Asset Utilization Study for 2522 Lee Highway

Arlington, VA

Submitted by

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I. Executive Summary

The Richard Pollack Associates team (the "Team") is pleased to present the following Asset Utilization Study (the "Study") for Buck & Associates. This Study provides Buck & Associates with information to assist with decisions regarding the future use of this asset. The Study consists of a comparative analysis of various retention and repositioning alternatives and provides a recommendation as to the alternative with the highest risk-adjusted return.

The "Subject Property" or "site," located at 2522 Lee Highway, was selected for an Asset Utilization Study due to the age and condition of the buildings and the lack of current income generation. Filling the vacated buildings may be difficult due to low tenant demand for both the commercial and residential buildings. Pursuing alternative asset utilization strategies may enable Buck & Associates to better meet strategic portfolio objectives and financial goals.

Site Overview

The Subject Property consist of two privately owned parcels located at 2522 Lee Highway in Arlington, VA, and is surrounded by low-density residential and commercial uses. The Subject Property encompasses approximately 0.5 acres and contains three (3) buildings—one commercial and one residential with a detached garage—totaling approximately 5,000 rentable square feet (RSF). The Subject Property is vacant, inefficient and the single-family residence is only in fair condition.

Figure 1: Satellite Photo of Subject Property

Table 1: Subject Property Summary Table

Characteristic	Summary of Attributes & Constraints
Developable Land Characteristics	▪ Approximately 0.5 acres of developable land ▪ Relatively flat with north portion sloping toward northern boundary (Lee Highway) ▪ Topography is expected to support development
Improvement Characteristics	▪ Three buildings total ▪ Commercial building built in 1925 and recently renovated ▪ Residential building in fair condition ▪ Third structure serves as a detached garage/storage for the residential building ▪ Both buildings are vacant
Surrounding Uses and Amenities	▪ Immediate area surrounding Subject Property includes low-density single-family and multi-family residential ▪ Immediate area surrounding Subject Property also includes low-density commercial (retail, automotive, etc.) ▪ One nearby park (Lyon village) ▪ Nearest commercial center approximately 0.3 miles west of Subject Property
Transportation and Access	▪ Subject Property serviced by entrance off of Bryan Street and Cleveland Street ▪ Area public transportation provided by WMATA Metro light rail and bus service, Arlington Transit bus service and Georgetown University Transportation Shuttle (GUTS) bus service
Infrastructure and Utilities	▪ Subject Property served by sanitary sewer, water, electric, gas and telecommunications
Community Services	▪ Fire protection provided by Arlington County ▪ Police and emergency services provided by Arlington County ▪ Trash collection provided by Arlington County ▪ Snow removal provided by private contractor
Environmental Conditions	▪ No environmental conditions are expected to impede development or reuse ▪ No wetland areas are located on or around the Subject Property ▪ No threatened or endangered species exist at subject property
Local Comprehensive Plan and Zoning	▪ Subject Property currently zoned C-2 (Service Commercial – Community Business Districts) ▪ General Land Use Plan designates the Subject Property as Low Density Residential
Applicable Local and Requirements	▪ Other than applicable zoning and land use, no local or requirements are expected to impact development or reuse at the Subject Property
Cultural/Historic Preservation Compliance	▪ Building is not listed on National Register of Historic Places ▪ Site is not considered to be of historic, cultural or archaeological significance

Local Political and Community Considerations

Based on information contained in the General Land Use Plan (GLUP), last amended in June 2010, it appears that Arlington County would be interested in converting the Subject Property to residential uses consistent with surrounding land uses. Development for uses other than residential, though complying with current zoning ordinances, may be interpreted as being in conflict with the GLUP.

None of the buildings located at the Subject Property are designated as historic and the Subject Property is not located in an historic district. The Subject Property is neither registered, nor considered eligible for registration on the National Register of Historic Places.

The Lyon Village Citizens Association (LVCA) is actively engaged in the development process within the neighborhood. LVCA may show an interest in how the Subject Property is utilized and should be considered stakeholders when analyzing and pursuing alternative asset utilization strategies.

Alternatives Analysis

The following alternatives were chosen based on the specific attributes and constraints of the Subject Property. Descriptions of each alternative are included in the table below.

Table 2: Alternatives Considered

Alternative	Analyses Required
Retention with No Third Party Involvement	
Backfill Existing Space As-Is	Maintain the Subject Property. Backfill all existing buildings (Buildings A and C) in their current condition. No investment will be made in the facilities and occupancy will remain at market levels for the duration of the 10-year analysis.
Redevelopment	
Affordable Multi-Family	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class B multi-family residential building targeted to low-income rental tenants.
Market Rate Multi-Family	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A multi-family residential building targeted to market rate rental tenants.
For Sale Condominiums	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A multi-family residential building targeted for sale at market rates.
For Sale Townhomes	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A townhome complex targeted for sale at market rates

The Team evaluated each of the above alternatives using both quantitative and qualitative criteria. For the quantitative analysis, the Team performed a financial analysis, modeling revenues, expenses and capital investment required for each alternative over a 10-year analysis period (except for for-sale alternatives). Based on these inputs, an appropriate return was determined for each alternative.

Side-by-Side Comparison of Alternatives

In the table below, results from the financial analysis are shown for each of the alternatives studied. The financial analysis includes the NPV or YOC calculation as appropriate.

Table 3: Qualitative and Financial Analysis of Four Alternatives

Alternative	Description	Initial Equity Required	Senior Loan	Total Investment	NPV ($) / YOC (%)
1	Backfill	$512,789	$952,200	$1,464,989	-$1,186,244
2	Affordable Apartments	$3,159,859*	$5,868,200	$9,028,059	-$4,710,140
3	Market Rate Apartments	$3,188,267	$5,921,100	$9,109,367	-$2,312,268
4	Condominiums	$3,735,722	$6,937,900	$10,673,622	-4.0%
5	Townhomes	$3,583,321	$6,654,600	$10,237,921	80.0%

* Due to 9.0% LIHTC, NPV analysis only considers return on $2,616,680 equity contribution

The analysis of the alternatives reveals that Alternative 1 (Backfill), Alternative 2 (Affordable Multi-Family), Alternative 3 (Market Rate Multi-Family) and Alternative 4 (Condominiums) are not financially viable. On a quantitative basis Alternative 5 (For-Sale Townhomes) is financially viable and contains the fewest financial risks.

Conclusion: Recommendation and Rationale

The analysis of the alternatives reveals that only Alternative 5 – For Sale Townhome Development is financially viable given the current assumptions. As a result, Alternative 5 – For Sale Townhome Development would provide the greatest overall value to Buck & Associates. With a YOC of 80.0%, contains the fewest financial risks.

While this alternative provides the opportunity to maximize the value of the Subject Property, it is dependent on the ability to obtain the required rezoning approvals, and then successfully market the project to potential purchasers.

II. Introduction

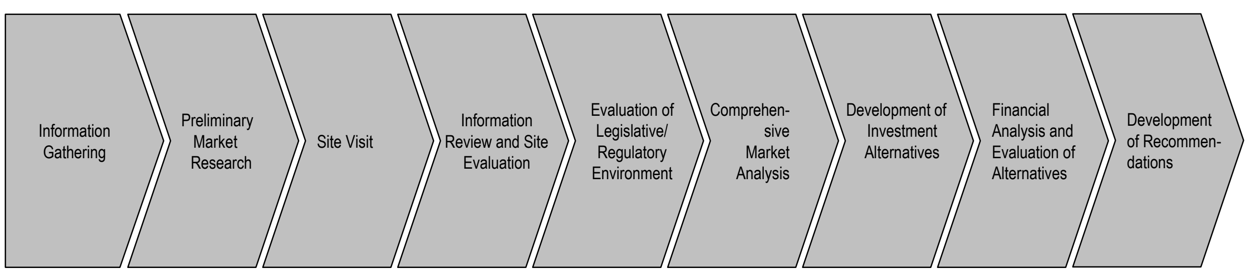
The Richard Pollack Associates team (the "Team") is pleased to present the following Asset Utilization Study (the "Study") for Buck & Associates. This Study provides Buck & Associates with information to assist with decisions regarding the future use of this asset. The Study consists of a comparative analysis of various retention, repositioning, and disposal alternatives and provides a recommendation as to the most favorable alternative.

The "Subject Property" or "site," located at 2522 Lee Highway, ("Subject Property" or "site") is a 0.5 acres and owned by Russell Hitt. The Subject Property contains three (3) buildings totaling approximately 5,000 gross square feet (GSF). None of the buildings are currently occupied. The commercial building was originally constructed in 1921, presumably for single-family use, and was later converted to commercial office space. The dates of construction of the existing single-family residence and detached garage are unknown. While the commercial building was recently renovated, the residential and storage buildings appear to be in need of repair. None of the current buildings have attracted occupants and therefore are not generating any cash flow. Mr. Hitt does not consider the Subject Property a core asset and pursuing alternate utilization strategies for the Subject Property that may enable him to better meet portfolio objectives and financial goals.

A. Approach and Methodology

To complete the Asset Utilization Study, the Team followed a 9-step process. The steps included in this outline and illustrated in the following figure are: Information Gathering; Preliminary Market Research; Site Visit; Information Review and Site Evaluation; Evaluation of Legislative/Regulatory Environment; Comprehensive Market Analysis; Development of Investment Alternatives; Financial Analysis; and Development of Recommendations. These steps are critical to conducting a comprehensive evaluation of the Subject Property's current value and future potential for reuse.

Figure 2: 9 - Step Process



The Team utilized all available data related to the Subject Property. The Team devised several alternatives to the property's current use and conducted a quantitative alternatives analysis to compare and contrast the processes and financial returns of each alternative. Upon completion of these analyses, the Team recommended the alternative that maximizes return.

Step 1: Information Gathering

The first step in the Team's approach was to procure and organize information provided by Buck & Associates.

Step 2: Preliminary Market Research

Once the information provided by Buck & Associates was aggregated, the Team prepared for the site visit by conducting preliminary market research. This information focused on developing familiarity with the area in regards to location, roads, terrain, neighboring towns and cities, nearby attractions, recent construction projects, development trends, etc.

Step 3: Site Visit

The Team conducted the site visit. Conducting a visual inspection of the buildings and surrounding area enabled the Team to expand their knowledge of the Subject Property and the challenges presented by this project.

Step 4: Information Review and Site Evaluation

After conducting a site visit, the Team collected all available data on the physical, financial, legal and regulatory aspects of the site and all structures contained within the site.

Step 5: Evaluation of Legislative/Regulatory Environment

To understand what options are available, the Team evaluated zoning and planning regulations to determine potential strategies. These strategies serve as a basis for the investment alternatives analyzed.

Step 6: Comprehensive Market Analysis

The Team conducted a market study for the area surrounding the Subject Property that focused on the supply, demand and market dynamics of all major property types. The market study identified sectors with the highest potential given the characteristics and physical constraints of the site.

Step 7: Development of Investment Alternatives

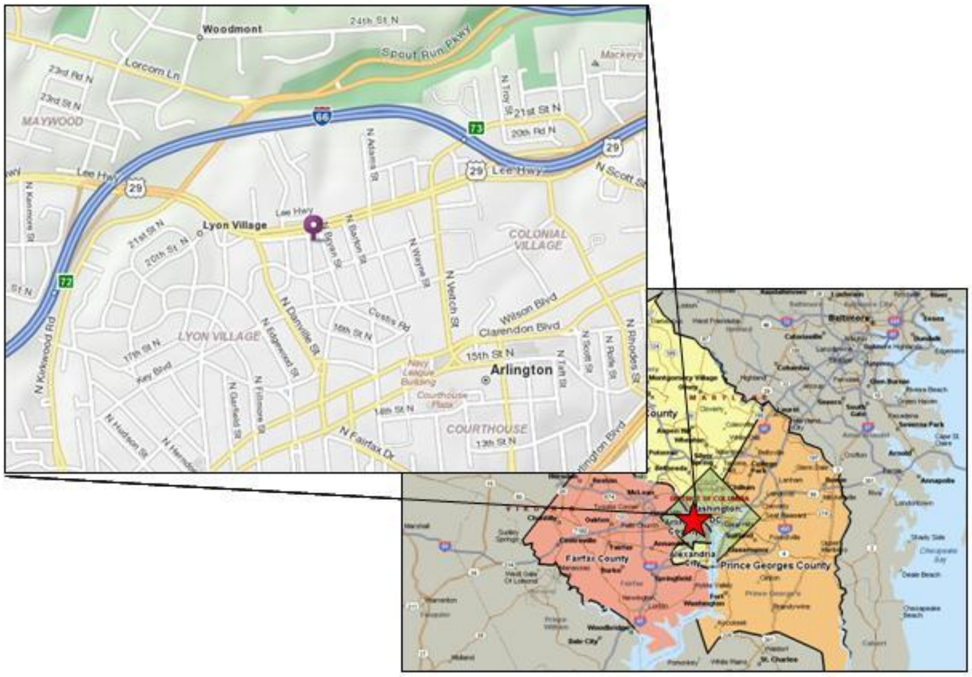
Once information was compiled and analyzed the Team developed a list of viable investment alternatives. To define each alternative, the Team created a set of assumptions from information gathered during the previous steps, as well as general knowledge of the market. These assumptions were the basis from which the financial analysis was developed.

Step 8: Financial Analysis and Evaluation of Alternatives

The Team quantitatively evaluated each alternative for the Subject Property. For the quantitative analysis, the Team performed a financial analysis, modeling revenues, expenses and capital investment required for each alternative. Based on these inputs an applicable return was calculated for each alternative.

Step 9: Development of Recommendations

The Team conducted a comparative analysis of financial outputs and qualitative evaluations of each alternative's pros and cons to develop a recommended investment alternative.



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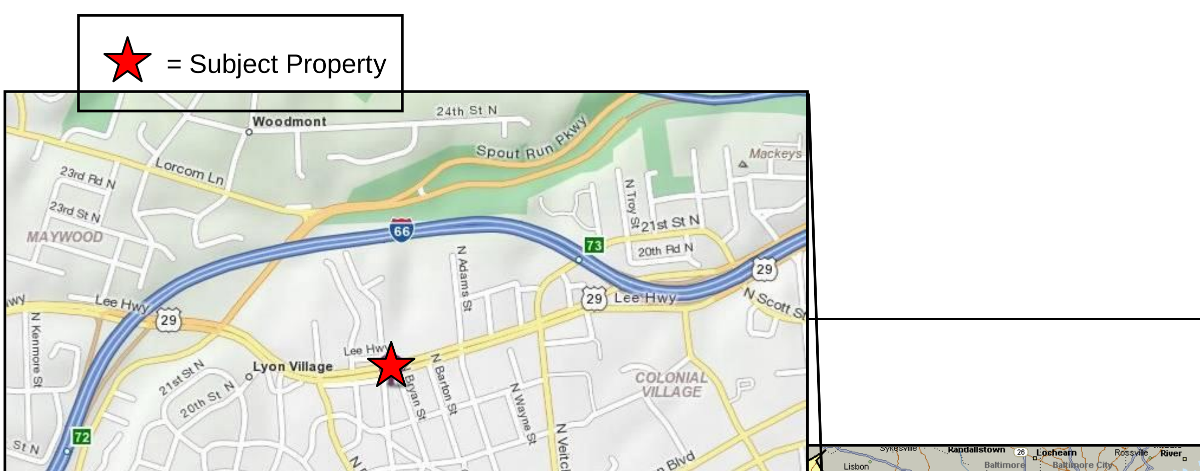


The following satellite photo provides an aerial view of the Subject Property and the immediate surrounding area. The approximate border of the Subject Property is outlined in red. As shown above, the Subject Property is surrounded by low-density residential and commercial uses.

Figure 4: Satellite Photo of Subject Property

The following sections detail the physical and non-physical attributes and characteristics of the Subject Property and the surrounding area.

B. Physical Description of Site

1. Developable Land Characteristics

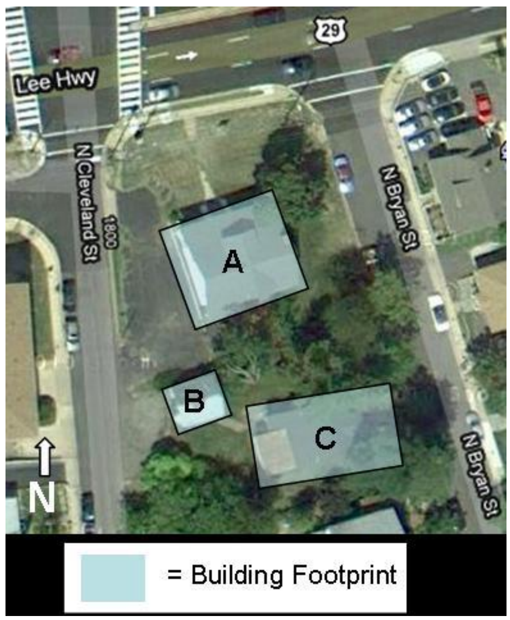
The Subject Property is a trapezium-shaped parcel of land approximately 0.5 acres in size and surrounded by low-density residential neighborhoods and low-density commercial uses along Lee Highway. The site is accessible via North Cleveland and North Bryan Streets, with the current entrances 100 feet or less from Lee Highway, though North Bryan Street is only accessible from the eastbound lanes of Lee Highway. The entrance driveways and other impervious surfaces do not constitute a significant portion of the site. The northern half of the site (the parcel at 2522 Lee Highway) slopes approximately 15 degrees downwards toward Lee Highway. The site also contains a number of mature trees. Nevertheless, the topography and plant life are not expected to preclude development.

2. Improvements' Characteristics

Three freestanding structures (Commercial Building at 2522 Lee Highway, Residential Building at 1818 Bryan Street and detached garage), totaling approximately 5,000 (RSF) and one primary surface parking area containing approximately 4 stalls currently exist on the Subject Property. The effective floor-to-area ratio (building GSF to total developable area) is approximately 0.24 and reflects a density lower than the allowable maximum for the area.

The Subject Property is vacant, inefficient and likely does not maximize the use or value of the site. Additionally, the residential structure and detached garage are in poor condition. The following map highlights the locations of the Subject Property's three buildings.

Figure 5: Location of Improvements at Subject Property



Note: Highlighted building footprints are approximations

The following table provides an inventory of the buildings located at the Subject Property and detailed descriptions of each building are contained in the sections that follow.

Table 4: Existing Building Inventory

Building ID	Year Built	RSF	Use
A – 2522 Lee Highway	1925	~3,000	Office
B – Detached Garage	Unknown	N/A	Parking/Storage
C – 1818 Bryan Street	Unknown	~2,000	Residential
Totals		**5,000**	

Building A

Table 5: Building A Characteristics

Use	Office
Year Built	1925
Historic Status	Not Eligible
Rentable Square Feet	~3,000
Available Parking Spaces	8 surface spaces in adjacent lot
Style	2-Story Office
Exterior	Wood/Masonry
Frame	Wood
Floors	2.5
Seismic Considerations	N/A
2010 Taxes	$7,171

Building A is located at 2522 Lee Highway at the northern end of the Subject Property. Building A features a surface parking area on its western edge, off North Cleveland Street. Building A has been converted from residential use to a commercial office building. The building consists of one small and three large and offices on the first floor and three large offices on the second floor. The first floor also features a kitchen. Storage is available on the second floor and in an unfinished basement. Entrances are located at the front and back of the first floor, as well as the rear of the basement. The front of the building features a covered porch, while the rear of the building features a deck. Building A contains hardwood floors. A Phase I Environmental Study has not been conducted and the broker did not have any information on the presence of asbestos-containing material, lead-based paint or any other environmental issues. Nevertheless, due to the recent renovation, the building appears to be in good condition overall and adaptation to other uses seems unnecessary. The following pictures show the exterior and interior of Building A.

Figure 6: Building A – Exterior & Interior

Building B

Table 6: Building B Characteristics

Use	Garage/Storage
Year Built	Unknown
Historic Status	Not Eligible
Rentable Square Feet	N/A
Available Parking Spaces	N/A
Style	1-Story Garage/Storage
Exterior	Masonry
Frame	Wood
Floors	1
Seismic Considerations	N/A
2010 Taxes	N/A

Building B is located southwest of Building A facing North Cleveland Street. This building serves as the primary covered parking and excess storage for the residential building at 1818 Bryan Street and is comprised of an unfinished open area. Building B houses the waste and recycling receptacles for the residential building and is otherwise vacant. There are no utilities provided in Building B. A Phase I Environmental Study has not been conducted and the broker did not have any information on the presence of asbestos-containing material, lead-based paint or any other environmental issues. The following pictures show the exterior of Building B.

Figure 7: Building B - Exterior

Due to its small size, poor condition and limited use, it may be nearly impossible to adapt Building B to other uses, making reuse opportunities limited.

Building C

Table 7: Building C Characteristics

Use	Residential
Year Built	Unknown
Historic Status	Not Eligible
Rentable Square Feet	~2,000
Available Parking Spaces	Detached garage (Building B) and street parking
Style	2-Story Residential
Exterior	Wood/Masonry
Frame	Wood
Floors	2
Seismic Considerations	N/A
2010 Taxes	$7,022

Building C is located southeast of Building B facing North Bryan Street. This building has a residential use, but is currently vacant. The team was unable to tour the inside of the building during the site visit. However, the exterior of the building demonstrated that several areas, including windows, roofing and foundation, were in need of repair. A Phase I Environmental Study has not been conducted and the broker did not have any information on the presence of asbestos-containing material, lead-based paint or any other environmental issues. The following pictures show the exterior of Building C.

Figure 8: Building C – Exterior

Though slightly smaller than Building A, it is likely that Building C could also be adapted to commercial office, but additional reuse opportunities are limited.

Summary

The buildings at the subject property are in fair condition, are small and are functionally obsolete. Also, because the Subject Property's use has changed over time and development has occurred in stages, the Subject Property is inefficient. These factors combine to limit the adaptability and reuse of the buildings at the Subject Property. The table below provides a summary of the Subject Property's building characteristics and includes a summary of the buildings' adaptability and assessment of the reuse potential.

Table 8: Building Condition Summary

Building	Year Built	Size (SF)	Use	Building Characteristics (+/-)	Reuse Potential
A	1925	~3,000	Office	– Recently renovated – Large offices – Kitchen	Limited/ Unnecessary
B	Unknown	N/A	Parking/ Storage	– Open building – No utilities	Limited
C	Unknown	~2,000	Residential	– Exterior Issues	Limited

As shown in the previous table, all of the buildings currently exhibit limited adaptability and only Building A is considered to have current or reuse potential.

3. Surrounding Uses and Amenities

The immediate area surrounding the Subject Property consists primarily of low-density residential neighborhoods, including Lyon Village and North Highlands. These neighborhoods contain mostly upper-middle class single residents.

North

The neighborhood of North Highlands is located across Lee Highway to the north and northeast of the Subject Property. This neighborhood contains mostly middle and upper-middle class residents. Over half of North Highlands households own their homes, though only 11.6% of residences are single-family detached homes, contributing to the neighborhood's density. Townhome communities within North Highlands include the nine-unit Courthouse Crossing Community (North Adams and Lee Highway), the 19-unit Calvert Court (North Cleveland Street), the 20-unit Dundree Hills Townhomes (North Rolfe Street), and the luxury 33-unit Hillcrest Townhomes (21st Road North). Condominium communities within North Highlands include the luxury 18-unit Lyon Village (2801 Lee Highway), the 122-unit Circle Condominium (2030 North Adams Street), the 65-unit Adams House (2016 North Adams Street) and the 77-unit Cleveland House (1931 North Cleveland Street). The largest multi-family projects include the 200-unit Park Adams apartment complex and the 406-unit Potomac Towers apartment complex, both located off North 20th Street and Lee Highway, the 202-unit Park Georgetown apartment complex located at North Pierce and North 21st Streets and, the 96-unit Ancient Oaks apartment complex located off 20th Road North and the 76-unit Howard Manor apartment complex located at North Cleveland Street and 20th Road North. Community amenities in the North Highlands neighborhood include the Dawson Terrace Community Center—which includes a meeting room, playground and basketball court—and the Custis Trail, a four-mile bike and running trail that extends from the Key Bridge and Mount Vernon Trail in Rosslyn to the Washington & Old Dominion (W&O) Railroad Trail.

West

The neighborhood of Lyon Village is located west of the Subject Property. Like other residential neighborhoods surrounding the Subject Property, Lyon Village is comprised of established, predominantly upper-middle class residences. While less than half of Lyon Village residents own their homes, over 80.0% of residences are single-family detached homes, making Lyon Village much less dense than North Highlands. Townhome communities within Lyon Village include the 23-unit Courthouse Square (Lee Highway between North Adams and North Wayne Streets), the eight-unit Arlington Crest (North Adams Street and Lee Highway) and the 38-unit Bromptons at Clarendon (North Kirkwood Road and Washington Boulevard). The only condominium community within Lyon Village is the 70-unit Hartford (1200 North Hartford Street). The largest multi-family projects are the 110-unit Lyon Village apartment complex located at Lee Highway and North Kirkwood Road and the 219-unit 2201 Wilson Boulevard apartment complex located at Wilson and North Veitch Streets.

Community amenities in the Lyon Park neighborhood include Lyon Village Park, Lyon Village Community House—which includes community meeting space—and the Key Elementary School, a K-5 Arlington County Public School.

The southern boundary of the Lyon Village neighborhood is the heavily commercial Wilson Boulevard, which features numerous restaurants and bars, banks, salons and both a Walgreens and CVS. Additionally services, including a Whole Foods Market and high-end retail, can be found one block south of Wilson Boulevard on Clarendon Boulevard. Adjacent to the northwest edge of Lyon Village is the Lyon Village Shopping Center, which features a Giant Food, a CVS, and restaurants and services. All of these commercial services are no more than 1.0 mile from the Subject Property.

South

The middle and upper-middle class neighborhood of Lyon Village also borders the Subject Property to the south. The neighborhood is bordered by Wilson Boulevard to the south.

East

The middle and upper-middle class neighborhood of Lyon Village also borders the Subject Property to the east. The neighborhood is bordered by North Veitch Street to the east.

4. Transportation and Access

1) Vehicular Access

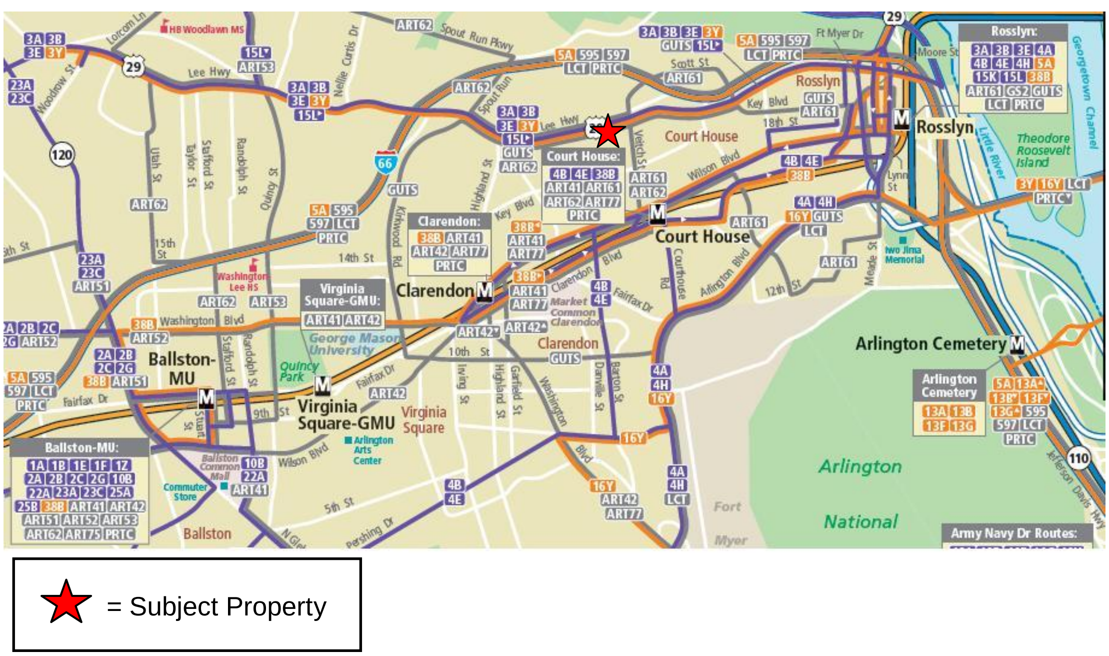
Automobile access to the Subject Property is available from both North Bryan and North Cleveland Streets, which intersect with Lee Highway. Access to North Cleveland Street is available from both the westbound—via a left-turn only lane—and eastbound lanes of Lee Highway. Access to North Bryan Street is only directly available from the eastbound lanes of Lee Highway. To access North Bryan Street, westbound traffic on Lee Highway conducts a u-turn at North Cleveland Street, one block west of North Bryan Street.

The nearest major traffic intersections are at Lee Highway and North Kirkwood Road and Lee Highway and North Veitch Street, both of which are located 0.3 miles from the Subject Property and which provide direct access to the hearts of the Clarendon and Courthouse neighborhoods, respectively. The Subject Property is situated just over one mile from the eastbound and westbound entrances to Interstate 66 (I-66) and the northbound and southbound entrances to the George Washington Memorial Parkway, both of which are major arterial highway branching off from the Capital Beltway, Interstate 495 (I-495), providing access to the entire greater Washington area. It is estimated that traffic counts in the immediate vicinity of the Subject Property typically reach approximately 27,000 vehicles per day[1].

Public Transportation

The region's public transportation system consists of both bus and light rail and is considered to be well-designed and functional. The following map details the public transit light rail and bus lines serving the area surrounding the Subject Property.

Figure 9: Rosslyn-Ballston Corridor Public Transportation Map[2]



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[1] CoStar Traffic Report

[2] Washington Metropolitan Area Transit Authority. http://wmata.com/pdfs/bus/VA.pdf

The area surrounding the Subject Property is served by rail via Washington Metropolitan Area Transit Authority (WMATA) Metrorail (Metro) and by bus via WMATA, Arlington Transit (ART) and Georgetown University Transportation Shuttle (GUTS). The nearest Metro, the Courthouse stop, is located approximately 0.7 miles from the Subject Property. The shortest automobile route to the Courthouse Metro makes use of Lee Highway, North Veitch Street and Clarendon Boulevard and takes approximately two minutes. The shortest walking route makes use of North Bryan Street, North Custis Road and Wilson Boulevard and takes approximately 11 minutes. The Courthouse stop is part of Metro's Orange Line. From Courthouse, Metro passengers can reach Washington, DC (Metro Center) in approximately 10 minutes and can travel to all areas served by Metro's five rail lines (Red, Orange, Blue, Green, and Yellow), serving Suburban , Washington, DC, and Northern Virginia.

With respect to bus service, WMATA's Routes 3A, B and E operate along Lee Highway seven days a week, connecting the Rosslyn (Virginia) Metro station with Annandale, Virginia and the West Falls Church (Virginia) Metro station. The buses on these routes stop approximately every 10 minutes during peak times, every 30 minutes during off-peak times and hourly on the weekends. WMATA's Route 3Y operates along Lee Highway five days a week, connecting the Lee Heights neighborhood of Arlington with the McPherson Square (DC) Metro station via Farragut Square. Bus Route 3Y operates on weekdays during peak hours (6-9 a.m., 4-7 p.m.) and stops approximately every 30 minutes. WMATA's Route 15L operates along Lee Highway five days a week, connecting Tysons Corner (Virginia) with the Rosslyn Metro station. Bus Route 15L operates only in the eastbound direction and only weekdays during peak hours (6-9 a.m., 4-7 p.m.), stopping approximately every 40 minutes. ART's Route 62 operates along Lee Highway five days a week, connecting the Ballston (Virginia) Metro to the Courthouse Metro via north Arlington. Bus Route 62 operates on weekdays during peak hours (6-9 a.m., 4-7 p.m.), stopping approximately every 30 minutes. Finally, GUTS's Arlington Loop operates along Lee Highway five days a week, connecting the Clarendon (Virginia) Metro with Georgetown University. The GUTS Arlington Loop operates on weekdays during peak hours (7-11 a.m., 4-10 p.m.), stopping approximately every 60 minutes.

5. Infrastructure and Utilities

The Subject Property is currently served by sanitary sewer, water, electrical, telecommunications and gas utilities. The table below displays the current utility providers for the Subject Property.

Table 9: Utility Providers

Service	Supplier
Water	Arlington County
Electricity	Dominion Virginia Power
Sewer	Arlington County
Natural Gas	Washington Gas
Telecommunications	Verizon, Comcast

Building 1 and Building 3 are connected to an 8-inch water main which extends along North Bryan Street. Electricity is brought to the Subject Property via overhead power lines along Lee Highway and North Bryan Street. Gas is provided via a 2-inch pipe extending underground from North Cleveland Street west of the Subject Property.

Given the current and historic uses, the redevelopment or expansion at the Subject Property would likely need to include increased sewer capacity by installing larger piping and infrastructure. The capacity of other existing utilities (water, electricity, natural gas, and telecommunications) is not expected to be an impediment to development.

6. Community Services

Arlington County provides fire protection for the Subject Property. Police and emergency services are also provided by Arlington County. Trash and recycling are provided by Arlington County. Snow removal is provided by private contractor. The same service providers would be in place after any development at the Subject Property.

C. Environmental Conditions

1. Environmental Studies

No Environmental Assessment ("EA") of the Subject Property has been provided by the owner or broker and the property is being sold "as-is." Nevertheless, it is not expected that there are any major adverse environmental conditions that would impact development at the Subject Property. It is likely that environmental changes resulting from redevelopment could include changes in land use, site drainage, landscaping and open space, and increased utility demand, but that these environmental impacts would be manageable and would likely not preclude development.

2. Hazardous Materials

Due to the age of the improvements, lead-based paint is likely present at the Subject Property. Lead-based paint can likely be mitigated or managed in place and is not expected to be an impediment to development.

3. Floodplains / Wetlands

According to the FEMA floodplain maps for Arlington County, the Subject Property is located in "Zone X", outside the 0.2% annual flood chance floodplain. Flooding is not expected to be an impediment to development[3]. Rainfall generally drains to the east side of the Subject Property toward a catch basin on the eastern side of North Bryan Street. Drainage considerations at the Subject Property are not expected to be an impediment to development, but if development were to alter current runoff characteristics, a storm water management plan that could effectively accommodate average rainfall and drainage volumes would need to be included as part of the development plan.

4. Coastal Zone Management

The Subject Property is not directly located in a defined coastal zone and is therefore not subject to any special regulations of this type that would impact development. The Subject Property is however located in the Potomac River and Chesapeake Bay watershed, and development and use of the

[3] FEMA Flood Insurance Rate Map (FIRM), Panel 39 of 100. http://www.rampp-team.com/county_maps/virginia/arlington/51013C0039C.pdf

Subject Property would need to consider appropriate and required erosion, sedimentation, drainage and storm water management practices as part of any development plan.

5. Parkland Classification

No areas of the Subject Property are currently classified as parkland. As such, development is not impacted by any special regulations of this type. The closest public parks to the Subject Property include Lyon Village Park, which begins south of Lee Highway on North Highland Street about 0.3 miles west of the Subject Property.

6. Threatened / Endangered Species

According to the non-profit Arlingtonians for a Clean Environment (ACE), no federally or state-listed threatened or endangered species are known to regularly reside in Arlington County.[4] Threatened or endangered species are not expected to impact development at the Subject Property.

7. Soil Types

No sensitive or hydric soils that could impede development are known to currently exist at the Subject Property. Development or reuse of the Subject Property would likely not need to take any special precautions beyond normal erosion and sedimentation control measures, and extraordinary site work or engineering precautions are not expected to be necessary to support development.

8. Environmental Gap Assessment

It does not appear that there are outstanding or unknown environmental conditions present at the Subject Property that could impede development or reuse, though a full will be required by lenders before placing construction or permanent financing.

[4] Arlingtonians for a Clean Environment Community Wildlife Habitats Registration Form (http://www.arlingtonenvironment.org/programs/wildlifehabitat/registration.htm)

D. Regulatory and Legal Implications

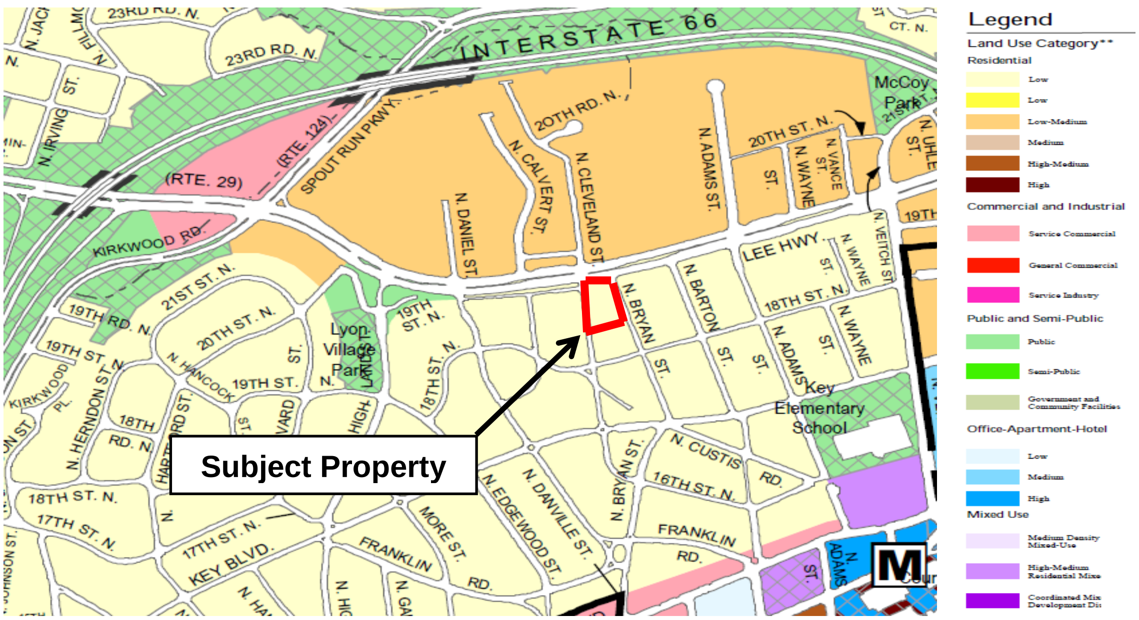
1. Ownership Rights & Asset Encumbrances

According to information contained in the Arlington County Land Records on the Subject Property and the owner, the title is clear of any encumbrances that would impede reuse or redevelopment.

2. Local Comprehensive Plan

According to the Arlington County General Land Use Plan (GLUP), last updated in June 2010, the Subject Property and the immediate surrounding area in Lyon Village are designated for Low-Density Residential uses. It is important to note that the Subject Property is zoned C-2 – Service Commercial/Community Business Districts (detailed in the following section) which does not permit residential development other than in "Special Revitalization Districts" and where residential development is part of a mixed-use development.[5] The map below displays land use in the area surrounding the Subject Property as dictated by the current GLUP. The approximate boundary of the Subject Property is outlined in red.

Figure 10: General Land Use Plan Map

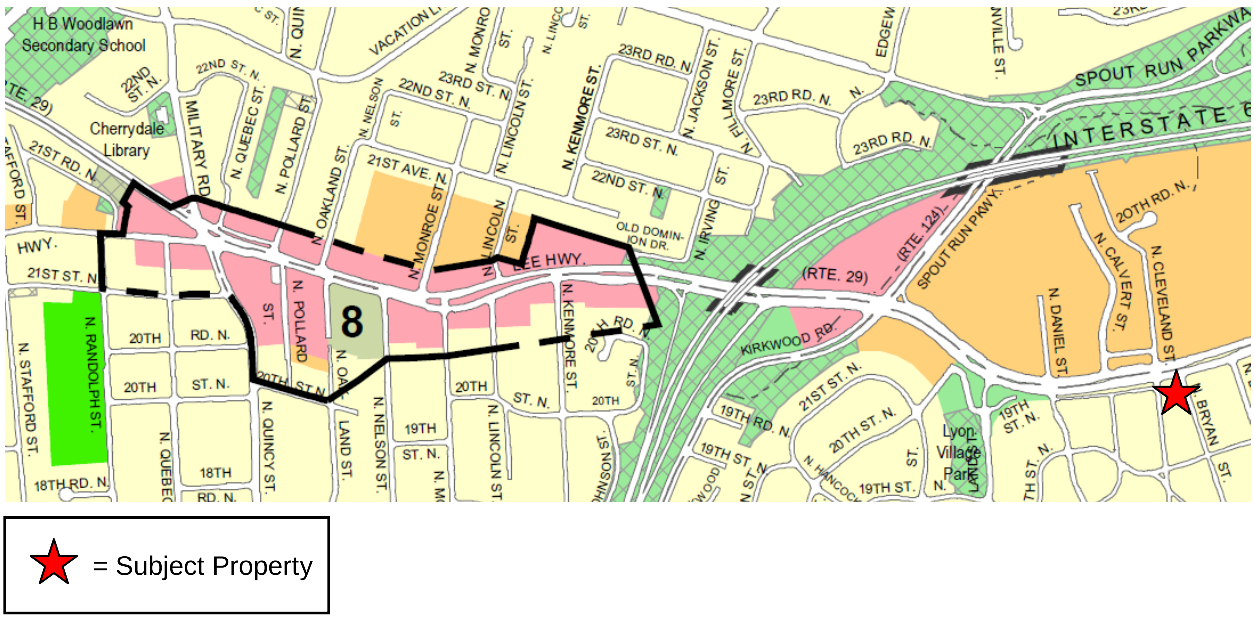


As shown above, the Subject Property and the immediate surrounding area are designated for Low to Low-Medium Density Residential uses. The designation of the Subject Property as Low Density Residential does not accurately reflect the Subject Property's current commercial use. The Master Plan suggests that a Low to Low-Medium Density Residential land use designation consistent with adjacent development should be adopted. Redevelopment for uses other than Low Density Residential could be interpreted as contradicting the GLUP and may not be permitted by Arlington County.

[5] Section 26 of the Arlington County Zoning Ordinance.

With respect the area surrounding the Subject Property, the Arlington County Planning Department has developed a "Special Revitalization District" for the Cherrydale commercial area along Lee Highway. The overall goal is to revitalize the commercial area's image and encourage the continuation of existing businesses in a manner that is compatible with the overall character of the surrounding residential neighborhoods[6]. The Cherrydale commercial district begins 0.5 miles from the Subject Property and continues approximately 0.5 miles along Lee Highway and is shown on the map below. Development within the Cherrydale Revitalization District is likely to influence growth and development in the wider vicinity and could especially impact the value or redevelopment of the nearby Subject Property. Additionally, the planned increased commercial development in the Cherrydale may strengthen the case for rezoning of the Subject Property.

Figure 11: Cherrydale Revitalization District

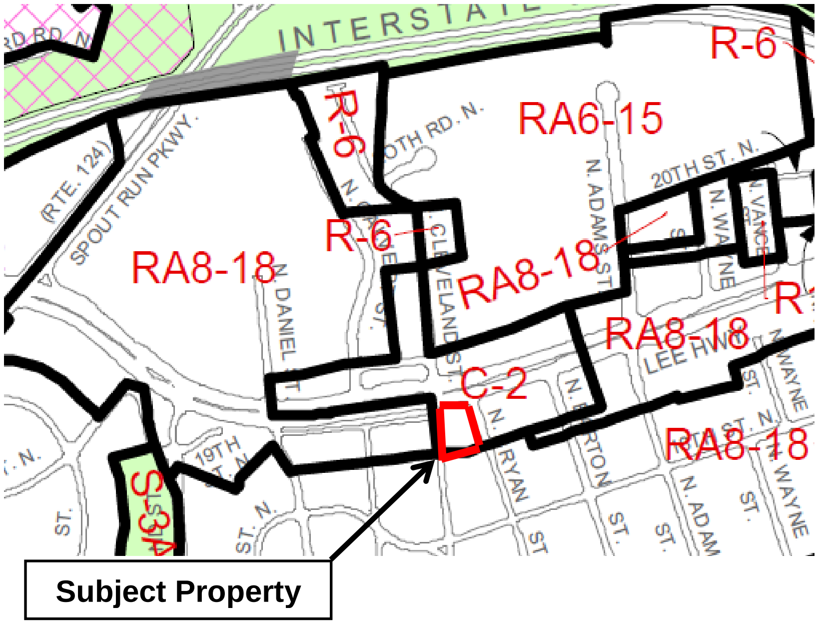


3. Current Zoning

The surrounding area is primarily utilized for residential uses. The map below displays the current zoning designation of the Subject Property and the surrounding area. The approximate boundary of the Subject Property is outlined in red.

[6] Arlington County Department of Community Planning, Housing and Development (DCPHD). http://www.arlingtonva.us/departments/CPHD/planning/docs/CPHDPlanningDocsGLUP_metrocorridors.aspx

Figure 12: Area Zoning Map



As shown above, the Subject Property and areas immediately north and east are zoned C-2 (Service Commercial/Community Business Districts). Areas bordering the Subject Property to the south and west are zoned RA8-18, RA6-15 and R-6, all of which are residential zoning. These zoning classifications, as well as the residential classifications R-5, R2-7, R-10, are predominantly found in Lyon Village and North Highlands. With respect to the Subject Property, a variety of uses are permitted generally within C-2 zoning. The following table includes general area and density requirements that could apply within C-2 zoned areas.

Table 10: C-2 Zoning Requirements[7]

Density	The ratio of the gross floor area of all structures erected on a "C-2" District site to the total area of the site shall not exceed 1.5 to 1
Landscaping	Ten percent of total site area is required to be landscaped open space in accordance with the requirements of Section 32A, Landscaping
Parking	
Retail and Service Uses	One space for each 250 square feet of floor area on the first floor in a building, plus 1 space for each 300 square feet of floor area located elsewhere in the building
Office – General	One parking space for each 250 square feet of floor area on the first floor, 1 space for each 300 square feet of floor area located in the basement or on the second through fifth floors and 1 space per 400 square feet of floor area located above the fifth floor

[7] Arlington County Zoning Ordinance Sections 26, 31, 32 and 33

Other Uses	In conformity to the policy set forth in Section 33. Automobile Parking, Standing and Loading Space
Area	
Setback Requirement	Forty feet from centerline of any street or officially designated street right-of-way. No side or rear yard shall be required except that no wall either on the side or rear of a lot abutting an " R" or "RA" District or containing openings or windows, whether or not they can be opened, shall be located closer to side or rear lot lines than 8 feet for the first 10 feet of building height, plus 2 additional feet for each 10 additional feet of building height, or fraction thereof.
Frontage	Every building shall be located on a lot with frontage on a public street having a minimum width of 30 feet
Height	No building, nor the enlargement of any building, shall be hereafter to exceed 45 feet

4. Zoning Alternatives

Because the GLUP designates the Subject Property "Low Density Residential," redevelopment of the site to low density residential uses may be permitted. Based on conversations with Marc McCauley, Real Estate Director in Real Estate Development Group of Arlington Economic Development, there are three zoning alternatives for the Subject Property:

1) *Unified Commercial/Mixed Use Development (UCMUD)*

UCMUD is available under current C-2 zoning. UCMUD provides for the new construction of residential units within commercial zoning districts as part of a mixed use development in accordance with specific guidelines. The intent of a UCMUD is to provide for flexible, site specific solutions for the revitalization of existing shopping areas while preserving commercial service levels; promote the compatibility of commercial developments within the commercial district and surrounding properties by coordinating aspects of site layout, site design and building form; provide for creative opportunities that encourage and retail local and small business and promote opportunities for affordable housing. UCMUD developments shall not include residential dwelling units, unless a project contains a minimum of 0.4 FAR of commercial or retail uses located on the first (ground) floor.[8]

2) *C-O-1.5 (Commercial Office Building, Hotel and Apartment Districts)*

C-O-1.5 development would require rezoning. C-O-1.5 provides for limited office building land use and, under appropriate conditions, office building, hotel, apartment, commercial and/or institutional redevelopment of older commercial and industrial areas. Appropriate mixtures of use and densities under the terms of this classification are to be determined in accordance with the special exception

[8] Arlington County Department of Community Planning, Housing and Development. http://www.arlingtonva.us/departments/CPHD/planning/applications/use_permit/CPHDPlanningApplicationsUse_permitDefine.aspx#ucmud

provisions of Section 23A of the Zoning Ordinance and shall be consistent with the General Land Use Plan or approved plans for the area. Determinations as to the actual types and densities of uses to be allowed are based on the characteristics of individual sites in their neighborhood and on the need for community facilities, open and landscaped areas, circulation and utilities[9].

3) *RA8-18 (Apartment Dwelling Districts)*

RA8-18 development would require rezoning. RA8-18 is one of several apartment dwelling districts available in Arlington County, and is the adjacent zoning classification to the north, east and west of the Subject Property.

The following table includes general area and density requirements that w apply within UCMUD, C-O-1.5 and RA8-18 zoned areas.

Table 11: Alternative Zoning Requirements[10]

	UCMUD	C-O-1.5	RA8-18
Density			
Market Rate Housing	For developments with both residential units and commercial uses, up to a total FAR of 2.0, where the developments contain a minimum of .1 FAR and maximum of 1.1 FAR of residential uses. Any development that contains only commercial uses may develop at a density of up to 1.5 FAR.	The ratio of the total gross floor area of all uses, excluding one- and two-family dwellings, to the total area of the site shall not exceed 1.5 to 1. A building which has solely residential use above the second floor level shall be permitted to have a residential F.A.R. of 1.5 and a first floor retail commercial use F.A.R. of up to .5. In no case shall the total F.A.R. of such a building exceed 2.0.	Townhouse and semi-detached dwelling units and existing one-family dwelling units may be permitted at densities up to those allowed under the General Land Use Plan designation then applicable to the site, but not to exceed 22 dwelling units per acre. The minimum lot area per dwelling unit for apartment houses and townhouses shall be 1,200 square feet
Affordable Housing	N/A	N/A	When a building is proposed to be used for the purpose of providing low or moderate income housing, the County Board may approve additional density up to 36 units per acre for sites of less than 20,000 square feet and up

9 Arlington County Zoning Ordinance Section 23A. “C-O-1.5” Commercial Office Building, Hotel and Apartment Districts

10 Arlington County Zoning Ordinance Sections 13, 23A, 26, 31, 32 and 33

	UCMUD	C-O-1.5	RA8-18
			to a 25 percent increase above 36 units per acre in for sites of more than 20,000 square feet The minimum lot area per dwelling unit for apartment houses and townhouses shall be 1,200 square feet
Landscaping	10% of the total development site on sites of 20,000 square feet of land area or less	N/A	Coverage shall not exceed 56 percent unless where otherwise permitted to be modified by site plan or use permit
Parking			
Retail and Service Uses	One space for each 250 square feet of floor area on the first floor in a building, plus 1 space for each 300 square feet of floor area located elsewhere in the building	N/A	N/A
Apartments and Condominiums	One and one-eighth spaces for each of the first 200 dwelling units in any structure and 1 space for each additional dwelling unit.		
Townhouses	Two spaces for each dwelling unit, and 1/5 additional parking spaces per dwelling unit for visitors.		
Area			
Frontage	Every building shall be located on a lot with frontage on a public street having a minimum width of 30 feet	Each lot or plot shall have a minimum average width of 100 feet	For apartment houses and townhouses, every lot shall have a minimum average width of 75 feet and a minimum area of 7,500 square feet
Setback	Fifty feet from said centerline of any street or officially designated street right-of-way, but in no case less than 25 feet from any street right-of-way line.		
Side and Rear Yard	Ten feet plus 1 additional foot for each 2 1/2 feet, or fraction thereof, of building height above 25 feet, provided that on interior lots no structure shall be located closer than 25 feet from a rear lot line.		
Height	No building, nor the enlargement of any building, shall be erected to exceed 45 feet	Thirty-five feet. Additional height may be granted through the site plan approval process, not to exceed 10 stories for apartments built on sites of less than 20 acres in area	Four stories or 40 feet. Additional height may be granted through the site plan approval process, not to exceed 8 stories or 75 feet

5. Applicable Local Requirements

Specific local development requirements and permits vary depending on use. In general, review and approvals for any development would need to be obtained from the Arlington County. Arlington County's Zoning Ordinance distinguishes between uses permitted "by-right" and uses allowed by "special exception." Special exceptions include Use Permits and Site Plans. A Use Permit would most likely be required for an UCMUD development, whereas a Site Plan would most likely be required for either a C-O-1.5 or RA8-18 rezoning and development. Both the Use Permit and Site Plan would need to be approved by the Arlington County Planning Commission and Arlington County Board.

E. Cultural / Historic Preservation Compliance

Based on information available from the Arlington County Historic Preservation Program, the Subject Property is not considered historically Essential, Important, Notable or Minor by the County.[11] Additionally, the Subject Property is neither registered, nor eligible for registration on the National Register of Historic Places. The Subject Property is not in a designated historic district and is not considered to be of historical, architectural or cultural significance. Based on this information, there are no cultural or historical preservation requirements that would impact development of the site. Additionally, no archaeologically sensitive areas are known to exist at the Subject Property and archaeological considerations are not anticipated to impact development or reuse.

IV. Local Political and Community Considerations

A. Stakeholders

1. City Planning Department & Office of Economic Development

The Subject Property is currently designated by the General Land Use Plan as Low Density Residential, although zoned C-2, Service Commercial/Community Business Districts. It is possible that upon redevelopment the land use designation could revert to Low Density Residential, consistent with adjacent uses.

2. State Historic Preservation Office (SHPO)

None of the buildings currently located at the Subject Property are designated as historic and the Subject Property is not located in an historic district. The Subject Property is neither registered, nor considered eligible for registration on the National Register of Historic Places.

3. State Environmental Office

The Subject Property does not include any wetlands, parklands, or threatened or endangered species that are expected to garner the interest of the Virginia Departments of Conservation and Recreation

[11] Arlington County Department of Community Planning, Housing and Development. http://www.arlingtonva.us/departments/CPHD/ons/CPHDOnsHistoricPreservation.aspx

or Environmental Quality. It is assumed that any redevelopment or reuse of the Subject Property would conform to all applicable, state, and local environmental requirements.

4. Federal, State and Local Elected Officials

No federal, state or local elected officials were contacted as part of this Study.

5. Affordable Housing and Social Service Organizations

Affordable housing advocacy and social service organizations generally have a strong presence in Arlington County and are considered to be active and well resourced. In December 2005, the Arlington County Board approved amendments to the County Zoning Ordinance that are used in the approval process of residential site plan projects to increase the supply of affordable housing. The developer chooses whether to provide a cash contribution or to provide units using a percent of the increased gross floor area (GFA) above 1.0 Floor Area Ratio (FAR). For on-site units, the requirement is 5% of the GFA; for off-site units nearby, 7.5%; for off-site units elsewhere in the county, 10%. Cash contribution rates in 2010 are: $1.71/sq. ft. of GFA for first 1.0 FAR; $4.56/sq. ft. from 1.0 to 3.0 FAR for residential; $9.13/sq. ft. of GFA above 3.0 for residential; and $4.56/sq. ft. above 1.0 FAR in commercial. Cash contribution amounts are indexed to the Consumer Price Index for Housing in the Washington-Baltimore MSA.[12]

6. Other Stakeholders

The Subject Property falls within Lyon Village. The Lyon Village Citizens Association (LVCA) provides various services to the residents of Lyon Village, including monitoring and informing neighborhood development and zoning issues. Though development of the Subject Property has not been a past concern of LVCA[13], it may show an interest in how the Subject Property is utilized and should be considered stakeholders when analyzing and pursuing alternative asset utilization strategies.

V. Alternatives Analysis

The following alternatives were chosen based on the constraints of the Subject Property and the potential for financial viability. Descriptions of each alternative are included in the table below.

[12] Arlington County Department of Community Planning, Housing and Development. http://www.arlingtonva.us/departments/CPHD/housing/development/CPHDHousingDevOrdinance.aspx

[13] Email with H.K. Park, President, Lyon Village Community Association. April 15, 2011.

Table 12: Alternatives Considered

Alternative	Analyses Required
Retention with No Third Party Involvement	
Backfill Existing Space As-Is	Maintain the Subject Property. Backfill all existing buildings (Buildings A and C) in their current condition. No investment will be made in the facilities and occupancy will remain at market levels for the duration of the 10-year analysis.
Redevelopment	
Affordable Multi-Family	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class B multi-family residential building targeted to low-income rental tenants.
Market Rate Multi-Family	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A multi-family residential building targeted to market rate rental tenants.
For Sale Condominiums	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A multi-family residential building targeted for sale at market rates.
For Sale Townhomes	Demolish existing buildings (Buildings A, B and C). Re-grade site. Construct Class A townhome complex targeted for sale at market rates

The Team evaluated each of the above alternatives using both quantitative and qualitative criteria. For the quantitative analysis, the Team performed a financial analysis, modeling revenues, expenses and capital investment required for each alternative over a 10-year analysis period (except for for-sale alternatives). Based on these inputs, an appropriate return was determined for each alternative.

The Team conducted a comparative analysis of financial outputs and qualitative evaluations of each alternative, in addition to the benefits, constraints, risks, and risk mitigation strategies, to develop a recommended investment alternative.

A. Alternative 1 – Backfill All Existing Space As-Is

1. Description of the Alternative

In Alternative 1 – Backfill All Existing Space As-Is, new tenants would be found for the Subject Property in its current condition. This alternative serves as a baseline to determine if any redevelopment of the Subject Property is necessary or whether its current use is its highest and best. No significant capital investment (i.e. renovation, refurbishment, etc.) would be made in the existing space at the Subject Property prior to backfilling. This alternative would enable the immediate accommodation of demand for space at the Subject Property.

2. Assumptions

The following list provides a summary of the assumptions used in the financial analysis for Alternative 1. The assumptions for this analysis focus on Building A and were based primarily on market data and industry estimates. A complete list of assumptions is located in Appendix D: Financial Pro Formas.

a) **Operating Revenues:** Operating revenues total $36.15 per RSF and are based on Class B market rates for Class B office space in Arlington County.[14] Rent was assumed to grow at an annual rate of 2.0%. Vacancy and credit loss were assumed to be 10.0%, which includes 6.4% market vacancy. The initial lease term was assumed to be for 5 years, with a 50.0% percent chance of renewal. No downtime was assumed for a lease renewal, but 12 months was assumed if a replacement tenant must be found.

b) **Operating Expenses (Operations and Maintenance):** Operations and Maintenance expenses of $18.08 per RSF are 50.0% of operating revenues. Additional expenses include a 3.0% third-party management fee. Operations and Maintenance expenses were assumed to grow at an annual rate of 2.5%. Finally, reserves were estimated to be $0.25 per RSF, but were modeled to be withheld after the payment of debt service.

c) **Operating Expenses (Leasing):** As mentioned above, the likelihood of renewal was assumed to be 50.0%, with a 12 month downtime to find a replacement tenant. In addition to downtime, it was assumed that Tenant Improvements would be $9.04 per RSF for a new lease and $3.00 per RSF for a renewed lease. The leasing commission was assumed to be 6.0%.

d) **Financing:** It was assumed that the retention of the Subject Property would be financed with private debt with a 65.0% loan-to-value ratio (LTV). The mortgage would have a 30-year amortization and an annual interest rate of 8.0%.

e) **Closing and Soft Costs:** Closing costs were estimated to be $90.0K and include initial Tenant Improvements and Leasing Commissions, legal costs, title, financing fees, and insurance. Closing costs also include $1.0K for sitework to bring the landscaping up to Class B standards.

f) **Residual Value:** It was assumed that the Subject Property would be held for ten years before being sold. The residual value was calculated by dividing the net operating income in year 2021 by an assumed capitalization rate ("cap rate") of 10.0%. The outstanding loan balance plus a 3.0% sales commission were subtracted from the net sale proceeds.

3. Timeline and Required Reviews

Alternative 1 assumes occupancy will be achieved by July 1, 2011. Following occupancy, a ten-year hold period is assumed before asset disposition. No additional reviews or delays are expected, as no development or rezoning is included in Alternative 1.

4. Potential Risks and Possible Mitigation Strategies

Key risks in Alternative 1 are identified in the areas of leasing, current and future building condition, and financial performance. Though Building A has been renovated, it has not been able to attract a viable tenant, which may indicate similar future difficulty. Additionally, because Alternative 1 does not involve substantial investment in the Subject Property in the form of renovation, risks to building

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[14] Jones Lang LaSalle Washington, DC Office Statistics, Q1 2011.
http://www.us.am.joneslanglasalle.com/ResearchLevel1/WashingtonDC-Office-Statistics-Q1-2011-JLL.pdf

condition may be considerable. Financial risk in Alternative 1 is associated primarily with the price of acquisition, as the current offering price may not be justifiable given the realities of occupying and operating the Subject Property. Because of the risks involved with Building A, the analysis did not continue to evaluate the overall impact of occupying Building C.

5. Financial and Investment Analysis

The 10-year NPV analysis includes the continued operation of the Subject Property. Also included is the residual sale value of the buildings at the Subject Property at the conclusion of the 10-year time horizon. The NPV of the 10-year cash flows, discounted at a rate of 10.0%, is -$1,186,244. The table below presents summary results of the financial analysis of Alternative 1. A detailed summary of the assumptions for this alternative is provided in Appendix D.

Table 13: Alternative 1 - Backfill As-Is Financial Summary

Alternative	Description	Total NPV	Initial Equity Required	Senior Loan	Total Investment
1	Backfill	-$1,186,244	$512,789	$952,200	$1,464,989

The negative NPV of Alternative 1 – Backfill As-Is can be attributed primarily to the high cost of the Subject Property and represents continued operation of the Subject Property as a financially underperforming asset. To determine if Alternative 1 could be financially viable at a lower purchase price, the land value was reduced to the break-even point (NPV = $0). This analysis yielded a negative value for the land.

6. Alternative Evaluation and Summary

Alternative 1 – Backfill As-Is amounts to the continued operation of a financially underperforming asset. The negative NPV and inability to achieve greater returns through the reduction of the purchase price indicate that the highest and best use of the property is not achieved through Alternative 1.

B. Alternative 2 – Affordable Multi-Family Development

1. Description of the Alternative

In Alternative 2 – Affordable Multi-Family Development, the existing buildings (Buildings A, B and C) would be demolished and rezoned C-O-1.5. The site would be re-graded and a Class B multi-family residential building would be constructed. The redeveloped property would be targeted to low and moderate income tenants who would be charged affordable housing rents. This alternative allows the site to maximize density, as the number of units increases from 22 per acre to 36 per acre, plus the possibility for a 25.0% bonus, if affordable housing is offered. Additionally, the project would be able to take advantage of Low-Income Housing Tax Credits to reduce the percentage of equity seeking a return from the project, as the yield requirement would be satisfied by the tax credit. Finally, by constructing affordable housing, the project would not need to contribute to the Arlington Housing Investment Fund.

2. Assumptions

The following list provides a summary of the assumptions used in the financial analysis for Alternative 2. The assumptions for this analysis focus on Building A and were based primarily on market data and industry estimates. A complete list of assumptions is located in Appendix D: Financial Pro Formas.

a) **Construction Costs:** Based on the setback requirements and lot coverage maximums, it was estimated that an 11,000 square foot (sf) floorplate building could be constructed. Based on parking requirements, it was determined that there would be two construction options: 1) wood-framed construction of three floors, with the first floor for parking and the second two floors for units or 2) steel and concrete construction of six floors, with two underground floors for parking and four above-ground floors for units. Core and shell costs for Option 1 were estimated to be $136.61 per square foot (psf), while core and shell costs for Option 2 were estimated to be $168.41 psf. Additionally, Option 2 requires a $33.05 psf basement[15]. A 1.5% premium was added to both alternatives to achieve LEED Certified status.

b) **Operating Revenues:** Operating revenues total $14.52 per RSF and are based on comparable rents from ten affordable apartment complexes within 1.3 miles of the Subject Property[16]. Other Income (laundry, vending, fees, etc.) was assumed to be $0.93 per RSF[17]. Rent was assumed to grow at an annual rate of 2.0%. Vacancy and credit loss were assumed to be 5.0%.

c) **Operating Expenses (Operations and Maintenance):** Operations and Maintenance expenses of $4.38 per RSF are 45.4% of operating revenues. Operating Expenses include administrative expenses, common area utilities, water/sewer, grounds and maintenance, insurance and payroll and personnel. Additional expenses include a 4.0% third-party management fee and property taxes. Operations and Maintenance expenses were assumed to grow at an annual rate of 2.0%. Finally, reserves were estimated to be $0.25 per RSF, but were modeled to be withheld after the payment of debt service.

d) **Financing:** It was assumed that the development of the Subject Property would be financed with private debt with a 65.0% loan-to-cost ratio (LTC). The mortgage would have a 30-year amortization and an annual interest rate of 5.0%[18].

e) **Closing and Soft Costs:** Closing and soft costs were estimated to be $1.8M and include A&E fees, surveys, Arlington County fees (site plan, water and sewer, permits), payment and performance bonds, a Phase 1 environmental study, legal costs, title, financing fees, interest reserves and insurance. Soft costs also include a developer fee of 5.0% of total hard costs and a $200.0K soft cost contingency.

[15] RS Means 30th Annual Square Foot Costs.

[16] Arlington County Apartment Guide (http://aptguide.arlingtonva.us/) and http://www.apartments.com

[17] Institute for Real Estate Management (IREM) Median Income and Operating Cost data for Washington, DC Garden Type Buildings.

[18] Conversations with BB&T Bank.

f) **Residual Value:** It was assumed that the Subject Property would be held for ten years before being sold. The residual value was calculated by dividing the net operating income in year 2024 by an assumed capitalization rate ("cap rate") of 8.0%. The outstanding loan balance plus a 3.0% sales commission were subtracted from the net sale proceeds.

3. Timeline and Required Reviews

Alternative 2 assumes that the Subject Property will be rezoned to C-O-1.5. The rezoning would be accompanied by a site plan submittal for the development. Based on conversations with Marc McCauley, Real Estate Director in Real Estate Development Group of Arlington Economic Development, this process is expected to take approximately 18 months. Demolition, site work and construction were estimated to last 12 months, meaning the project would be ready for occupancy by January 1, 2014. Following occupancy, a ten-year hold period is assumed before asset disposition.

4. Potential Risks and Possible Mitigation Strategies

Key risks in Alternative 1 are identified in the areas of zoning and financial performance. Though rezoning the property is consistent with the General Land Use Plan, there may be county or neighborhood resistance to the plan. Additionally, there may be neighborhood resistance to increasing density, despite the massing of the immediate adjacent property at 2602 Lee Highway, as the majority of Lyon Village is single-family homes. Financial risk in Alternative 1 is associated primarily with the price of acquisition, as the current offering price may not be justifiable given the development costs and level of potential income generation.

5. Financial and Investment Analysis

The 10-year NPV analysis includes the redevelopment of the Subject Property. The Option 1 NPV analysis is presented, as the increased income generated by the additional two floors of units is not sufficient to support the increased construction cost. Also included is the residual sale value of the buildings at the Subject Property at the conclusion of the 10-year time horizon. The NPV of the 10-year cash flows, discounted at a rate of 8.0%, is -$4,710,140. This NPV assumes that a 9.0% Low-Income Housing Tax Credit (LIHTC) is in place, reducing the amount of equity seeking a return on investment. The table below presents summary results of the financial analysis of Alternative 2. A detailed summary of the assumptions for this alternative is provided in Appendix D.

Table 14: Alternative 2 – Affordable Multi-Family Development

Alternative	Description	Total NPV	Initial Equity Required*	Senior Loan	Total Investment
2	Affordable Apartments	-$4,710,140	$3,159,859*	$5,868,200	$9,028,059

* Due to 9.0% LIHTC, NPV analysis only considers return on $2,616,680 equity contribution

The negative NPV of Alternative 2 – Affordable Multi-Family Development can be attributed primarily to the high cost of the Subject Property and represents operation of the Subject Property as a financially underperforming asset. To determine if Alternative 2 could be financially viable at a lower purchase price, the land value was reduced to the break-even point (NPV = $0). This analysis yielded a negative value for the land.

6. Alternative Evaluation and Summary

Alternative 2 – Affordable Multi-Family Development amounts to the development of a financially underperforming asset. The negative NPV and inability to achieve greater returns through the reduction of the purchase price indicate that the highest and best use of the property is not achieved through Alternative 2.

C. Alternative 3 – Market Rate Multi-Family Development

1. Description of the Alternative

In Alternative 3 – Market Rate Multi-Family Development, the existing buildings (Buildings A, B and C) would be demolished and rezoned C-O-1.5. The site would be re-graded and a Class A multi-family residential building would be constructed. The redeveloped property would be targeted to middle to high-middle income tenants who would be charged market rents. This alternative does not create the same density potential as Alternative 2, but the increased density created by additional stories would likely not be financially feasible, as was the case with Alternative 1. However, the collection of market rents should enhance the ability to generate viable returns.

2. Assumptions

The following list provides a summary of the assumptions used in the financial analysis for Alternative 3. The assumptions for this analysis focus on Building A and were based primarily on market data and industry estimates. A complete list of assumptions is located in Appendix D: Financial Pro Formas.

a) **Construction Costs:** Based on the setback requirements and lot coverage maximums, it was estimated that an 11,000 square foot (sf) floorplate building could be constructed. As previously mentioned, based on zoning restrictions, only wood-framed construction of three floors, with the first floor for parking and the second two floors for units, is allowable to stay within the F.A.R guidelines. In fact, the project achieves an F.A.R. of 1.55, which exceeds the standard 1.50 F.A.R. maximum, but is below the 1.60 F.A.R maximum allowable for a LEED Certified building[19]. Core and shell costs were estimated to be $136.61 per square foot (psf). A 1.5% premium was added to achieve LEED Certified status.

b) **Operating Revenues:** Operating revenues total $25.56 per RSF—176.0% of the affordable rent—and are based on comparable rents from the two closest apartment complexes to the Subject Property, the Park Adams and Potomac Towers, both 0.2 miles from the Subject Property[20]. Other Income (laundry, vending, fees, etc.) was assumed to be $0.93 per RSF[21].

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[19] Arlington County Environmental Services Green Building Incentive Program. http://www.arlingtonva.us/departments/EnvironmentalServices/epo/EnvironmentalServicesEpoIncentiveProgram.aspx

[20] Arlington County Apartment Guide (http://aptguide.arlingtonva.us/) and http://www.apartments.com

[21] Institute for Real Estate Management (IREM) Median Income and Operating Cost data for Washington, DC Garden Type Buildings.

Rent was assumed to grow at an annual rate of 2.0%. Vacancy and credit loss were assumed to be 5.0%.

c) **Operating Expenses (Operations and Maintenance):** Operations and Maintenance expenses of $4.38 per RSF are 28.1% of operating revenues. Operating Expenses include administrative expenses, common area utilities, water/sewer, grounds and maintenance, insurance and payroll and personnel. Additional expenses include a 4.0% third-party management fee and property taxes. Operations and Maintenance expenses were assumed to grow at an annual rate of 2.0%. Finally, reserves were estimated to be $0.25 per RSF, but were modeled to be withheld after the payment of debt service.

d) **Financing:** It was assumed that the development of the Subject Property would be financed with private debt with a 65.0% loan-to-cost ratio (LTC). The mortgage would have a 30-year amortization and an annual interest rate of 5.0%[22].

e) **Closing and Soft Costs:** Closing and soft costs were estimated to be $1.9M and include A&E fees, surveys, Arlington County fees (site plan, water and sewer, permits), payment and performance bonds, a Phase 1 environmental study, legal costs, title, financing fees, interest reserves and insurance. A $78.9K contribution to the Arlington Housing Investment Fund is made because affordable housing cannot be accommodated on-site or at another location. Finally, soft costs include a developer fee of 5.0% of total hard costs and a $200.0K soft cost contingency.

f) **Residual Value:** It was assumed that the Subject Property would be held for ten years before being sold. The residual value was calculated by dividing the net operating income in year 2024 by an assumed capitalization rate ("cap rate") of 8.0%. The outstanding loan balance plus a 3.0% sales commission were subtracted from the net sale proceeds.

3. Timeline and Required Reviews

Alternative 3 assumes that the Subject Property will be rezoned to C-O-1.5. This zoning was chosen over RA8-18 because of the increased density available (1.50 F.A.R versus 11 units per acre). The rezoning would be accompanied by a site plan submittal for the development. Based on conversations with Marc McCauley, Real Estate Director in Real Estate Development Group of Arlington Economic Development, this process is expected to take approximately 18 months. Demolition, site work and construction were estimated to last 12 months, meaning the project would be ready for occupancy by January 1, 2014. Following occupancy, a ten-year hold period is assumed before asset disposition.

4. Potential Risks and Possible Mitigation Strategies

Key risks in Alternative 1 are identified in the areas of zoning and financial performance. Though rezoning the property is consistent with the General Land Use Plan, there may be county or neighborhood resistance to the plan. Additionally, there may be neighborhood resistance to increasing density, despite the massing of the immediate adjacent property at 2602 Lee Highway, as the majority of Lyon Village is single-family homes. Financial risk in Alternative 1 is associated

[22] Conversations with BB&T Bank.

primarily with the price of acquisition, as the current offering price may not be justifiable given the development costs and level of potential income generation.

5. Financial and Investment Analysis

The 10-year NPV analysis includes the redevelopment of the Subject Property. Also included is the residual sale value of the buildings at the Subject Property at the conclusion of the 10-year time horizon. The NPV of the 10-year cash flows, discounted at a rate of 8.0%, is -$2,312,268. The table below presents summary results of the financial analysis of Alternative 3. A detailed summary of the assumptions for this alternative is provided in Appendix D.

Table 15: Alternative 3 – Market Rate Multi-Family Development

Alternative	Description	Total NPV	Initial Equity Required	Senior Loan	Total Investment
3	Market Rate Apartments	-$2,312,268	$3,188,267	$5,921,100	$9,109,367

The negative NPV of Alternative 3 – Market Rate Multi-Family Development can be attributed primarily to the high cost of the Subject Property and represents operation of the Subject Property as a financially underperforming asset. To determine if Alternative 3 could be financially viable at a lower purchase price, the land value was reduced to the break-even point (NPV = $0). This analysis yielded a negative value for the land.

6. Alternative Evaluation and Summary

Alternative 3 – Market Rate Multi-Family Development amounts to the development of a financially underperforming asset. The negative NPV and inability to achieve greater returns through the reduction of the purchase price indicate that the highest and best use of the property is not achieved through Alternative 3.

D. Alternative 4 – For Sale Condominium Development

1. Description of the Alternative

In Alternative 4 – For Sale Condominium Development, the existing buildings (Buildings A, B and C) would be demolished and rezoned C-O-1.5. The site would be re-graded and a Class A multi-family residential building would be constructed. Units in the redeveloped property would be offered for sale at market prices for high-middle to high income purchasers. Like Alternative 3, this alternative does not create the same density potential as Alternative 2, but the increased density created by additional stories would likely not be financially feasible, as was the case with Alternative 1. However, the sale of units at market prices should mitigate the risk of operating an underperforming asset, as well as enable the collection of a premium for higher-end product.

2. Assumptions

The following list provides a summary of the assumptions used in the financial analysis for Alternative 4. The assumptions for this analysis focus on Building A and were based primarily on market data and industry estimates.

a) **Construction Costs:** Based on the setback requirements and lot coverage maximums, it was estimated that an 11,000 square foot (sf) floorplate building could be constructed. As previously mentioned, based on zoning restrictions, only wood-framed construction of three floors, with the first floor for parking and the second two floors for units, is allowable to stay within the F.A.R guidelines. In fact, the project achieves an F.A.R. of 1.55, which exceeds the standard 1.50 F.A.R. maximum, but is below the 1.60 F.A.R maximum allowable for a LEED Certified building[23]. Core and shell costs were estimated to be $136.61 per square foot (psf). However, because RS Means does not provide estimates of different levels of multi-family product, the 27.5% cost premium between average and custom single-family homes was applied to differentiate between the level of finish for the rental project and the for sale project. A 1.5% premium was added to achieve LEED Certified status.

b) **Financing:** It was assumed that the development of the Subject Property would be financed with private debt with a 65.0% loan-to-cost ratio (LTC). The mortgage would fund construction and be taken out by the sales of the individual units. The interest rate on the construction loan would be 3.8%, which is based on one-month LIBOR plus 350 basis points. The loan has a 65.0% maximum payoff sales ratio, which means that the loan must be paid off from sale proceeds when 65.0% of the units are sold.[24]

c) **Closing and Soft Costs:** Closing and soft costs were estimated to be $2.0M and include A&E fees, surveys, Arlington County fees (site plan, water and sewer, permits), payment and performance bonds, a Phase 1 environmental study, legal costs, title, financing fees, interest reserves and insurance. A $78.9K contribution to the Arlington Housing Investment Fund is made because affordable housing cannot be accommodated on-site or at another location. Finally, soft costs include a developer fee of 5.0% of total hard costs and a $200.0K soft cost contingency.

d) **Sales:** It was assumed that the units would be sold immediately upon completion. The sales price used is $478.43 psf, which is based on sales of 14 of the 18 units at the boutique Lyon Hill condominium project, which is 350 feet from the Subject Property.

3. Timeline and Required Reviews

Alternative 4 assumes that the Subject Property will be rezoned to C-O-1.5. This zoning was chosen over RA8-18 because of the increased density available (1.50 F.A.R versus 11 units per acre). The rezoning would be accompanied by a site plan submittal for the development. Based on conversations with Marc McCauley, Real Estate Director in Real Estate Development Group of Arlington Economic Development, this process is expected to take approximately 18 months. Demolition, site work and construction were estimated to last 12 months, meaning units would be ready for settlement by January 1, 2014.

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[23] Arlington County Environmental Services Green Building Incentive Program. http://www.arlingtonva.us/departments/EnvironmentalServices/epo/EnvironmentalServicesEpoIncentiveProgram.aspx

[24] Conversations with BB&T Bank.

4. Potential Risks and Possible Mitigation Strategies

Key risks in Alternative 1 are identified in the areas of zoning and financial performance. Though rezoning the property is consistent with the General Land Use Plan, there may be county or neighborhood resistance to the plan. Additionally, there may be neighborhood resistance to increasing density, despite the massing of the immediate adjacent property at 2602 Lee Highway, as the majority of Lyon Village is single-family homes. Financial risk in Alternative 1 is associated primarily with the price of acquisition, as the current offering price may not be justifiable given the development costs and level of potential income generation. Additionally, based on current assumptions, the sale of units exceeds the 65.0% maximum payoff sales ratio by 0.9 percentage points.

5. Financial and Investment Analysis

Because the units will be sold immediately upon completion, an NPV analysis is not appropriate for Alternative 4. Instead, yield on cost (YOC) was examined to determine the return on the required equity investment. The YOC for Alternative 4 is -4.0%. The table below presents summary results of the financial analysis of Alternative 4. A detailed summary of the assumptions for this alternative is provided in Appendix D.

Table 16: Alternative 4 – For Sale Condominium Development

Alternative	Description	Yield on Cost	Initial Equity Required	Senior Loan	Total Investment
4	Condominiums	-4.0%	$3,735,722	$6,937,900	$10,673,622

The negative YOC of Alternative 4 – For Sale Condominium Development can be attributed to the high cost of the Subject Property as well as the high cost of construction in order to deliver a premium product. To determine if Alternative 4 could be financially viable at a lower purchase price, the land value was reduced to the break-even point (YOC = 0.0%). This analysis yielded feasibility upon a 7.2% reduction in the value of the land.

6. Alternative Evaluation and Summary

Alternative 4 – For Sale Condominium Development amounts to the development of a financially underperforming asset under current assumptions. However, there is precedent for a reduction in the price of the land. Buck & Associates also represented a similar property at 3123 North 9th Road, which is approximately 1.0 mile from the Subject Property and 0.2 miles from the Clarendon Metro station. Like the Subject Property, this asset featured multiple buildings that were available for redevelopment. This property was sold in December 2010 for 90.7% of the list price. Assuming a similar discount for the Subject Property results in a 1.2% YOC and brings the project under the 65.0% maximum payoff sales ratio. Additionally, If the construction cost premium could be reduced from 27.5% to 22.9%, the YOC would rise to 8.0%. Therefore, Alternative 4 may be viable if either or both of the land price and construction cost can be reduced.

E. Alternative 5 – For Sale Townhome Development

1. Description of the Alternative

In Alternative 5 – For Sale Townhome Development, the existing buildings (Buildings A, B and C) would be demolished and rezoned either RA8-18 or C-O-1.5. The site would be re-graded and a Class A townhome community would be constructed. Units in the redeveloped property would be offered for sale at market prices for high-middle to high income purchasers. Like Alternative 3, this alternative does not create the same density potential as Alternative 2, but the increased density is not necessary for a townhome community. The sale of units at market prices should mitigate the risk of operating an underperforming asset, as well as enable the collection of a premium for higher-end product.

2. Assumptions

The following list provides a summary of the assumptions used in the financial analysis for Alternative 5. The assumptions for this analysis focus on Building A and were based primarily on market data and industry estimates.

a) **Construction Costs:** Based on the setback requirements and lot coverage maximums, it was estimated that 11 units could be constructed. Eight units, including the two end units would be 2,576 square feet, while three interior units would be 2,508 square feet. While zoning would allow for construction of larger units, these unit sizes were more appropriate for the market and allowed additional greenspace at the rear of each unit. Each unit would feature two and one-half floors of living space and a two-car garage. Core and shell costs, based on Luxury standards, were estimated to be $103.86 psf for the larger interior units, $104.93 for the smaller interior units and $113.63 for the end units.[25] A 1.5% premium was added to achieve LEED Certified status.

b) **Financing:** It was assumed that the development of the Subject Property would be financed with private debt with a 65.0% loan-to-cost ratio (LTC). The mortgage would fund construction and be taken out by the sales of the individual units. The interest rate on the construction loan would be 3.8%, which is based on one-month LIBOR plus 350 basis points. The loan has a 65.0% maximum payoff sales ratio, which means that the loan must be paid off from sale proceeds when 65.0% of the units are sold.[26]

c) **Closing and Soft Costs:** Closing and soft costs were estimated to be $1.3M and include A&E fees, surveys, Arlington County fees (site plan, water and sewer, permits), payment and performance bonds, a Phase 1 environmental study, legal costs, title, financing fees, interest reserves and insurance. A $78.9K contribution to the Arlington Housing Investment Fund is made because affordable housing cannot be accommodated on-site or at another location. Finally, soft costs include a developer fee of 5.0% of total hard costs and a $200.0K soft cost contingency.

d) **Sales:** It was assumed that the units would be sold immediately upon completion. The sales price used is $338.52 psf, which is based on the only three sales of two-car garage townhomes in the vicinity of the Subject Property—the three comparables are 0.2 miles or

[25] RS Means 30th Annual Square Foot Costs.

[26] Conversations with BB&T Bank.

less from the Subject Property—to occur in the past year. It is worth noting that three additional townhomes with one-car or uncovered parking have also sold within the past year. Inclusions of these sales would actually increase the average price to $351.70 psf.

3. Timeline and Required Reviews

Alternative 5 assumes that the Subject Property will be rezoned to C-O-1.5 or RA8-18. The particular zoning for Alternative 5 is more flexible because the RA8-18 density requirements for townhomes would accommodate the target development. The developer should choose whichever zoning appears to have more favor from Arlington County and LVCA. The rezoning would be accompanied by a site plan submittal for the development. Based on conversations with Marc McCauley, Real Estate Director in Real Estate Development Group of Arlington Economic Development, this process is expected to take approximately 18 months. Demolition, site work and construction were estimated to last 12 months, meaning units would be ready for settlement by January 1, 2014.

4. Potential Risks and Possible Mitigation Strategies

Key risks in Alternative 1 are identified in the area of zoning. Though rezoning the property is consistent with the General Land Use Plan, there may be county or neighborhood resistance to the plan. Additionally, there may be neighborhood resistance to increasing density, despite the massing of the immediate adjacent property at 2602 Lee Highway, as the majority of Lyon Village is single-family homes.

5. Financial and Investment Analysis

Because the units will be sold immediately upon completion, an NPV analysis is not appropriate for Alternative 4. Instead, yield on cost (YOC) was examined to determine the return on the required equity investment. The YOC for Alternative 4 is 80.1%. The table below presents summary results of the financial analysis of Alternative 5. A detailed summary of the assumptions for this alternative is provided in Appendix D.

Table 17: Alternative 5 – For Sale Townhome Development

Alternative	Description	Yield on Cost	Initial Equity Required	Senior Loan	Total Investment
5	Townhomes	80.0%	$3,583,321	$6,654,600	$10,237,921

The positive YOC of Alternative 5 – For Sale Townhome Development can be attributed to the relatively low cost of construction and the increased living space afforded to each unit which allows for higher sales prices. To determine if Alternative 5 would not be financially viable at a higher construction cost, the construction cost was increased to the break-even point (YOC = 0.0%). This analysis yielded feasibility up to 50.4% increase in construction costs.

6. Alternative Evaluation and Summary

Alternative 5 – For Sale Townhome Development amounts to the development of a financially feasible asset. The negative NPV and inability to achieve greater returns through the reduction of the purchase price indicate that the highest and best use of the property is not achieved through Alternative 1.

VI. Conclusion: Review and Rationale

A. Side-By-Side Comparison

In the table below, results from the financial analysis are shown for each of the alternatives studied. The financial analysis includes the NPV or YOC calculation as appropriate.

Table 18: Financial Analysis of Five Alternatives

Alternative	Description	Initial Equity Required	Senior Loan	Total Investment	NPV ($) / YOC (%)
1	Backfill	$512,789	$952,200	$1,464,989	-$1,186,244
2	Affordable Apartments	$3,159,859*	$5,868,200	$9,028,059	-$4,710,140
3	Market Rate Apartments	$3,188,267	$5,921,100	$9,109,367	-$2,312,268
4	Condominiums	$3,735,722	$6,937,900	$10,673,622	-4.0%
5	Townhomes	$3,583,321	$6,654,600	$10,237,921	80.0%

* Due to 9.0% LIHTC, NPV analysis only considers return on $2,616,680 equity contribution

B. Recommendation and Rationale

The analysis of the alternatives reveals that only Alternative 5 – For Sale Townhome Development is financially viable given the current assumptions. As a result, Alternative 5 – For Sale Townhome Development would provide the greatest overall value to Buck & Associates. With a YOC of 80.0%, contains the fewest financial risks.

While this alternative provides the opportunity to maximize the value of the Subject Property, it is dependent on the ability to obtain the required rezoning approvals, and then successfully market the project to potential purchasers. BB&T noted that they offer a number of loan products that, along with the construction loan, can mitigate the latter risk.

VII. Appendices

Appendix A: Due Diligence Checklist

Real Property Due Diligence / Baseline Planning Information	Document Available	Document to be Obtained	Notes
I. Graphic Asset Information / Maps			
▪ Site plans and site surveys (including acreage totals)	✓		
▪ Building, roadway and utility location plans	✓		
▪ Satellite/Aerial photos of asset and surrounding area	✓		
▪ Topography, geology, and hydrology maps		✓	
▪ Flood plain map (USGS and/or FEMA maps)	✓		
▪ Environmental maps (wetlands, endangered habitat, vegetation, soil conditions)		✓	
II. Title Information / Legal Description / Asset Encumbrances			
▪ Title reports / abstracts / copy of deed / reversion rights		✓	
▪ Asset legal description (e.g., metes and bounds)		✓	
▪ Easements (utility lines, roads, other easements; drawings)	✓		
▪ Outleases, use permits and licenses		✓	
▪ Riparian, air, and mineral rights and description (if applicable)		✓	
III. Infrastructure			
▪ Utility connections and distribution system	✓		
▪ Road and improvements maps; transportation and circulation plan	✓		
▪ Utility maps	✓		
▪ Storm water maps	✓		
IV. Environmental Information			
▪ Environmental Impact Statement (EIS)		✓	
▪ Other environmental reports (i.e., Phase I Environmental Site Assessment, Phase II Environmental Site Assessment, etc.)		✓	
▪ National Environmental Policy Act (NEPA) reports		✓	
V. Other Pertinent Real Estate Information			
▪ Master Plan for the Subject Asset	✓		
▪ Real Property Appraisals		✓	
▪ Estimate of real estate taxes	✓		
VI. Cultural/Historic/Archeological Resource Considerations			
▪ Historical/cultural management initiative		✓	
▪ Historical building documentation to date	✓		
▪ National Register listed or eligible historic districts, buildings, structures	✓		Not listed, not eligible
▪ Maps of any historic areas	✓		Not listed, not eligible

Real Property Due Diligence / Baseline Planning Information	Document Available	Document to be Obtained	Notes
▪ Indian burial grounds or other archaeological sites	✓		None present
VII. External Development Factors			
▪ City/county master development plan	✓		
▪ Zoning codes	✓		
▪ Applicable correspondence with local jurisdictions (town, country, state)	✓		
VIII. Building / Improvements Inventory			
▪ List of active buildings with current uses	✓		
▪ Age / Year constructed		✓	
▪ Size of buildings (GSF, RSF, USF)		✓	
▪ Condition (Facility Condition Assessments / BER)	✓		
▪ Abatement		✓	
▪ Vacancy rate	✓		
▪ Parking	✓		
▪ Existing and anticipated repair and alterations liability		✓	

Appendix B: Financial Pro Formas

Alternative 1 – Backfill Existing Space As-Is

Executive Summary 2522 Lee Highway Proforma Version		
	SF	**RATE/SF**
Tenant	2,260	$36.15
Total Project Square Footage	2,260	*(Rentable)*
Total Project Cost	$1,464,989	
Project Cost Per SF	$648.23	
Loan	$952,200	
Amortization	30	years
Interest Rate	8.000%	
Financial Ratios		
Net Operating Income (NOI)	$15,237	*(year 1)*
Cap Rate	10.00%	
Project Value	$152,369	*(year 1)*
Loan to Value (LTV)	65.0%	*(year 1)*
Debt Coverage Ratio (DCR)	0.36	*(year 1)*
Year 1 Cash Flow	-$27,250	*(year 1)*
Year 1 Cash/Cash (BT)	-5%	*(year 1)*
Equity Requirement		
Total Equity Required	$512,789	
Number of Partners	1	
Equity Required Per Partner	$512,789	
Return on Equity (IRR)	#NUM!	

Building Assumptions	
Building Size	2,260 sf
Market Rent	$36.15
Avg. Lease Term	5
TI New	$9.04
TI Renewal	$3.00
Commission New	6%
Commission Renewal	0%
Oper. Exp.	$18.08
Management Fee	3.00%
Avg.Rent Growth	2.00%
Expense Growth	2.50%
Renewal Probability	50.00%
Downtime	12
Vacancy/Credit Loss	10.00%
Reserves	$ 0.25

Tax Considerations	
Depreciable Cost	$1,100,000
Ordinary Income Tax Rate	35%
Capital Gains Tax Rate	15%
Depreciation Period (Yrs.)	39.5

Tenant Assumptions					
	Size	Mkt. Rent	Occupancy	Lease Begin	Rental Esc.
Tenant	2,260 sf	$36.15	Vacant	7/1/2011	2.00%

Value Assumptions	
Residual Cap Rate	10.00%
Direct Cap Rate	10.00%
Cost of Sale	3.00%

Preliminary Budget Estimate	
PROJECT:	**2522 Lee Highway**
USES	
Building	$1,375,000
Sitework	$1,000
Tenant TI (2,260sf @ $9.04/sf)	$20,430
Leasing Commissions	$23,059
Legal - Owner	$7,500
Legal-Tenant's Leases	$7,500
Legal - Settlement	$0
Legal - Other	$1,000
Title	$4,500
Financing Fees	$15,000
Flood & Liab. Insuaranc	$5,000
Other Settlement & Rec. Cost	$5,000
Total	$1,464,989
SOURCES	
Senior Loan	$952,200
Equity	$512,789
Total	$1,464,989

2522 Lee Highway **Renewal Probability Schedule**			
	Rate	Probability	Blended
Tenant Improvements:			
New Lease	$9.04	50.00%	$4.52
Lease Renewal	$3.00	50.00%	$1.50
Total Blended TI			$6.02
Leasing Commission:			
New Lease	6.00%	50.00%	3.00%
Lease Renewal	0.00%	50.00%	0.00%
Total Blended Commission			3.00%
Downtime:			
New Lease	12	50.00%	6
Lease Renewal	0	50.00%	0
Blended Downtime (Rounded)			6

Alternative 1 – Backfill Existing Space As-Is (Continued)

2522 Lee Highway
Cash Flow Statement

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Income:											
Tenant	$40,850	$83,333	$85,000	$86,700	$88,434	$90,202	$92,006	$93,846	$95,723	$97,638	$99,591
Gross Income	$40,850	$83,333	$85,000	$86,700	$88,434	$90,202	$92,006	$93,846	$95,723	$97,638	$99,591
Vacancy/Credit Loss	$4,085	$8,333	$8,500	$8,670	$8,843	$9,020	$9,201	$9,385	$9,572	$9,764	$9,959
Effective Gross Inc.	**$36,765**	**$75,000**	**$76,500**	**$78,030**	**$79,590**	**$81,182**	**$82,806**	**$84,462**	**$86,151**	**$87,874**	**$89,632**
Expenses:											
Operating Expenses	$20,425	$41,871	$42,918	$43,990	$45,090	$46,217	$47,373	$48,557	$49,771	$51,015	$52,291
Management Fee	$1,103	$2,250	$2,295	$2,341	$2,388	$2,435	$2,484	$2,534	$2,585	$2,636	$2,689
Total Expenses	**$21,528**	**$44,121**	**$45,212**	**$46,331**	**$47,478**	**$48,653**	**$49,857**	**$51,091**	**$52,356**	**$53,652**	**$54,980**
Net Operating Income	**$15,237**	**$30,879**	**$31,287**	**$31,698**	**$32,112**	**$32,529**	**$32,949**	**$33,371**	**$33,795**	**$34,222**	**$34,652**
Loan Payments	$41,921	$83,843	$83,843	$83,843	$83,843	$83,843	$83,843	$83,843	$83,843	$83,843	$83,843
Down Time	$0	$0	$0	$0	$0	$16,265	$13,135	$0	$69,675	$69,675	$69,675
Tenant Improvements						$13,602	$28,710		$149,400		
Leasing Commissions						$14,364	$6,000		$33,000		
Reserves	$565	$565	$565	$565	$565	$565	$565	$565	$565	$565	$565
Cash Flow (Before Tax)	**($27,250)**	**($53,529)**	**($53,121)**	**($52,710)**	**($52,296)**	**($96,110)**	**($99,304)**	**($51,037)**	**($302,688)**	**($119,860)**	**($119,431)**
Taxes											
Net Operating Income	$15,237	$30,879	$31,287	$31,698	$32,112	$32,529	$32,949	$33,371	$33,795	$34,222	$34,652
- Depreciation Exp.	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848	$27,848
- Interest Exp.	$38,024	$75,565	$74,878	$74,134	$73,328	$72,455	$71,510	$70,487	$69,378	$68,177	#REF!
=Taxable Inc. or (Loss)	($50,635)	($72,534)	($71,439)	($70,284)	($69,064)	($67,774)	($66,410)	($64,964)	($63,431)	($61,803)	#REF!
Income Tax Owed	($17,722)	($25,387)	($25,004)	($24,599)	($24,172)	($23,721)	($23,243)	($22,737)	($22,201)	($21,631)	#REF!
After Tax Cash Flow Calculation											
Cash Flow BT	($27,250)	($53,529)	($53,121)	($52,710)	($52,296)	($96,110)	($99,304)	($51,037)	($302,688)	($119,860)	($119,431)
-Income Tax	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	#REF!
Cash Flow (After Tax)	**($27,250)**	**($53,529)**	**($53,121)**	**($52,710)**	**($52,296)**	**($96,110)**	**($99,304)**	**($51,037)**	**($302,688)**	**($119,860)**	**#REF!**
Property Value	$152,369	$308,790	$312,872	$316,983	$321,123	$325,291	$329,486	$333,707	$337,954	$342,224	$346,518
DCR	0.36	0.37	0.37	0.38	0.38	0.39	0.39	0.40	0.40	0.41	0.41

Alternative 1 – Backfill Existing Space As-Is (Continued)

10 Year NPV		Less Equity	NPV
NPV @ 10%	($673,454)	($512,789.32)	($1,186,244)
NPV @ 10.5%	($651,415)	($512,789.32)	($1,164,204)
NPV @ 11%	($630,302)	($512,789.32)	($1,143,091)
NPV @ 11.25%	($620,079)	($512,789.32)	($1,132,869)
NPV @ 11.5%	($610,072)	($512,789.32)	($1,122,861)
NPV @ 11.75%	($600,274)	($512,789.32)	($1,113,063)
NPV @ 12%	($590,681)	($512,789.32)	($1,103,470)

Alternative 2 – Affordable Multi-Family Development

Executive Summary 2522 Lee Highway Proforma Version		
	SF	**RATE/SF**
Total Project Square Footage	22,000	*(Rentable)*
Total Project Cost	$9,028,059	
Project Cost Per SF	$410.37	
Loan	$5,868,200	
Amortization	30	years
Interest Rate	5.000%	
Financial Ratios		
Net Operating Income (NOI)	$190,817	*(year 1)*
Cap Rate	8.00%	
Project Value	$2,385,219	*(year 1)*
Loan to Cost (LTC)	65.0%	*(year 1)*
Debt Coverage Ratio (DCR)	0.50	*(year 1)*
Year 1 Cash Flow	-$192,704	*(year 1)*
Year 1 Cash/Cash (BT)	-6%	*(year 1)*
Equity Requirement		
Total Equity Required	$3,159,859	
Number of Partners	1	
Equity Required Per Partner	$3,159,859	
Return on Equity (IRR)	#DIV/0!	

Tax Considerations	
Depreciable Cost	$3,869,735
Ordinary Income Tax Rate	35%
Capital Gains Tax Rate	15%
Depreciation Period (Yrs.)	39.5

Building Assumptions	
Building Size	22,000 sf
Market Rent	$14.52
Other Income	$0.93
Total OPEX	$4.38
Admin Expenses	$1.17
Heating Fuel (CA)	$0.16
Electric (CA)	$0.17
Water/Sewer	$0.45
Misc. OPEX	$0.55
Grounds & Maintenance	$0.62
Insurance	$0.25
Payroll & Taxes	$1.01
Property Taxes	$37,343
Management Fee	4.00%
Avg.Rent Growth	2.00%
Expense Growth	2.00%
Vacancy/Credit Loss	5.00%
Reserves	$0.25

Preliminary Budget Estimate	
PROJECT:	**2522 Lee Highway**
USES	
Hard Costs	$4,837,169
LEED Premium	$72,558
Soft Costs	$1,779,264
Acquisition Costs	$2,339,069
Total	$9,028,059
SOURCES	
Senior Loan	$5,868,200
Equity	$3,159,859
Total	$9,028,059

Value Assumptions	
Residual Cap Rate	8.00%
Direct Cap Rate	8.00%
Cost of Sale	3.00%

	Unit	**Price/Unit**	**Budget**
Hard Costs			
Site Work	SF	$27.27	$300,000
Core & Shell	SF	$136.61	$4,508,009
Furnishings	Apt	$1,215	$29,160
Basement	SF	$33.05	$0
TOTAL			**$4,837,169**
LEED Premium	1.5%	Total Hard Costs	**$72,558**
Soft Costs			
A&E Fees			$200,000
Civil Engineering & Survey			$50,000
Site Plan Submission Fee			$9,000
Water & Sewer Fees			$6,500
Building Permit/Site Permit			$20,000
Performance & Pmt. Bond			$50,000
Phase I Env. Study			$1,500
Soil Borings & Testing			$4,000
Sales and Marketing Expenses			$25,000
Legal - Owner			$7,500
Legal-Tenant Leases/Sales			$7,500
Legal - Settlement			$2,000
Appraisal			$5,000
Title			$4,500
Lender Plan Cost Review			$1,000
Flood & Liab. Insuaranc			$5,000
Other Settlement & Rec. Cost			$5,000
Lender Engineering Inspection			$2,500
Developer Fee	5.0%	Total Hard Costs	$245,486
Other Soft Costs			$800,000
Inspecting Engineer			$25,000
Soft Cost Contingency			$200,000
Interest Reserve			102,778
TOTAL			**$1,779,264**
Acquisition Costs			
Land			$2,075,000
Financing Fees	1.5%	Loan Value	$88,023
Closing Costs	3.0%	Loan Value	$176,046
TOTAL			**$2,339,069**
Total Project Costs			**$9,028,059**

Alternative 2 – Affordable Multi-Family Development (Continued)

2522 Lee Highway
Cash Flow Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income:											
Rental Income	$345,772	$352,688	$359,741	$366,936	$374,275	$381,760	$389,396	$397,183	$405,127	$413,230	$421,494
Other Income	$22,147	$22,589	$23,041	$23,502	$23,972	$24,452	$24,941	$25,439	$25,948	$26,467	$26,997
Gross Income	$367,919	$375,277	$382,783	$390,438	$398,247	$406,212	$414,336	$422,623	$431,075	$439,697	$448,491
Vacancy/Credit Loss	$18,396	$18,764	$19,139	$19,522	$19,912	$20,311	$20,717	$21,131	$21,554	$21,985	$22,425
Effective Gross Income	**$349,523**	**$356,513**	**$363,643**	**$370,916**	**$378,335**	**$385,901**	**$393,619**	**$401,492**	**$409,522**	**$417,712**	**$426,066**
Expenses:											
Operating Expenses	$104,303	$106,389	$108,517	$110,687	$112,901	$115,159	$117,462	$119,812	$122,208	$124,652	$127,145
RE Taxes	$40,421	$41,230	$42,054	$42,895	$43,753	$44,628	$45,521	$46,431	$47,360	$48,307	$49,273
Management Fee	$13,981	$14,261	$14,546	$14,837	$15,133	$15,436	$15,745	$16,060	$16,381	$16,708	$17,043
Total Expenses	**$158,705**	**$161,879**	**$165,117**	**$168,419**	**$171,788**	**$175,223**	**$178,728**	**$182,302**	**$185,949**	**$189,667**	**$193,461**
	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%
Net Operating Income	**$190,817**	**$194,634**	**$198,527**	**$202,497**	**$206,547**	**$210,678**	**$214,891**	**$219,189**	**$223,573**	**$228,045**	**$232,605**
Loan Payments	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021	$378,021
Reserves	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500
Cash Flow (Before Tax)	**($192,704)**	**($188,887)**	**($184,995)**	**($181,024)**	**($176,974)**	**($172,843)**	**($168,630)**	**($164,332)**	**($159,948)**	**($155,477)**	**($150,916)**
Taxes											
Net Operating Income	$190,817	$194,634	$198,527	$202,497	$206,547	$210,678	$214,891	$219,189	$223,573	$228,045	$232,605
- Depreciation Exp.	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968
- Interest Exp.	$291,444	$287,014	$282,358	$277,464	$272,319	$266,911	$261,227	$255,251	$248,970	$242,368	$0
=Taxable Inc. or (Loss)	($198,594)	($190,348)	($181,800)	($172,935)	($163,740)	($154,201)	($144,303)	($134,030)	($123,365)	($112,291)	$134,637
Income Tax Owed	($69,508)	($66,622)	($63,630)	($60,527)	($57,309)	($53,970)	($50,506)	($46,910)	($43,178)	($39,302)	$47,123
After Tax Cash Flow Calculation											
Cash Flow BT	($192,704)	($188,887)	($184,995)	($181,024)	($176,974)	($172,843)	($168,630)	($164,332)	($159,948)	($155,477)	($150,916)
-Income Tax	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$47,123
Cash Flow (After Tax)	**($192,704)**	**($188,887)**	**($184,995)**	**($181,024)**	**($176,974)**	**($172,843)**	**($168,630)**	**($164,332)**	**($159,948)**	**($155,477)**	**($198,039)**
Property Value	$2,385,219	$2,432,923	$2,481,581	$2,531,213	$2,581,837	$2,633,474	$2,686,143	$2,739,866	$2,794,664	$2,850,557	$2,907,568
DCR	0.50	0.51	0.53	0.54	0.55	0.56	0.57	0.58	0.59	0.60	0.62

Alternative 2 – Affordable Multi-Family Development (Continued)

10 Year NPV		**Less Equity**	**NPV**
NPV @ 8%	($2,093,461)	($2,616,680)	($4,710,140)
NPV @ 8.5%	($2,027,273)	($2,616,680)	($4,643,952)
NPV @ 9%	($1,963,945)	($2,616,680)	($4,580,624)
NPV @ 9.25%	($1,933,308)	($2,616,680)	($4,549,988)
NPV @ 9.5%	($1,903,333)	($2,616,680)	($4,520,013)
NPV @ 9.75%	($1,874,003)	($2,616,680)	($4,490,683)
NPV @ 10%	($1,845,303)	($2,616,680)	($4,461,982)

Alternative 3 – Market Rate Multi-Family Development

Executive Summary

2522 Lee Highway
Proforma Version

	SF	RATE/SF
Total Project Square Footage	22,000	*(Rentable)*
Total Project Cost	$9,109,367	
Project Cost Per SF	$414.06	
Loan	$5,921,100	
Amortization	30	years
Interest Rate	5.000%	
Financial Ratios		
Net Operating Income (NOI)	$430,583	*(year 1)*
Cap Rate	8.00%	
Project Value	$5,382,291	*(year 1)*
Loan to Cost (LTC)	65.0%	*(year 1)*
Debt Coverage Ratio (DCR)	1.13	*(year 1)*
Year 1 Cash Flow	$43,654	*(year 1)*
Year 1 Cash/Cash (BT)	1%	*(year 1)*
Equity Requirement		
Total Equity Required	$3,188,267	
Number of Partners	1	
Equity Required Per Partner	$3,188,267	
Return on Equity (IRR)	-5%	

Building Assumptions

Building Size	22,000 sf
Market Rent	$25.56
Other Income	$0.93
Total OPEX	$4.38
Admin Expenses	$1.17
Heating Fuel (CA)	$0.16
Electric (CA)	$0.17
Water/Sewer	$0.45
Misc. OPEX	$0.55
Grounds & Maintenance	$0.62
Insurance	$0.25
Payroll & Taxes	$1.01
Property Taxes	$37,343
Management Fee	4.00%
Avg.Rent Growth	2.00%
Expense Growth	2.00%
Vacancy/Credit Loss	5.00%
Reserves	$0.25

Preliminary Budget Estimate

PROJECT:	2522 Lee Highway
USES	
Hard Costs	$4,837,169
LEED Premium	$72,558
Soft Costs	$1,858,192
Acquisition Costs	$2,341,450
Total	$9,109,367
SOURCES	
Senior Loan	$5,921,100
Equity	$3,188,267
Total	$9,109,367

	Unit	Price/Unit	Budget
Hard Costs			
Site Work	SF	$27.27	$300,000
Core & Shell	SF	$136.61	$4,508,009
Furnishings	Apt	$1,215	$29,160
Basement	SF	$33.05	$0
TOTAL			**$4,837,169**
LEED Premium	1.5%	Total Hard Costs	**$72,558**
Soft Costs			
AHIF Contribution			$78,928
A&E Fees			$200,000
Civil Engineering & Survey			$50,000
Site Plan Submission Fee			$9,000
Water & Sewer Fees			$6,500
Building Permit/Site Permit			$20,000
Performance & Pmt. Bond			$50,000
Phase I Env. Study			$1,500
Soil Borings & Testing			$4,000
Sales and Marketing Expenses			$25,000
Legal - Owner			$7,500
Legal-Tenant Leases/Sales			$7,500
Legal - Settlement			$2,000
Appraisal			$5,000
Title			$4,500
Lender Plan Cost Review			$1,000
Flood & Liab. Insuaranc			$5,000
Other Settlement & Rec. Cost			$5,000
Lender Engineering Inspection			$2,500
Developer Fee	5.0%	Total Hard Costs	$245,486
Other Soft Costs			$800,000
Inspecting Engineer			$25,000
Soft Cost Contingency			$200,000
Interest Reserve			$102,778
TOTAL			**$1,858,192**
Acquisition Costs			
Land			$2,075,000
Financing Fees	1.5%	Loan Value	$88,817
Closing Costs	3.0%	Loan Value	$177,633
TOTAL			**$2,341,450**
Total Project Costs			**$9,109,367**

Tax Considerations

Depreciable Cost	$3,869,735
Ordinary Income Tax Rate	35%
Capital Gains Tax Rate	15%
Depreciation Period (Yrs.)	39.5

Value Assumptions

Residual Cap Rate	8.00%
Direct Cap Rate	8.00%
Cost of Sale	3.00%

Alternative 3 – Market Rate Multi-Family Development (Continued)

2522 Lee Highway
Cash Flow Statement

	2014	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*
Income:											
Rental Income	$608,673	$620,847	$633,264	$645,929	$658,848	$672,024	$685,465	$699,174	$713,158	$727,421	$741,969
Other Income	$22,147	$22,589	$23,041	$23,502	$23,972	$24,452	$24,941	$25,439	$25,948	$26,467	$26,997
Gross Income	$630,820	$643,436	$656,305	$669,431	$682,820	$696,476	$710,406	$724,614	$739,106	$753,888	$768,966
Vacancy/Credit Loss	$31,541	$32,172	$32,815	$33,472	$34,141	$34,824	$35,520	$36,231	$36,955	$37,694	$38,448
Effective Gross Income	**$599,279**	**$611,264**	**$623,490**	**$635,959**	**$648,679**	**$661,652**	**$674,885**	**$688,383**	**$702,151**	**$716,194**	**$730,518**
Expenses:											
Operating Expenses	$104,303	$106,389	$108,517	$110,687	$112,901	$115,159	$117,462	$119,812	$122,208	$124,652	$127,145
RE Taxes	$40,421	$41,230	$42,054	$42,895	$43,753	$44,628	$45,521	$46,431	$47,360	$48,307	$49,273
Management Fee	$23,971	$24,451	$24,940	$25,438	$25,947	$26,466	$26,995	$27,535	$28,086	$28,648	$29,221
Total Expenses	**$168,696**	**$172,069**	**$175,511**	**$179,021**	**$182,601**	**$186,253**	**$189,979**	**$193,778**	**$197,654**	**$201,607**	**$205,639**
	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%	28.1%
Net Operating Income	**$430,583**	**$439,195**	**$447,979**	**$456,938**	**$466,077**	**$475,399**	**$484,907**	**$494,605**	**$504,497**	**$514,587**	**$524,879**
Loan Payments	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429	$381,429
Reserves	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500	$5,500
Cash Flow (Before Tax)	**$43,654**	**$52,266**	**$61,050**	**$70,009**	**$79,148**	**$88,470**	**$97,978**	**$107,676**	**$117,568**	**$127,658**	**$137,950**
Taxes											
Net Operating Income	$430,583	$439,195	$447,979	$456,938	$466,077	$475,399	$484,907	$494,605	$504,497	$514,587	$524,879
- Depreciation Exp.	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968	$97,968
- Interest Exp.	$294,071	$289,602	$284,904	$279,965	$274,774	$269,317	$263,582	$257,552	$251,215	$244,553	$0
=Taxable Inc. or (Loss)	$38,544	$51,625	$65,107	$79,005	$93,335	$108,113	$123,357	$139,085	$155,314	$172,066	$426,911
Income Tax Owed	$13,490	$18,069	$22,788	$27,652	$32,667	$37,840	$43,175	$48,680	$54,360	$60,223	$149,419
After Tax Cash Flow Calculation											
Cash Flow BT	$43,654	$52,266	$61,050	$70,009	$79,148	$88,470	$97,978	$107,676	$117,568	$127,658	$137,950
-Income Tax	$13,490	$18,069	$22,788	$27,652	$32,667	$37,840	$43,175	$48,680	$54,360	$60,223	$149,419
Cash Flow (After Tax)	**$30,164**	**$34,197**	**$38,262**	**$42,358**	**$46,481**	**$50,630**	**$54,803**	**$58,996**	**$63,208**	**$67,435**	**($11,469)**
Property Value	$5,382,291	$5,489,937	$5,599,736	$5,711,731	$5,825,965	$5,942,485	$6,061,334	$6,182,561	$6,306,212	$6,432,336	$6,560,983
DCR	1.13	1.15	1.17	1.20	1.22	1.25	1.27	1.30	1.32	1.35	1.38

Alternative 3 – Market Rate Multi-Family Development (Continued)

10 Year NPV		**Less Equity**	**NPV**
NPV @ 10%	$875,999	($3,188,267)	($2,312,268)
NPV @ 10.5%	$842,754	($3,188,267)	($2,345,513)
NPV @ 11%	$811,032	($3,188,267)	($2,377,236)
NPV @ 11.25%	$795,717	($3,188,267)	($2,392,550)
NPV @ 11.5%	$780,755	($3,188,267)	($2,407,513)
NPV @ 11.75%	$766,135	($3,188,267)	($2,422,133)
NPV @ 12%	$751,849	($3,188,267)	($2,436,419)

Alternative 4– For Sale Condominium Development

	Unit	Price/Unit	Budget	
Hard Costs				
Site Work	SF	$29.09	$320,000	
Core & Shell	SF	$136.61	$4,508,009	
Furnishings	Apt	$1,215	$29,160	
Basement	SF	$33.05	$0	
TOTAL			**$6,191,282**	127.5%
LEED Premium	1.5%	Total Hard Costs	**$92,869**	
Soft Costs				
AHIF Contribution			$78,928	
A&E Fees			$200,000	
Civil Engineering & Survey			$50,000	
Site Plan Submission Fee			$9,000	
Water & Sewer Fees			$6,500	
Building Permit/Site Permit			$20,000	
Performance & Pmt. Bond			$50,000	
Phase I Env. Study			$1,500	
Soil Borings & Testing			$4,000	
Sales and Marketing Expenses			$25,000	
Legal - Owner			$7,500	
Legal-Tenant Leases/Sales			$7,500	
Legal - Settlement			$2,000	
Appraisal			$5,000	
Title			$4,500	
Lender Plan Cost Review			$1,000	
Flood & Liab. Insuaranc			$5,000	
Other Settlement & Rec. Cost			$5,000	
Lender Engineering Inspection			$2,500	
Developer Fee	5.0%	Total Hard Costs	$314,208	
Other Soft Costs			$800,000	
Inspecting Engineer			$25,000	
Soft Cost Contingency			$250,000	
Interest Reserve			128,130	
TOTAL			**$2,002,265**	
Acquisition Costs				
Land			$2,075,000	
Financing Fees	1.5%	Loan Value	$104,069	
Closing Costs	3.0%	Loan Value	$208,137	
TOTAL			**$2,387,206**	
Total Project Costs			**$10,673,622**	

Preliminary Budget Estimate	
PROJECT:	**2522 Lee Highway**
USES	
Hard Costs	$6,191,282
LEED Premium	$92,869
Soft Costs	$2,002,265
Acquisition Costs	$2,387,206
Total	$10,673,622
SOURCES	
Senior Loan	$6,937,900
Equity	$3,735,722
Total	$10,673,622

Sale Price (sf)	$478.43
Total Sales	$10,525,361
Less Cost	($10,673,622)
Net Proceeds	($148,261)
Equity	$3,735,722
Yield on Cost	-4.0%

Alternative 5 – For Sale Townhome Development

	Unit	Price/Unit	Budget
Hard Costs			
Site Work & Demo	SF	$29.09	$320,000
Units			$3,494,901
End Units	SF	$113.63	$585,423
Interior Units - Larger	SF	$103.86	$1,605,193
Interior Units - Smaller	SF	$104.93	$789,518
Furnishing/Modifications	Unit	$46,797.00	$514,767
TOTAL			**$3,814,901**
LEED Premium	1.5%	Total Hard Costs	**$57,224**
Soft Costs			
AHIF Contribution			$78,928
A&E Fees			$200,000
Civil Engineering & Survey			$50,000
Site Plan Submission Fee			$9,000
Water & Sewer Fees			$6,500
Building Permit/Site Permit			$20,000
Performance & Pmt. Bond			$50,000
Phase I Env. Study			$1,500
Soil Borings & Testing			$4,000
Sales and Marketing Expenses			$25,000
Legal - Owner			$7,500
Legal-Tenant Leases/Sales			$7,500
Legal - Settlement			$2,000
Appraisal			$5,000
Title			$4,500
Lender Plan Cost Review			$1,000
Flood & Liab. Insuaranc			$5,000
Other Settlement & Rec. Cost			$5,000
Lender Engineering Inspection			$2,500
Leasing/Sales Commissions			$300,000
Developer Fee	5.0%	Total Hard Costs	$193,606
Soft Cost Contingency			$200,000
Interest Reserve			95,038
TOTAL			**$1,273,572**
Acquisition Costs			
Land			$2,075,000
Financing Fees	1.5%	Loan Value	$72,524
Closing Costs	3.0%	Loan Value	$145,047
TOTAL			**$2,292,571**
Total Project Costs			**$7,438,267**

Preliminary Budget Estimate	
PROJECT:	**2522 Lee Highway**
USES	
Hard Costs	$3,814,901
LEED Premium	$57,224
Soft Costs	$1,273,572
Acquisition Costs	$2,292,571
Total	$7,438,267
SOURCES	
Senior Loan	$4,834,900
Equity	$2,603,367
Total	$7,438,267

Sale Price (sf)	$338.52
Total Sales	$9,523,338
Less Cost	($7,438,267)
Net Proceeds	$2,085,071
Equity	$2,603,367
Yield on Cost	80.1%

Appendix C: References

[1] CoStar Traffic Report

[2] Washington Metropolitan Area Transit Authority. http://wmata.com/pdfs/bus/VA.pdf

[3] FEMA Flood Insurance Rate Map (FIRM), Panel 39 of 100. http://www.rampp-team.com/county_maps/virginia/arlington/51013C0039C.pdf

[4] Arlingtonians for a Clean Environment Community Wildlife Habitats Registration Form (http://www.arlingtonenvironment.org/programs/wildlifehabitat/registration.htm)

[5] Section 26 of the Arlington County Zoning Ordinance.

[6] Arlington County Department of Community Planning, Housing and Development (DCPHD). http://www.arlingtonva.us/departments/CPHD/planning/docs/CPHDPlanningDocsGLUP_metrocorridors.aspx

[7] Arlington County Zoning Ordinance Sections 26, 31, 32 and 33

[8] Arlington County Department of Community Planning, Housing and Development. http://www.arlingtonva.us/departments/CPHD/planning/applications/use_permit/CPHDPlanningApplicationsUse_permitDefine.aspx#ucmud

[9] Arlington County Zoning Ordinance Section 23A. "C-O-1.5" Commercial Office Building, Hotel and Apartment Districts

[10] Arlington County Zoning Ordinance Sections 13, 23A, 26, 31, 32 and 33

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