Absorption</u>

The analysis utilized Project Horizon's Fair Share capture rate of 20,000sf per year with the project delivering 50% pre-leased due to strict lender requirements as discussed in the above Office Market Analysis.

<u>Vacancy</u>

Despite the fact Project Horizon is located in a transformative neighborhood with immediate access to Metro and public transportation, the market analysis predicts office supply will outpace demand. As such, this analysis has projected only 3.0% annual rent growth throughout the 10-year hold period. In addition, the analysis utilizes the Delta Associates calculated stabilized vacancy rate of 5.0% which is slightly higher than current vacancy rates in the city of Alexandria.

Tenant Rollover

For simplification purposes, 25% of the office tenants are analyzed as rolling at the end of years 3, 5, 7, and 9 with $ 35/sf in Tenant Improvement allowances, $20/sf in Leasing Commissions, and 6 months of rent downtime.

Office Expenses

Office expenses for Project Horizon in today's dollars represent a 22% expense margin[5] or approximately $ 10 per square foot per year which is consistent with currently operating properties in Northern Virginia according to Jones Lang LaSalle's Property Management division. The largest operating expenses borne by the building include real estate taxes ($0.8150 per $100 of assessed value as set by City of Alexandria), property management (4.0% of gross receipts), utilities ($ 2.50/sf) and miscellaneous operating expenses ($2.45/sf) which include cleaning, common area utilities, maintenance and repairs, insurance, and security. Expenses are anticipated to grow at an average rate of 3.0% per annum.

Exit

Project Horizon underwriting utilizes a 7.25% cap rate which is the average of the multi-family (6.5%) and office cap rates (8%) as developed in Scenarios #1 and #2. This exit pricing equates to $ 74.6 million or $ 390,599 per unit on a gross basis in 2021. In addition, sales costs upon exit are underwritten at 5.0% of gross proceeds, same as Scenario #1.

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[5] Expense Margin = Operating Expenses / Revenues.

Retail Revenue

Scenario #4 utilizes the same Retail Rent as Scenario #1 which is $38 NNN in 2012, which is based on $35/sf NNN in 2008 with a 2% growth factor. Additional lease assumptions include 10 year terms, 6.0% commissions, 3.0% market rent growth, 3.0% annual lease escalation, and 5.0% vacancy, all of which are consistent with market.

Financing

Construction Loan Assumptions

Scenario #4 utilizes the same construction financing assumptions as Scenario #1. The analysis reflects the use of construction financing in addition to the Land value, Developer Fee used as equity. The actual value of the construction loan is based on the amount of the permanent loan attainable which is $42,000,000 or 60% loan to cost. The general construction loan assumptions provided by Jones Lang LaSalle Investment Banking are outlined below:

- 60% Maximum Loan to cost
- Non-recourse
- Completion guaranty
- 3 years with two, one-year options to extend
- 250 bps + 30 day Libor (estimated to be 7% at the time of the analysis)
- Interest only during term
- 1% lender fee in

Permanent Loan Assumptions

The analysis assumes that immediately upon stabilization in Year 4, Project Horizon will refinance with permanent financing. The project will be valued at a 6.5% cap rate based on recommendations from Eastdil Secured Investment Banking. In addition, the value of the permanent loan will be underwritten with a maximum 70% loan to value ratio and a 1.20 debt service coverage ratio based on the recommendations of Jones Lang LaSalle Investment Banking. The interest rate is assumed to be 6.75% at the time of refinancing. The loan will be fully amortizing over a 25 year amortization but the term of the loan will only be 10 years.

Financial Summary

The projected unleveraged return on cost is 6.77% and unleveraged IRR is 8.81% with a 10 year hold period and 7.25% cap rate at exit. The return on cost is less than the cap rate and therefore the project would lose money if sold at Development completion. Leveraged IRR over the 10-year hold period is 9.1%.

No downside scenarios were explored due to the exceptionally low return on cost, equity IRR, and fundamental infeasibility of this scenario.

Analysis Summary & Recommendations

The analysis results are as follows:

Scenario	Cash Equity	Return on Cost	Unleveraged IRR	Leveraged IRR
Scenario #1	$ 21,668,617	4.68	4.5	1.8
Scenario #2	$ 16,615,900	7.52	9.28	9.5
Scenario #3	$ 32,430,725	5.25	4.8	2.8
Scenario #4	$ 28,555,056	6.77	8.81	9.1

As depicted in the above table, Scenario #2: 1.25 FAR Office Building, provides the greatest Financial Return of all four scenarios. In addition to providing the greatest financial return, it also has the second lowest Development cost but has the highest loan to cost ratio resulting in the lowest cash equity requirement and lowest Developer Fee equity contributions of any of the four scenarios. As such, this report recommends a 1.25 FAR Office Building project with ground floor retail as the financially optimum development strategy for Project Horizon.

Land Value

Despite the fact Scenario #2 provides the greatest financial returns of the various development scenarios for Project Horizon, none of the Scenario's provide an acceptable return to the Developer or a prospective equity investor. This is mostly due to the seemingly above market Site Acquisition cost. If the Developer were to proceed with pursuing Scenario #2, it is recommended that a Site Acquisition cost be negotiated in an amount not greater than $10,000,000 or $129 per ground square foot or $99 per FAR square foot. This Site Acquisition cost results in a return to cost of 8.75%, 10-year leveraged IRR of 15.5%, 5-year leveraged IRR of 18.5%, and a 10-year unleveraged IRR of 12%.

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