# 7960 Clark Road
# Jessup, MD

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# 7960 Clark Road

## Table of Contents


1.) Executive Summary

2.) Site Selection and Market Analysis

3.) Land Use and Public Policy

4.) Site Planning and Building Design

5.) Design and Construction Management Control

6.) Financial Analysis

7.) Market Strategy / Leasing

8.) Development Strategy

9.) References

# Executive Summary

## *Site Selection*

7960 Clark Road, Jessup, Maryland (the "Subject Property") was selected as the proposed development site because of the Property's strategic location and flexible zoning. The Subject Site is a 13 acre parcel, located at the northeast quadrant of the intersection of Baltimore-Washington Parkway (I-295) and Maryland Route 175. The property is located within one mile of Fort George G. Meade, one of the largest military bases in the United States. Fort Meade is home to the National Security Agency and it is slated to add approximately 25,000 new jobs by 2011 due to the Base Realignment and Closure (BRAC) initiative. As such, the site presents an opportunity for development that will capitalize on the expanding economy spurred by the BRAC legislation. Other major economic drivers feeding into the rapidly expanding local economy include the Baltimore-Washington International Thurgood Marshall Airport and the Arundel Mills Mall. Following the site selection a development plan, including an analysis for each aspect of the development process, was formulated.

## *Highest and Best Use Analysis*

The Subject Site is currently unimproved and is zoned C-4 (Anne Arundel County), which allows for a wide variety of commercial uses, including office and retail. Additionally, the site has the potential to be up-zoned to MXD-T (Mixed-Use Transit), which would increase the permitted density and allow for residential uses on the site. Based upon the wide variety of uses allowed by the existing zoning and possibility of up-zoning to the site, the development plan that follows entails a detailed analysis of what use or combinations of uses will generate the highest and best use to take advantage of the expanding local economy. It was originally thought that a high-density/mixed-use development would yield the highest and best use. However, the available market data and detailed supply and demand analysis that follow, coupled with an analysis of the zoning and public land use policies, reveal that the highest and best use of the site is a retail development.

## *Site Valuation and Financial Analysis*

Following the highest and best use analysis, the development plan outlines a determination as to the density of the proposed development, conceptual site layout, and conceptual building design. The resulting development program consists of 185,000 gross square feet of retail buildings on 4.25 acres of land and a surface parking lot with 925 spaces on approximately 6.90 acres of land.

Subsequent to formulating the development program a detailed financial analysis was conducted, along with strategies for marketing and financing the project. The financial analysis indicates that the proposed development is a viable project in the current market. The following summarizes the critical points of the financial analysis and the investment structure:

## Development Budget

| | | PSF | % of Total Cost |
|---|---|---|---|
| **Land Acquisition** | $5,600,000 | $9.62 | 15.71% |
| **Total Hard Costs** | $22,532,800 | $121.80 | 63.23% |
| **Total Soft Costs** | $7,504,000 | $40.56 | 21.06% |
| **Total Project Costs** | $35,636,800 | $192.63 | |

## Source and Uses

| Sources | | | | Uses | |
|---|---|---|---|---|---|
| Developer Equity | $500,000 | 1% | | Land Acquisition | $5,600,000 |
| Equity Partner | $11,973,000 | 34% | | Hard Costs | $22,532,800 |
| Debt | $23,163,800 | 65% | | Soft Costs | $5,054,000 |
| | | | | Interest Carry | $1,450,000 |
| | | | | Development Fee | $1,000,000 |
| **Total** | **$35,636,800** | | | **Total** | **$35,636,800** |

## Debt Placement

| Proposed Construction Debt | |
|---|---|
| Loan Amount | $23,163,800 |
| Loan to Cost | 65% |
| Term | 30 months;<br>1 option to extend 12 months |
| Interest Rate | LIBOR + 350<br>Current indicative rate of 4.90% |
| Fee | 1%; 1/2% for extension |
| Recourse | Full Recourse |

## Equity Structure

| Equity Investments | |
|---|---|
| Developer | $500,000 |
| Equity Partner | $11,973,000 |
| **Total Equity Investment** | **$12,473,000** |
| | |
| Preferred Return to Partner | 12% |
| Investment Horizon | 4 years |
| Split | 75% |
| Projected IRR | 19% |
| Projected Multiple | 2 times |
| | |
| Preferred Return to Developer | 12% |
| Investment Horizon | 4 years |
| Split | 25% |
| Projected IRR | 62% |
| Projected Multiple | 8 times |

## Financial Performance

| | | |
|---|---|---|
| Total Project Cost | $35,636,800 | $192.63 psf |
| Gross Potential Income | $4,260,000 | $23.03 psf |
| Year One Net Operating Income | $3,980,000 | $21.51 psf |
| Capitalization Rate | 9% | |
| Value at Stabilization | $44,222,222 | $239.04 psf |
| Return on Cost | 24% | |

The current economic conditions and state of the capital markets are poor, and there is little enthusiasm in the marketplace for new commercial real estate development. This development is being proposed in a manner that makes it viable in the current market, despite these overall weak conditions. The development, as presented, is marketable, financeable, and provides return ratios to the equity investors at a level that the market currently requires.

# Site Selection and Market Analysis

## *Location Overview*

The Subject Property is 7960 Clark Road, Jessup, Maryland, located at the northeast quadrant of the intersection of the Baltimore-Washington Parkway (I-295) and Maryland Route 175. The site is bound by Maryland Route 175 on the south, the Baltimore-Washington Parkway (I-295) on the west, Arundel Preserve (a 268-acre mixed-use community on the north), and Clark Road on the east. The property has approximately 900 feet of contiguous frontage along Clark Road and linear frontage on Maryland Route 175, as well as excellent visibility from the Baltimore-Washington Parkway. The Subject Property is centrally located within the heart of the Baltimore-Washington Corridor. It is approximately 10 miles south of Baltimore, 18 miles north of Washington, D.C., and 5 miles east of Columbia.

Jessup, Maryland is located in the northeast quadrant of Anne Arundel County in an area that has been referred to as Anne Arundel County's "Gold Coast." The area is currently experiencing rapid growth and development as the economy is fueled by nearby Fort George G. Meade, The National

Security Agency, BWI Thurgood Marshall Airport and the Arundel Mills Mall. The "Gold Coast" has become a center of defense and security technology development. The Subject Property's development potential stems from its proximity to Fort George G. Meade, which is the home to the National Security Agency (NSA) and is one of the largest military bases in the United States. The site is less than one mile from Fort Meade and the NSA, which have entrance gates on both the Baltimore-Washington Parkway and Maryland Route 175.

The Subject Property consists of approximately 13.36 acres and is minimally improved by the remnants of a single-story hotel known as the Parkway Inn. The hotel has been demolished; however, some asphalt parking surface and driveways remain.

## *Market Analysis*

Anne Arundel County, Maryland

Anne Arundel County is situated in central Maryland and is bordered by the Chesapeake Bay on the east, Baltimore County on the north, Howard County and Prince Georges' County to the west, and Calvert County to the south. Anne Arundel County is centrally located and equidistant to Baltimore and Washington, D.C. Amenities and characteristics that define Anne Arundel County include the Maryland State Capital (in Annapolis), Fort George G. Meade, and The Baltimore-Washington International Thurgood Marshall Airport (BWI). Fort George G. Meade is one of the largest military bases in the United States, home to the National Security Agency, and is one of the nation's premier defense, intelligence and technology centers. BWI is the fastest growing airport in the region and it hosts a number of international and domestic carriers. Fort Meade and BWI are considered to be the main economic drivers of Anne Arundel County.

Demographic data from the Maryland Department of Planning and the U.S. Bureau of the Census show that the total population in Anne Arundel County has grown since 1990. From 1990 to 2000 the total population grew nearly 15% and it is projected to continue growing by another 8% from 2000 to 2010. The total population growth was experienced across nearly all age groups; however, projections show that population growth will be negative in the 20-44 age group. This population set is projected to shrink from 188,407 in 2000 to 178,040 in 2010. It is thought that the negative growth in this population set is part of an overall national trend and due to differing generation sizes. Despite this shrinking subset of the labor force, the overall labor force (population over 16 yrs of age) is expected to continue growing. The data shows that population grew by 4% from 2000 to 2005 and it is projected to grow at a similar pace during the remainder of this decade.

Total households are experiencing growth similar to that of the total population. Total households grew nearly 20% from 1990 to 2000 and the projection is that households will grow another 8% by 2010. The average household size is declining, which is a national trend.

Per capita income and household income have been rising in Anne Arundel County. The 1990 census figures showed per capita income at $28,303 and household income (mean) at $52,176. These figures rose to $36,464 and $74,100, respectively, in 2000. According to data obtained from the Anne Arundel Economic Development Corporation the income growth was driven by an increase in the number

of households earning more than $100,000 annually. There was a 215% increase in the number of households earning between $100,000 and $150,000 and a 306% increase in the number of households earning in excess of $150,0000 annually. Income on a per capita basis and on a household basis is projected to continue increasing during the remainder of this decade. The growth in incomes will be the result of a continued shift in the concentration of earners from lower income brackets to higher income brackets.

In addition to wage/earnings growth, Anne Arundel County has also experienced growth in the number of jobs. According to data from the U.S. Bureau of Economic Analysis (BEA), the County had 251,726 jobs in 1990 and 297,317 in 2000 (an 18% increase). Projected totals for 2005 and 2010 are 346,900 and 378,900 respectively. The 16.7% growth in jobs from 2000 to 2005 is largely attributed to increases in government/military positions at Ft. Meade following September 11, 2001. Additional growth from 2005 to 2010 is projected based upon Ft. Meade being a "net gainer" of jobs following the 2005 Base Realignment and Closure (BRAC) Actions. Current estimates place the direct, indirect, and induced jobs being created in Anne Arundel County in conjunction with BRAC, in the range of 9,000 to 14,000 jobs through the next six plus years, and it must be noted that a significant percentage of them are in high technology and pay extremely well.

Anne Arundel County's economic base is heavily reliant upon government and government enterprises as employers, primarily at the federal level. Over 30% of the wages earned in 2000 were from the government and government enterprises. The Anne Arundel County Economic Development Corporation indicates that the largest employer in the County is Fort Meade, which is an Army Military Base and home to the National Security Agency (NSA). Data obtained from the Maryland State Data Center show that there has been significant growth in this sector following the terrorist attacks on September 11, 2001. Government wages grew nearly 13% from 2001 to 2002 and from 2001 to 2005 wages grew 28.5% in the government sector. Other areas that experienced growth during the period from 2000 to 2005 include professional and technical services (this includes some government contractors), health care, and retail trade.

According to the Anne Arundel County Economic Development Corporation, the BWI area (which includes Ft. Meade), located in the northwest section of the County, is a hub of commercial and industrial development supporting 50% of all jobs and 57% of all companies in the County. Based on data obtained on commuting characteristics of Anne Arundel County residents, nearly 60% of the residents work within Anne Arundel County and nearly 75% of the residents had a commute of 35 minutes or less. Therefore, it is assumed that much of the employee base is local to Anne Arundel County and is within a thirty-minute commute of the BWI submarket.

Due to the concentration of government/military jobs at Ft. Meade, BRAC will undoubtedly be the largest influence to the economic base of Anne Arundel County in the near future. Based upon the demographic data as presented, it appears that Anne Arundel County will continue to experience growth in population and households. The continued growth in total household coupled with a shrinking household size, will support growth in the residential market. Furthermore, as the size of the average household decreases, i the demand for smaller product types (townhomes, condominiums, and apartments) will grow. The growth in population and households will also support the commercial real estate market. As retailers generally focus on household income figures when determining whether to expand or enter into a market, the growth in income should work in concert with the growth in the number of households to support future retail development. The effects of BRAC and the related job growth should generally drive demand in the office space market too. Additionally, assuming that workers will generally maintain the characteristic of living local to their jobs, the future job growth should also be a demand driver for local housing and retail amenities.

## BRAC & Fort Meade

Anne Arundel County is host to Fort George G. Meade, the home of NSA and a major gainer to the BRAC 2005 decision. Through the BRAC process, Fort Meade will be the site for the relocation and consolidation of several Department of Defense (DOD) organizations. The BRAC process is scheduled to be complete by September of 2011. Science Applications International Corporation prepared a report in 2006 for the Maryland Department of Business and Economic Development - Office of Military and Federal Affairs. According to the report, as a result of the BRAC Initiative, 5,695 direct jobs will be consolidated to Fort George G. Meade from around the country. The report states that the relocating organizations include the Defense Information Systems Agency (DISA), Defense Media Publications (DMA), and the Adjudication and Office of Hearing and Appeals Offices. A summary of the impact these relocating organizations will have is presented as follows:

| **Defense Information Systems Agency (DISA)** |
|---|
| * 4,272 direct jobs relocating from Northern Virginia<br>Military – 340 jobs<br>Federal Civilians - 2,493 jobs<br>Embedded Contractors - 1,439 jobs<br>* Building a $370 million, 1.1 million square foot facility; Phase I under construction and due to be completed in October of 2010; total project to be completed in February 2011. |

| Defense Media Publications (DMA) |
| --- |
| * 663 direct jobs relocating from Virginia, DC, and Texas<br>Military – 217 jobs<br>Federal Civilians - 314 jobs<br>Direct Contractors – 132 jobs<br>* A $61 million, 186,000 square foot facility to begin construction in 2009 with completion expected early 2010. |

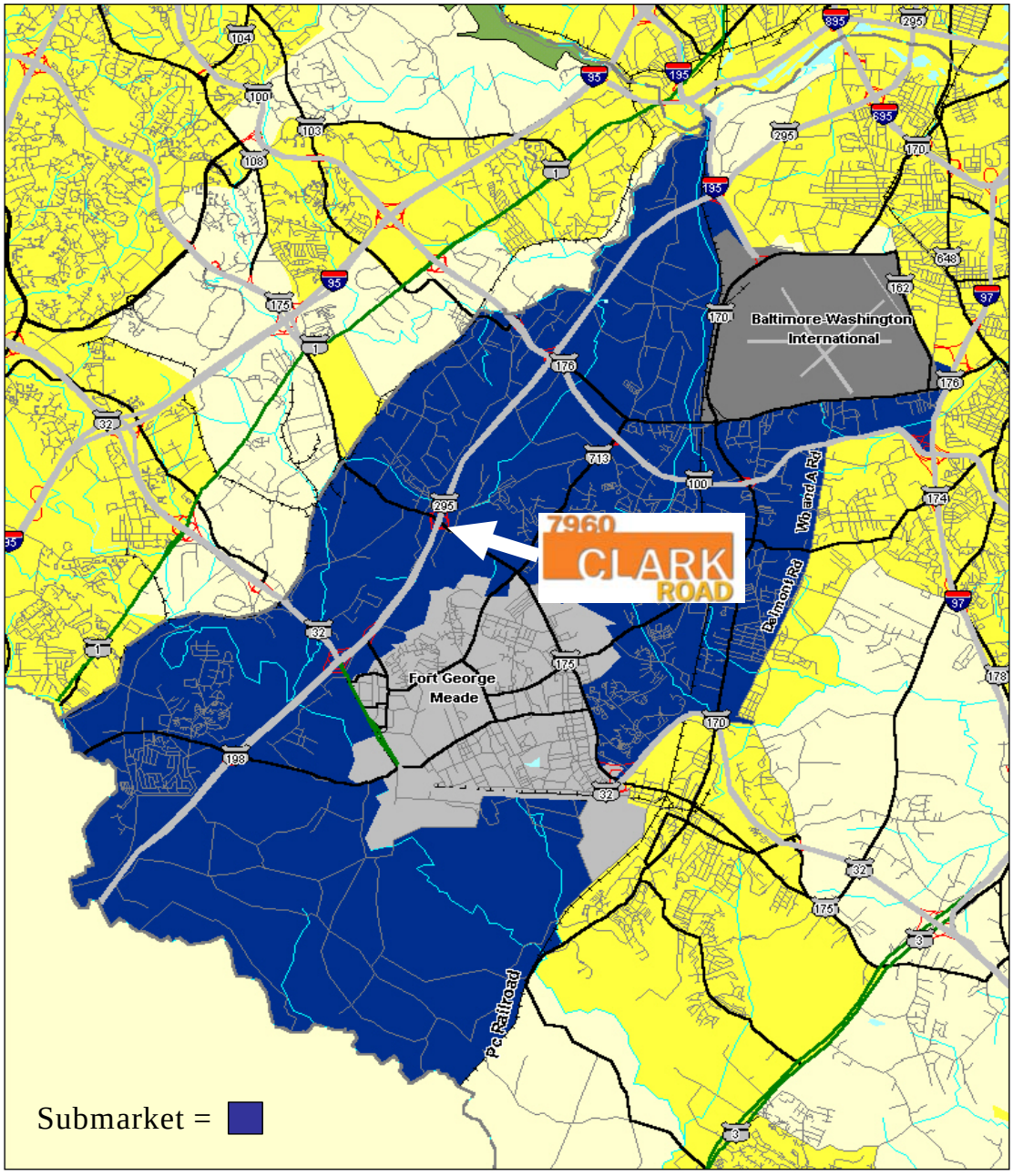
| The Adjudication and Office of Hearing and Appeals Offices |
| --- |
| * 760 direct jobs relocating from California, Ohio, Virginia, Massachusetts, and Arizona.<br>* A $52 million, 152,000 square foot facility to begin construction in 2009 with completion expected early 2011. |

| Other Department of Defense Growth Expected by 2015 |
| --- |
| * Fort Meade - 2,000 jobs (approximate)<br>* National Security Agency - 4,000 jobs (approximate)<br>* Enhanced Use Leasing - 10,000 jobs (approximate)<br>* 1.5 million square feet of Class A and secured office space in a campus setting to attract private sector contractors supporting DISA; construction will begin in 2009. |

## BWI/Anne Arundel County Submarket

The BWI/Anne Arundel County submarket is situated in the northwest quadrant of Anne Arundel County and serves as the County's largest employment center. It is home to Fort Mead, the NSA, Arundel Mills Mall and BWI Thurgood Marshall Airport. The submarket is bound by the Anne Arundel/Howard County line to the west, Belmont Road to the east, BWI to the north and the Anne Arundel/Prince George's County line to the south.

### BWI / Anne Arundel Submarket Map



## *Office Submarket*

The BWI/Anne Arundel submarket is comprised of approximately 4.7 million square feet of office space. The submarket's primary office cluster is located along Route 295 just outside of Fort Meade. The National Business Park, developed by Corporate Office Properties Trust (COPT), is located at the northwest quadrant of the intersection of I-295 and Route 32. This 2.5 million square foot office park accounts for over half of the submarket's office inventory and is currently 97% occupied. Tenants within the National Business Park include companies that cater to the defense sector and the NSA, such as Lockheed Martin, Computer Sciences Corporation, Booz Allen Hamilton, and IBM. Smaller clusters of office space exist in business parks located around the Arundel Mills Mall and BWI.

Submarket Statistics

| | | | | | |
|---|---|---|---|---|---|
| # Buildings: | 75 | % Vacant: | 19.50% | YTD Net Absorption: | 198,147 |
| RBA: | 4,723,102 | % Leased: | 83.40% | YTD Leasing Activity: | 97,734 |
| Avg Age (yrs): | 16.5 | % Available: | 24.60% | YTD Deliveries: | 3 |

(Source CoStar, Inc. 10/08)

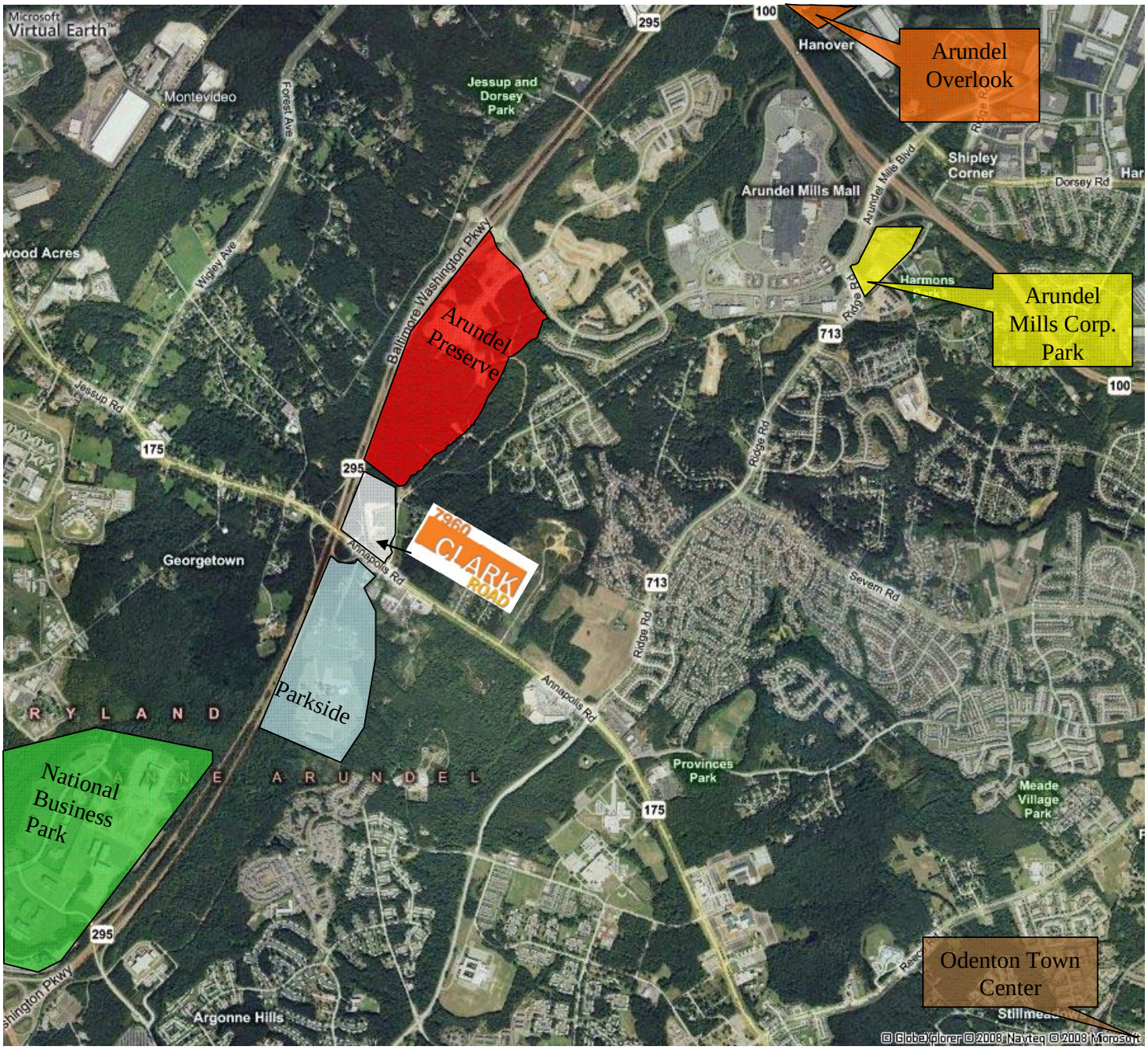
Current Asking Rental Rates

| | Direct | | | Sublet | | |
|---|---|---|---|---|---|---|
| **Asking Rent** | **# Spaces** | **Avg** | **Range** | **# Spaces** | **Avg** | **Range** |
| Full Service Gross | 30 | $28.89 | $21.00-$32.00 | 4 | $28.86 | $25.00-$39.00 |
| Modified Gross | 7 | $22.30 | $4.20-$27.00 | 0 | - | - |
| Negotiable | 99 | $22.72 | $12.50-$26.00 | 2 | - | - |
| Net | 7 | $30.00 | $30.00 | 0 | - | - |
| Plus All Utilities | 11 | $26.01 | $16.50-$27.50 | 0 | - | - |
| Plus Cleaning | 0 | - | - | 1 | $29.00 | $29.00 |
| Plus Electric | 5 | $22.94 | $17.00-$23.50 | 0 | - | - |
| TBD | 28 | - | - | 0 | - | - |
| Triple Net | 8 | $19.81 | $15.00-$42.00 | 0 | - | - |

(Source CoStar, Inc. 10/08)

Development Pipeline

The development pipeline for office product within the submarket consists of several projects that have recently delivered space, projects under construction/development, and projects that are still in the planning phase. The pipeline includes the following six projects:




1.) National Business Park – A 285-acre business park located at the intersection of I-295 and Route 32. The park was developed in several phases by Corporate Office Properties Trust and now consists of approximately 2.3 million square feet of office space. The final building within the park is now under construction. 300 Sentinel Drive is an 185,000 square foot building that is expected to deliver in late 2009 or early 2010.

2.) Arundel Preserve – A 268-acre mixed-use community that is located at the intersection of I-295 and Arundel Mills Boulevard. The development will be delivered in phases over 10 years. Corporate Office Properties Trust will develop the office component of the community, which is expected to consist of 2 million square feet of space. COPT delivered the first building in the spring of 2008, and the 155,000 square foot facility is now available for occupancy. COPT is currently marketing building #2 (155,000 square feet) and building #3 (150,000 square feet).

3.) Arundel Mills Corporate Park – A 20-acre mixed-used commercial office park located on Arundel Mills Boulevard as part of the Arundel Mills Mall Development. The project consists of 300,000 square feet of office space in two buildings. Building #1 was completed in 2005, totals 150,000 square feet and is currently 73% leased. Building #2 is 153,000 square feet and is currently under construction. This building is currently 45% preleased.

4.) Arundel Overlook – A 68-acre project comprised of 313,000 square feet of office/flex space in eight buildings developed by St. John Properties. Arundel Overlook is located near the intersection of Route 100 and the Baltimore-Washington Parkway (I-295). Construction is complete on four buildings totaling 159,480 square feet and the occupancy level in these buildings is 46%. Construction on building #5 is underway and is expected to deliver in late 2008 or early 2009.

5.) Parkside – A 244-acre development by Classic Community Corporation located in the southeast quadrant of the intersection of the Baltimore-Washington Parkway (I-295) and Route 175. Columbia-based Classic and the builder, Northern Virginia-based NVR, INC, are planning Parkside primarily as a residential community. It calls for 80% residential development, which equates to approximately 1,000 townhouse, condo and single-family units, with 15% office and 5% retail. This project is in planning and currently calls for approximately 410,000 square feet of office space. Groundbreaking is projected to occur in late 2009.

6.) Odenton Town Center – A 128-acre mixed-use development located at the northeast corner of Route 32 and Route 175 in Odenton, Maryland. Odenton Town Center's campus setting will provide over 3,500,000 square feet of high-tech office space while also providing affordable residential and prime retail type space in close proximity.

Existing Supply – Competitive Set

National Business Park – A 285-acre business park located at the intersection of I-295 and Route 32. The park was developed in several phases by Corporate Office Properties Trust and now consists of approximately 2.3 million square feet of office space. Occupancy within the park is over 95% with average rental rates ranging from $30-$35 per square foot (full service).

Arundel Preserve – A 268-acre mixed-use community that is located at the intersection of I-295 and Arundel Mills Boulevard. The development will be delivered in phases over 10 years. Corporate Office Properties Trust will develop the office component of the community, which is expected to consist of 2-million square feet of space. Corporate Office Properties Trust delivered the first building, located at 7740 Milestone Parkway, in the spring of 2008. The Class A facility is five stories and totals 153,000 square feet.

Arundel Mills Corporate Park – As noted above, the project consists of 300,000 square feet of office space in two buildings. Building #1 was completed in 2005, totals 150,000 square feet and is currently 73% leased. Building #2 is 153,000 square feet and is currently under construction. This building is currently 45% preleased. According to local office brokers asking rents within the Arundel Mills Corporate Park are currently averaging $28.50 per square foot.

Arundel Overlook – As noted previously, Arundel Overlook is located near the intersection of Route 100 and the Baltimore-Washington Parkway (I-295). The existing inventory within Arundel Overlook is comprised of four buildings totaling 159,480 square feet and the occupancy level in these buildings is 46%.

## *Retail Submarket*

The BWI/Anne Arundel submarket is comprised of approximately 3.4 million square feet of retail space. The 1.3 million square foot super-regional outlet mall Arundel Mills dominates the retail market. The mall is located at the intersection of the Baltimore-Washington Parkway (I-295) and Maryland Route 100. The mall features tenants such as Bass Pro Shops, Best Buy, Modell's, Burlington Coat Factory, and Dave & Buster's. Additionally, the mall contains a Muvico Egyptian 24 Theater that is consistently one of the country's highest grossing boxes offices, with an estimated three million tickets sold annually. There are several big box power centers and a grocery anchored strip center surrounding the mall that

make up an additional 516,500 square feet of space. Thus, the Arundel Mills center comprises nearly two million square feet or 60% of the submarket.

Submarket Statistics

| | | | | | |
|---|---|---|---|---|---|
| # Buildings: | 62 | % Vacant: | 3.60% | YTD Net Absorption: | 31,903 |
| RBA: | 3,387,884 | % Leased: | 96.60% | YTD Leasing Activity: | 7,851 |
| Avg Age (yrs): | 23.6 | % Available: | 4.40% | YTD Deliveries: | 3 |

(Source CoStar, Inc. 10/08)

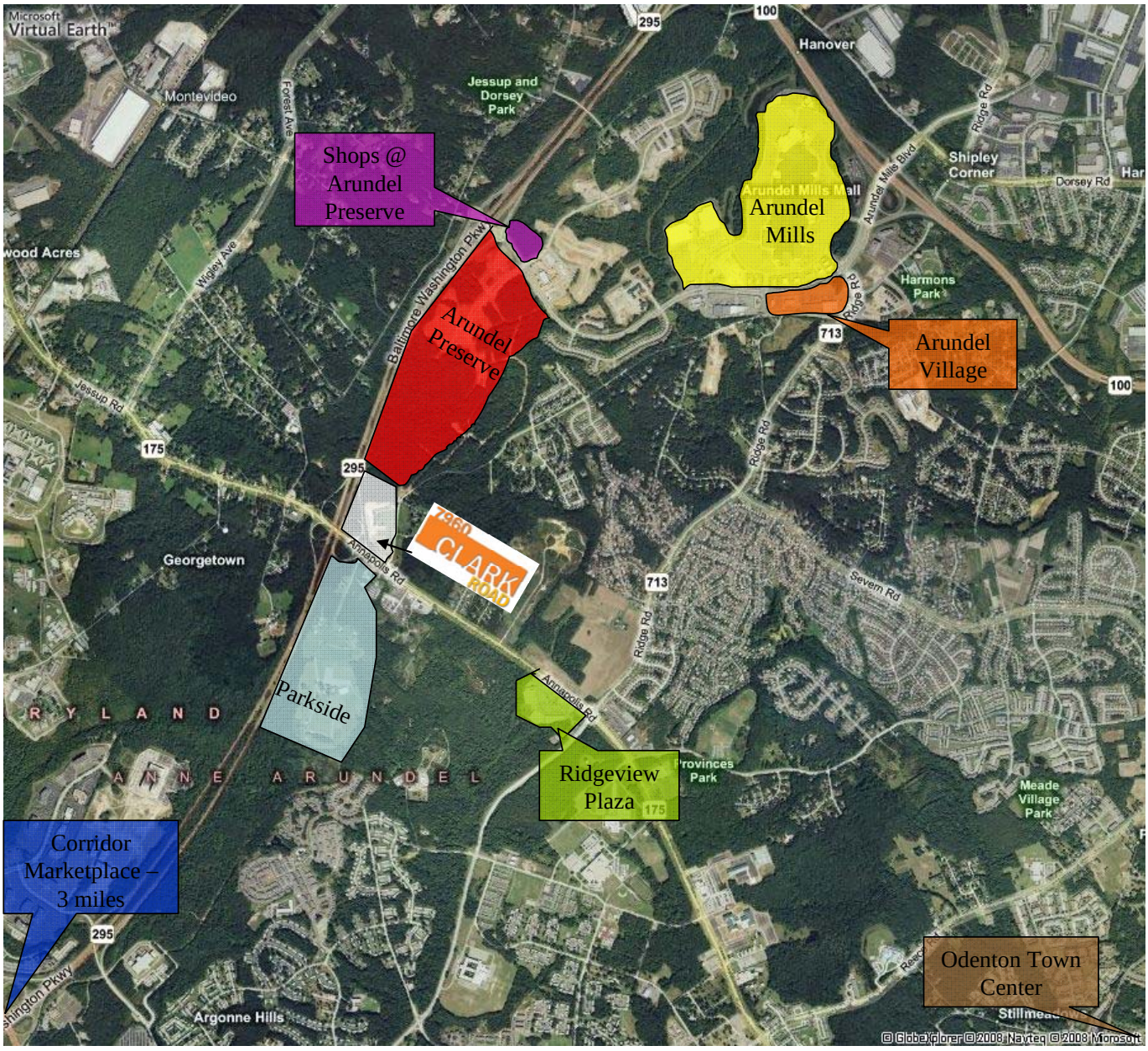
Current Asking Rental Rates

| | Direct | | | Sublet | | |
|---|---|---|---|---|---|---|
| Asking Rent | # Spaces | Avg | Range | # Spaces | Avg | Range |
| Negotiable | 14 | $25.00 | $25.00 | 0 | - | - |
| Triple Net | 16 | $16.15 | $12.50-$28.00 | 0 | - | - |

(Source CoStar, Inc. 10/08)

## Development Pipeline

The development pipeline for retail product within the submarket consists of a limited number of projects that have recently delivered space and projects that are still in the planning phase. The pipeline includes the following projects:




1.) Arundel Preserve – A 268-acre mixed-use community that is located at the intersection of I-295 and Arundel Mills Boulevard. The development will be delivered in phases over 10 years.

2.) Parkside – A 244-acre development by Classic Community Corporation located in the southeast quadrant of the intersection of the Baltimore-Washington Parkway (I-295) and Route 175. This project is in planning and currently calls for approximately 135,000 square feet of retail space. Groundbreaking is projected to occur in late 2009.

3.) Odenton Town Center – A 128-acre mixed-use development located at the northeast corner of Route 32 and Route 175 in Odenton, Maryland. Odenton Town Center's campus setting will provide over 3,500,000 square feet of high-tech office space while also providing affordable residential and prime retail type space in close proximity.

Existing Supply – Competitive Set

The existing supply of retail space within the submarket varies greatly in age, condition, quality, and size. The following properties are deemed to be the most competitive and relevant retail centers within the submarket:

1.) Arundel Mills Mall - As noted previously, the Arundel Mills Mall is the main factor within the market. Until 2007, the 1.3 million square foot mall was the largest mall in Maryland. The mall is currently at full occupancy and features a total of 17 anchor tenants and over 225 specialty retailers.

2.) Arundel Village – Arundel Village is an 86,000 square foot Safeway Grocery anchored retail center located adjacent to the Arundel Mills Mall campus. The center was built in 2004 and is currently 100% leased.

3.) Shops at Arundel Preserve - The Shops at Arundel Preserve is a 21,200 square foot retail development located at the intersection of Baltimore Washington Parkway (I-295) and Arundel Mills Boulevard and is a part of the Arundel Preserve Development. Construction of this center was completed in 2008 and the center is currently 86% leased. Rental rates range from $25 per square foot to $55 per square foot on a triple-net basis.

4.) Corridor Marketplace – Corridor Marketplace is a big box power center located at the intersection of Route 198 and the Baltimore Washington Parkway (I-295). Tenants at the 370,000 square foot center include Weiss, Target, Kohls, The Party Store, Corridor Fine Wine Superstore, and Sports Authority. The center also has about 10,000 square feet of ancillary space that is currently 100%

leased. Corridor Marketplace is located at an intersection that is shared with the Russett Green Walmart & Sams Club Center. While these are two distinct projects, many shoppers and retailers view the two projects as one.

5.) Ridgeview Plaza – Ridgeview Plaza is located on Route 175 at the intersection with Rockenbach Road. It is a 162,000 square foot neighborhood center anchored by Food Lion. The center is currently 54% leased. In recent years several large tenants including CVS and an antique mall vacated a large component of the center. Because it was built in 1986, the center may have some functional obsolescence.

## *Highest and Best Uses / Demand Analysis*

Based upon the existing C-4 zoning designation, the Subject Property can be developed to support a variety of uses including office and retail space. Furthermore, if the site were up-zoned to the MXD-T designation the development would include a residential component. Therefore, the highest and best use analysis includes a demand analysis for each of these property classes (i.e., retail, office, and residential).

## *Retail Demand Analysis*

The following analysis uses consumer spending data obtained from CoStar and sales productivity figures from the International Council of Shopping Centers (ICSC) to estimate the future demand for retail space within the Subject Property's BWI/Anne Arundel submarket. The analysis indicates that based upon actual 2007 spending data, the local market supports approximately 3.2 million square feet of retail space. Based upon projected spending data for 2012, the market is projected to support approximately 4.2 million square feet representing an increase in demand for approximately 1 million square feet during the next five years. When factoring in the existing inventory and vacancy, the analysis below indicates that the market will support the development of roughly 884,000 square feet of new retail space during the next five years (or 177,000 square feet annually).

**Retail Demand Analysis**

*5 mile Radius (in thousands, except PSF & SF Data)*

| | 2007 | | 2012 | |
|---|---|---|---|---|
| Total Consumer Spending | $3,139,300 | | | |
| Average Household Income | $87,655 | | | |
| **Groceries & Convenience** | | | | |
| Groceries (Food @ Home) | $163,247 | 5.20% | $192,393 | 6.13% |
| Reading Material (50%) | $11,848 | 0.38% | $14,016 | 0.45% |
| Prescription Drugs | $87,562 | 2.79% | $155,842 | 4.96% |
| Medical Supplies (50%) | $3,543 | 0.11% | $4,774 | 0.15% |
| Total Alcoholic Bev @ Home | $45,764 | 1.46% | $60,448 | 1.93% |
| **Total Groceries & Conv.** | **$311,964** | **9.94%** | **$427,473** | **13.62%** |
| **Sales Productivity Requirement** | **$450 psf** | | **$450 psf** | |
| **Total Sq. Footage Supported** | **693 sf** | | **950 sf** | |
| **GAFO** | | | | |
| Apparel | $268,925 | 8.57% | $339,397 | 10.81% |
| Furniture & Appliances | $134,910 | 4.30% | $180,469 | 5.75% |
| Electronic Equipment | $106,829 | 3.40% | $146,961 | 4.68% |
| Reading Material (50%) | $11,848 | 0.38% | $14,016 | 0.45% |
| Photographic Equipment | $2,590 | 0.08% | $2,882 | 0.09% |
| Medical Supplies (50%) | $3,543 | 0.11% | $4,774 | 0.15% |
| **Total GAFO** | **$528,645** | **16.84%** | **$688,499** | **21.93%** |
| **Sales Productivity Requirement** | **$285 psf** | | **$285 psf** | |
| **Total Sq. Footage Supported** | **1,855 sf** | | **2,416 sf** | |
| **Eating & Drinking Places** | | | | |
| Food Away From Home | $221,768 | 7.06% | $291,159 | 9.27% |
| Total Alcoholic Bev away | $22,843 | 0.73% | $28,282 | 0.90% |
| **Total Eating & Drinking Places** | **$244,611** | **7.79%** | **$319,441** | **10.18%** |
| **Sales Productivity Requirement** | **$375 psf** | | **$375 psf** | |
| **Total Sq. Footage Supported** | **652 sf** | | **852 sf** | |
| Total Retail Square Footage Supported | 3,200 sf | | 4,218 sf | |
| Growth In Retail SF Supported | 1,017 sf | | | |
| Less | | | | |
| Existing Vacant Space | 148 sf | | | |
| Plus | | | | |
| 5% Frictional Vacancy | 7 sf | | | |
| 5% Replacement Vacancy | 7 sf | | | |
| Total Demand New Space | 884 sf | | | |

## *Office Demand Analysis*

The following analysis shows historical and projected employment data for Anne Arundel County. The historical data was obtained from the U.S. Bureau of Economic Analysis (US BEA) while the current data and projected figures were obtained from the Maryland Department of Planning (MDP). Based upon the MDP projections, total employment in Anne Arundel County is estimated to grow by approximately 10,000 new jobs. The analysis assumes that 75% of all jobs require office space, that the each office worker creates demand for 300 square feet of office space, and that the BWI/Anne Arundel submarket will capture 45% of the job growth. While this capture rate may appear high, it is expected that BRAC and job growth at Ft. Meade will be the dominant driver of job growth within the County during the next several years. Based upon these assumptions, the submarket supports roughly 1.3 million square feet of new office development. The analysis shows that this demand can be absorbed by the existing inventory and the space currently under construction. The market and future demand for office space does not currently support additional development.

Office Demand Analysis

| | **U.S. BEA 1990** | **U.S. BEA 2000** | **MDP 2005** | **MDP 2008** | **MDP 2010** |
|---|---|---|---|---|---|
| Anne Arundel County Employment | 251,726 | 297,317 | 346,400 | 365,444 | 378,900 |
| Total Nonfarm Employment | 251,068 | 296,801 | 345,933 | 364,750 | 378,180 |
| % Nonfarm to Total Employment [1] | 99.74% | 99.83% | 99.87% | 99.81% | 99.81% |
| % Of Nonfarm Employment using office | 75% | 75% | 75% | 75% | 75% |
| Total office using Employees | 188,301 | 222,601 | 259,450 | 273,563 | 283,635 |

| | |
|---|---|
| Total Employment Growth 2008-2010 | 10,073 |
| Average SF Per Employee | 300 |
| Total Gross Market Demand | 3,021,778 |
| Submarket Capture Assumption | 45% |
| Total Submarket Gross Demand | 1,359,800 |
| Less | |
| Existing Vacant Space | 922,671 |
| Plus | |
| 5% Frictional Vacancy | 46,134 |
| 5% Replacement Vacancy | 46,134 |
| Total Demand New Space | 529,396 |
| Under Construction / in Pipeline | 585,000 |
| Market Surplus | (55,604) |

## *Residential Demand Analysis*

The analysis below shows historical and projected household data for Anne Arundel County and the Baltimore region. The historical data was obtained from the U.S. Bureau of Economic Analysis (U.S. BEA) while the current data and projected figures were obtained from Maryland Department of Planning (MDP). As the table demonstrates, Anne Arundel County typically accounts for roughly 19% of the households within the Baltimore MSA. Based upon the MDP projections, the number of households in Anne Arundel County is estimated to grow by approximately 11,525 during the period from 2005 to 2010.

| | U.S. BEA 1990 | % Of Total | U.S. BEA 2000 | % Of Total | MDP 2005 | % Of Total | MDP 2010 | % Of Total |
|---|---|---|---|---|---|---|---|---|
| **BALTIMORE REGION** | **867,656** | **100%** | **958,756** | **100%** | **1,001,500** | **100%** | **1,060,950** | **100%** |
| Anne Arundel County | 149,114 | 17% | 178,670 | 19% | 189,925 | 19% | 201,450 | 19% |
| Baltimore County | 268,280 | 31% | 299,877 | 31% | 312,500 | 31% | 327,575 | 31% |
| Carroll County | 42,248 | 5% | 52,503 | 5% | 58,500 | 6% | 64,675 | 6% |
| Harford County | 63,193 | 7% | 79,667 | 8% | 87,125 | 9% | 97,000 | 9% |
| Howard County | 68,337 | 8% | 90,043 | 9% | 97,625 | 10% | 107,400 | 10% |
| Baltimore City | 276,484 | 32% | 257,996 | 27% | 255,825 | 26% | 262,850 | 25% |

New housing construction data was obtained from the MDP for the period from 2005 through 2007. Assuming that 100% of these units have been absorbed, and based upon the future household growth, the future demand for housing in Anne Arundel County through 2010 totals approximately 5,785 housing units. According to the 2000 Census, the homeownership rate within Anne Arundel County is 75%. Therefore, the assumption is made that 25% of the housing demand will be for multifamily rental product. The resulting annual demand for multifamily housing within Anne Arundel County totals 472 units.

| | |
|---|---|
| Household Growth 2005 - 2010 | 11,525 |
| Less New Housing Units Constructed | |
| 2005 Calendar Year | 2,495 |
| 2006 Calendar Year | 1,414 |
| 2007 Calendar Year | 1,831 |
| Units needed 2008 -2010 | 5,785 |
| Annual Need for Anne Arundel County | 1,928 |
| Propensity to Rent (based on 2000 Census) | 25% |
| Annual Need for Multifamily Product | 472 |

## *Conclusion:*

Based upon the market supply and demand dynamics outlined above, a development program that contains an office component would not be successful. While there is future growth in demand for office space, the development community appears to have met this demand with the existing and proposed office development pipeline. In fact, the analysis hints towards overbuilding within this sector.

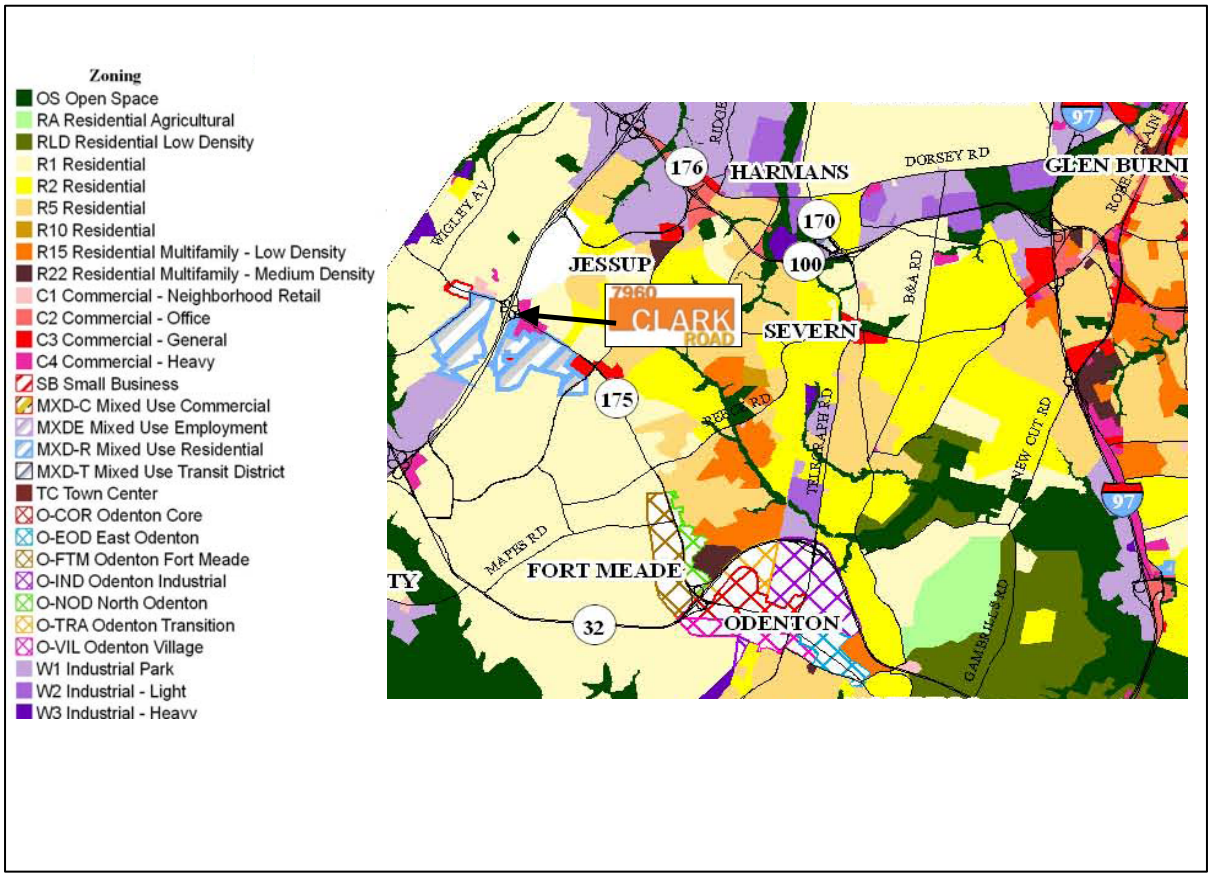
Similarly, the demand for residential product within Anne Arundel County is expected to grow and remain strong; however, there is a substantial amount of single family and multifamily development in the planning stages and currently under development. The demand analysis does not trend toward any pent up market demand, so the success of residential development at the Subject Property is highly dependent upon the product arriving on the market prior to the competition. Thus, the success of delivering residential product to the market prior to the competition is highly dependent upon the entitlement process and the timing of the competition's development.

The demand and supply balance is most favorable within the retail sector. The retail demand analysis is based upon historical spending data and recent macroeconomic data trends toward a slowing in the spending data. Therefore, the demand analysis above may be somewhat misleading; however, based upon the low vacancy rates and projected job growth within the submarket, it is expected that retail demand will continue to be strong enough to support a retail development at the Subject Property.

# Land Use and Public Policy

## *Existing Zoning Analysis:*

A review of the local zoning map indicates that the Subject Property currently carries the C-4 zoning designation. The C-4 designation is rare within Anne Arundel County and the Subject Property is one of only twenty-one parcels larger than 12 acres with C-4 zoning within the county. This zoning designation is generally intended for larger scale auto-oriented retail and service businesses along or near major traffic routes that serve local and regional residents as well as the traveling public.



Based upon the bulk regulations outlined in the following table, the Subject Property's C-4 zoning classification allows for up to 581,960 square feet of gross building space (13.36 acres at a 1.0 FAR).

| C-4 Zoning | | |
|---|---|---|
| | **Bulk Regulations** | **Subject Property Actual** |
| Minimum Lot Size | 10,000 square feet | 582,152 square feet |
| Minimum Lot Depth | 150 feet | 287.50 feet |
| Maximum Floor Area Ratio | 1.0 | 582,152 square feet |
| Maximum Lot Coverage by Structures and Parking | 85% | 85% |
| Maximum Building Height | 60 feet | 60 feet |
| Minimum Setbacks (for principal structure) | | |
| Front lot Line | 20 feet | |
| Rear lot Line | 20 feet | |
| All lot lines | 60 feet from right-of-way line of a divided principal arterial road | |
| Minimum Setbacks (for accessory structure) | | |
| Front lot Line | 20 feet | |
| Rear lot Line | 20 feet | |
| All lot lines | 60 feet from right-of-way line of a divided principal arterial road | |
| Rear Service Area | Accessible by a 15-foot wide unobstructed right-of-way | |

## *Zoning Amendment Analysis:*

Donnie Gross, a principal of Potomac Holdings, LLC, the current owner of the Subject Property, indicated that the site has "up-zoning potential." Gross and Mike Fox, a representative of the Anne Arundel County Planning and Zoning Department, have both indicated that the site could be up-zoned from C-4 to MXD-T (Mixed-Used Transit). This zoning designation is designed to promote the mixing of residential, commercial and industrial uses in varying proportions. The mixing of uses is optional and where the mixing of uses has been pursued, more intense development has been approved. Generally, the minimum site area is 10 acres. Based upon the bulk regulations outlined in the table below, if the Subject Property was up-zoned to the MXD-T zoning classification, it would support a 1,163,920 square foot mixed use development (13.36 acres at a 2.0 FAR).

| **Bulk Regulations** | |
|---|---|
| Maximum residential net density | 22 units / acre |
| Maximum floor area ratio | 2.0 |
| Maximum building height | 150 feet |

| **Category of Use** | **Percentage Proportion of FAR** |
|---|---|
| Residential | 30% - 70% |
| Retail & Service | 10% - 35% |
| Office | 10% - 40% |
| Industrial | 0% |
| Open area<br>(% of gross area of site) | 20% minimum |
| Public activity area<br>(% of gross area of site) | 20% minimum |

There are two methods of rezoning property in Anne Arundel County. The first option is to submit an application for rezoning to the Zoning Division of the Office of Planning and Zoning. The Zoning Division of the Office of Planning and Zoning will then review the application and various agencies provide a written report with comments that formulate its findings and recommendations to the Administrative Hearing Officer. A public hearing is held and the Administrative Hearing Officer will render a decision within 30 days of the hearing. Rezoning is granted or denied in accordance with the appropriate zoning regulations, but a rezoning may not be granted except on the basis of an affirmative finding that there was a mistake on the zoning map or the character of the neighborhood has changed to such an extent that the zoning map should be changed. This is generally referred to as the "change or mistake" clause. During interviews with county zoning officials and zoning attorneys with Linowes &

Blocher, it was revealed that zoning change requests under the change or mistake clause are typically denied. It is very difficult for zoning attorneys to argue that there was a mistake in the preparation of the zoning map because the comprehensive zoning process is so lengthy and involves significant public involvement. Similarly, attorney's and property owners rarely convince the Hearing Officer that the immediate vicinity surrounding the property have changed so dramatically that the zoning map should be amended without going through the comprehensive zoning process. Brad Kotz, principal with Seneca Properties, Inc., confirmed the challenges of obtaining a zoning change through the change or mistake clause. Despite having the support of local community groups, Seneca Properties, Inc. was recently denied for a rezoning request through this process on a 44-acre parcel located in the same submarket as the Subject Property. As such, this is not the appropriate process for rezoning the Subject Property.

The second, and more compatible, method of rezoning property in Anne Arundel County is through the Comprehensive Zoning Process. This is the desired method of rezoning the Subject Property. This process is generally tied to the General Development Plan Process. Anne Arundel County's General Development Plan, or GDP, is a comprehensive land use plan prepared in compliance with Ssate requirements and guidelines. The GDP is a policy document that is formally adopted by the County Council. It establishes policies and recommendations to guide land use decisions over the 10 to 20 year planning horizon. The GDP is used by the County in making decisions about growth and development, land preservation, resource protection, and the provision of infrastructure and services. Recognizing the unique character of Anne Arundel County's different communities, the General Development Plan divided the County into 16 small planning areas and recommended that a separate, more detailed land-use plan be completed for each. These Small Area Plans serve as a guide for land use, zoning, transportation improvements, open space and other capital improvements and identify opportunities for commercial revitalization and, where appropriate, mixed-use development. The Small Area Plan, includes a recommended zoning map, and property owners or others interested in the zoning process may request a change in the zoning of their property or the property of others. Any property owner, community association or other interested party, whether a property owner or not, may request a change from the zoning of a property that is shown on the recommended zoning map. Upon completion of a General Development Plan or Small Area Plan, the County undertakes a process to bring zoning into compliance with any changes in land use. This process is known as Comprehensive Zoning.

An application for a zoning change through this Comprehensive Zoning process is submitted to the County and is reviewed by the county's planning staff. The planning staff then makes a recommendation to maintain or change the zoning and provides a written report to the Planning Advisory

Board, which conducts a public hearing to consider any changes to the Plan and recommended zoning map. The Planning Area Board also reviews the General Development Plan, Small Area Plans and various facility master plans such as the Solid Waste Master Plan and the Water and Sewer Master Plan. Recommendations by the Planning Area Board are made to the County Executive who then forwards the Plan to the County Council. The County Council conducts public hearings and adopts the Plan. Subsequent to adoption of the Plan, official zoning maps are prepared and submitted to the County Council. After the zoning maps are submitted to the County Council, Council members through an amendment process may consider requests for changes. Once the zoning maps and any amendments are adopted, they become the official zoning for that planning area.

The existing GDP dates back to 1997 and is currently being updated. Work on the 2008 GDP update began in July 2007 and will continue through 2008. A series of public forums are planned for December 2008 at which time preliminary findings and recommendations will be presented. Completion of a Final Draft Plan is targeted for January 2009. A county planning representative indicated that the window for petitioning for a zoning change/recommendation as part of the draft plan process has expired. Furthermore, the representative indicated that a petition requesting a zoning change for the Subject Property had not been filed and will likely not be a part of the Staff-prepared draft plan. Based on information obtained from the planning staff member, the current timeline for the comprehensive is estimated as follows:

- Draft plan complete in early 2009.
- Submitted to the Planning Advisory Board for approval in spring 2009
- Public hearing process complete
- Forward plan to county council for legislative process.
- Complete in late 2009 early 2010.

## *Conclusion:*

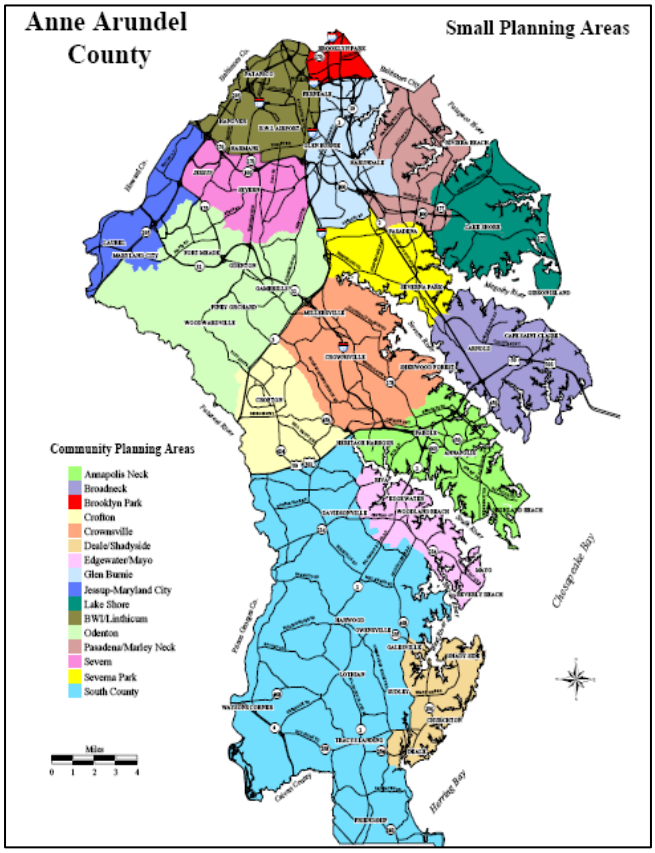
Anne Arundel County Planning Staff has indicated that the current property owner has not requested a zoning change through the comprehensive planning process. The period during which property owners were to make such a request has expired. As such, any request for a zoning change via the comprehensive planning process would need to be implemented after the existing comprehensive planning process is completed. As noted previously, the planning process that is currently underway is not likely to be complete until 2010, at which time an amendment request could then be submitted to the county. According to local zoning attorneys with Linowes and Blocher, a zoning change through this

amendment process involves significant public involvement and may consume as much as 24 months of time. The timing of this process was confirmed in an interview with Brett Griffith, Principal with Fortis Development. Fortis Development is currently working through the comprehensive rezoning process on a parcel located within the Subject Property's submarket along Maryland Route 175. Given these timeframes, a zoning change through this amendment process could not be complete until 2012 or even 2013. The soft costs associated with rezoning the property, including the cost of carrying the land, through such an extended timeframe make the process financially infeasible. Furthermore, the extended timeframe allows other projects that are already in the entitlement and development pipelines to deliver product to the market prior to a time in which product could be delivered at the Subject Property. As such, those projects are likely to capture a dominant portion of the existing demand. **In conclusion, based upon the market dynamics and the approval process outlined above, the added benefits of additional floor area ratio and the inclusion residential product in the development plan are not worth the costs and risks associated within the rezoning process.**

# Site Planning and Building Design

## *Small Area Plan Analysis and Zoning Requirements*

Recognizing the unique character of Anne Arundel County's different communities, the General Development Plan divided the County into 16 small planning areas and recommended that a separate, more detailed land-use plan be completed for each. These Small Area Plans serve as a guide for land use, zoning, transportation improvements, open space and other capital improvements and identify opportunities for commercial revitalization and, where appropriate, mixed-use development. The Subject Property lies within the Severn Small Area.




### General Recommendations

The Severn Small Area Plan addresses community history and character, land use, zoning, transportation, natural and historic resources, public utilities, community facilities, and community design. The Plan analyzes the existing conditions, establishes and makes recommendations for achieving these goals. The following is a summary of the recommendations made within the Plan that impact development on the Subject Property:

- The Plan recommends developers support the County's conservation efforts, in conjunction with the Forest Conservation Act, by planting more hardwood trees (e.g. oak, hickory, beech).
- The Plan recommends improvement of storm water management to reduce, and where possible, eliminate the negative environmental impacts of storm water runoff.
- Hiker/biker trail connectivity is a very important issue for the residents of Severn. The Plan states that any new development must include pedestrian and bicycle connections not only within the

development but also between new development, the community shopping areas, and the Arundel Mills Mall. Additionally, the Plan recommends establishing regular bus loop route(s) that will serve the Severn Small Area and should include connectivity to Town Centers and to air and rail service.

- The Plan recommends that development design for the establishment of a coffee shop, deli, or bistro with some outdoor seating, in each of several key locations along pedestrian/bicycle pathways adjacent to commercial areas.
- The Plan outlines a Clark Road reconfiguration to slow traffic and create a disincentive for through traffic.
- The Plan mandates that all development be in compliance with the Adequate Public Facilities Ordinance.

## Design Guidelines

The Severn Small Area Plan recommends that the area surrounding the section of Maryland Route 170 and Old Donaldson Avenue, located in the northeastern section of the Severn Small Area, be redeveloped into a village. The Plan outlines design guidelines for the "Severn Village," but does not have specific recommendations or guidelines for property outside of the Severn Village footprint. While the Subject Property falls outside of the Severn Village footprint, the local community groups along with the county's planning and zoning staff, agree that several of the recommendations regarding design characteristics in Severn Village be carried forward into development outside of the Severn Village footprint. While much of the recent development activity in the Severn Small Area has occurred outside of the area designated to become the Severn Village, it has incorporated some of the design standards that are discussed in the Small Area Plan. Therefore an effort will be made to conform to many of the design standards outlined for Severn Village. The guidelines and recommendations in the Severn Small Area Plan that will be adhered to are as follows:

- Massing – Building masses should reflect a residential village character with facades not exceeding 40 feet in length unless treated with articulations to provide the perception of 40 foot or smaller facades. These articulations should include stepping of the facade and at least two of the following:
    1. Change in color
    2. Change in material
    3. Change in window type
    4. Change in entryway treatment
- Site Design – Site design should reflect the small-scale, fine weave character of a village. Any site design containing more than three buildings should vary footprints, colors, rooflines, and/or other architectural detailing to avoid repetition. Site design and architectural design should be designed together to create buildings that define pedestrian spaces.

- Sidewalks – All pedestrian walkways should be distinguished from driving surfaces through the use of durable, low maintenance surface materials. Sidewalks should be set either directly against the curb or directly behind planting strips that set directly against the curb.
- Planting – All properties should provide at least one shade tree per 40 feet of street frontage. This tree may be located in a planting strip set directly against the curb, in sidewalk tree gates or in right-of-way between the sidewalk and the front yard.
- Screening – Areas for outdoor storage, truck parking, trash collection or compaction, loading or other such uses should either be placed out of view of public streets and spaces or screened with materials that are similar in kinds and quality to the principal materials of the building and landscape. Where parking lots and/or the rear service areas of buildings are visible from public roadway, a buffer of vegetative screening with a minimum width of ten feet, attractive brick walls not taller than three feet, and/or other screening methods should be used.
- Access/Circulation – Circulation patterns should be designed to minimize curb cuts and should be designed to avoid problems between vehicular, bicycle and pedestrian traffic.

## *Proposed Development Program*

**Based upon the highest and best use analysis and the zoning analysis, the proposed use for the Subject Property is retail.** The zoning regulations dictate the allowable density of the development; however, as the proposed use is a retail development, parking and lot coverage are the factors that have the greatest impact to the overall square footage of the proposed development. Brandon Weiss, a retail broker with N.A.I., indicates that retailers prefer that shopping centers have a ratio of not less than three and a half spaces per 1,000 square feet of gross building space within the center and many require a ratio of not less than four spaces per 1,000 square feet. Stephen Pugh, President of The Rappaport Companies, and Fred Wine, President of The Quantum Companies, are both retail property owners and developers that confirmed tenants' desire for this parking ratio. To ensure that the proposed project is marketable, the development program outlines a parking ratio of five spaces per 1,000 square feet of space. In lieu of structured parking, surface parking will be used as it is the most cost effective type of parking and generally the most accepted by shoppers and retailers. In a typical configuration for surface parking lots, one parking stall (including a pro-rata portion of the drive aisles and landscaping) utilizes approximately 325 square feet of space. Therefore, as summarized in the table below, the optimal development program consists of 185,000 gross square feet of retail buildings on 4.25 acres of land and a surface parking lot with 925 spaces on approximately 6.90 acres of land.

| | Square Footage | Acreage |
|---|---|---|
| Subject Property Size | 581,962 sf | 13.36 ac |
| Lot Coverage Ratio | 85% | 85% |
| "Buildable" Space | 494,667 sf | 11.36 ac |
| | | |
| Proposed Retail Space | 185,000 sf | 4.25 |
| Number of spaces per 1,000 square feet | 5 | 5 |
| Number of Spaces Required | 925 | 925 |
| Space Required per Parking Space (includes drive aisles & landscaping) | 325 sf | 0.01 ac |
| Parking lot space requirement | 300,625 sf | 6.90 ac |
| Total Space used | 485,625 sf | 11.15 ac |

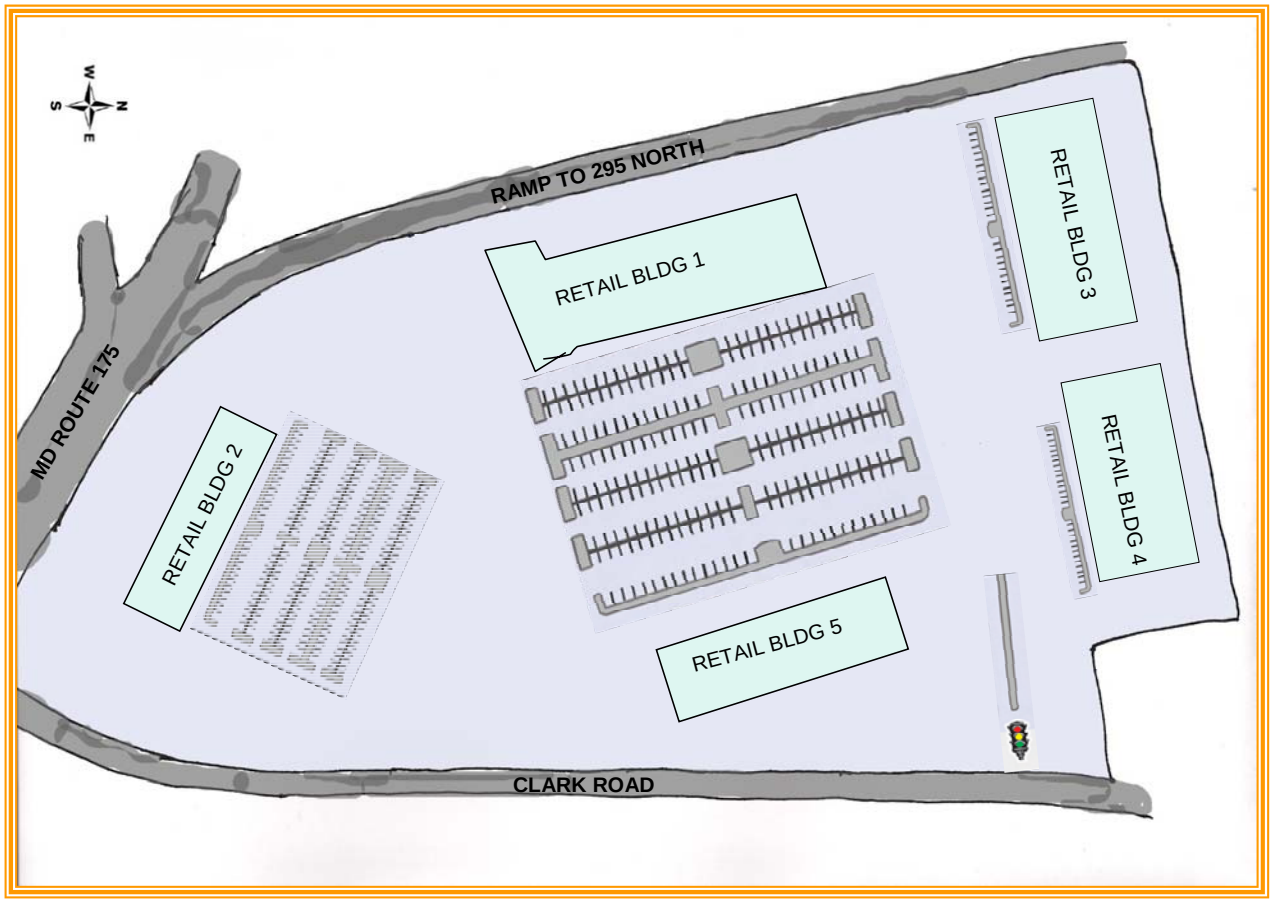
## *Conceptual Site Plan and Conceptual Building Design*

In determining the building design for the Project, it is important to adhere to the guidelines set forth in the small area plan. Therefore, the Subject Property in its site and building design will attempt to deliver many of the desired features and concepts discussed in the Small Area Plan analysis. It is the intent to deliver a village-like shopping center, rather than the traditional suburban strip center. This entails breaking up large building masses by using multiple retail buildings, varying rooflines along longer facades, changing facade materials and color. Additionally, an attempt will be made to create small pedestrian plazas, green spaces, and other spatial amenities within the development. Similarly the site design will attempt to mimic the feel of a small-scale shopping district. As the final design includes multiple buildings, so an attempt to vary footprint size, colors, rooflines, and other architectural detailing will be made. This helps avoid the feeling of repetitious or “cookie-cutter” design.

## ***Illustrative Examples of Desired Architecture***

The Subject Property stands to benefit greatly from its proximity to the large scale mixed-use developments that are in close proximity to the site. Arundel Preserve, located adjacent to the north side of the Subject Property, is being developed over a ten-year period and will contain over two million square feet of office space, three hotels, and approximately 1,100 housing units. To capture a large percentage of this market's retail needs, effort will be made to orient the Project towards Milestone Parkway (Arundel Preserve's main thoroughfare). As an attempt to create an environment at the Subject Property that will blend into the Arundel Preserve Development, the development team will engage, The Faux Group as the landscape architect. The Faux Group is the same landscape architect that has worked on the Arundel Preserve Development and many other projects within the Anne Arundel market. The Faux Group has a distinct advantage in determining the optimal site design to unify the Subject Property with the southern portion of the Arundel Preserve Development.

***Conceptual Site Plan***



# Design and Construction Management Control

## *Design Procurement/Architect*

The selected architecture firm will have substantial experience in designing retail centers. Experience in designing retail product is important, as it is critical to understand the space requirements of the retailers. Furthermore, the selected architecture firm will need to have experience in working within Anne Arundel County. Familiarity with the requirements, building code, and conditions of Anne Arundel County is essential in obtaining approvals and permits in a timely manner. Unlike the urban development of class A or "trophy" buildings where the name and image of the designer may have a positive impact in leasing, the tenants in suburban retail projects are not as concerned with the overall design *image* of a center. As such, it will not be necessary to engage two distinct architects (one to complete the schematic design and another to complete the construction documents). One firm will be engaged to complete all phases of design, including the schematic design, design development, the construction documents, and provide construction administration services. In selecting the architecture firm, weight will be given to those that have mechanical, electrical, and plumbing engineers (MEP) on staff. At a minimum, the firm will have a solid working relationship with an engineering firm that also has substantial experience with retail product and familiarity with Anne Arundel County and its building code/conditions.

## *General Contractor*

The selected project delivery method for the project is the traditional design, bid, build format. While this delivery method is slightly more cumbersome than the construction manager at risk model or the less common design build method, it will result in obtaining the best pricing. No less than three contractors with significant experience in the local market and with significant experience in the construction of retail centers will bid for the job. All contractors bidding for the job will be asked to bid based the contract being structured with a guaranteed maximum price and will be asked to bid based upon construction documents at the same stage of completion. The general contractor will be required to provide payment and performance bonds and adequate builders risk insurance.

## *Other Consultants*

As discussed previously, in an attempt to create an environment at the Subject Property that will blend into the Arundel Preserve Development, the development team will engage. The Faux Group as the landscape architect. The Faux Group is the same landscape architect that has worked on the Arundel Preserve Development and many other projects within the Anne Arundel market and will have a distinct

advantage in determining the optimal site design to unify the Subject Property with the southern portion of the Arundel Preserve Development. The Faux Group was highly recommended by several local brokers, developers, and members of the planning staff. Therefore, it is expected that the Faux Group is adept at navigating the Anne Arundel County site plan process well, which will add value to the Project.

As with most traditional commercial real estate development projects, the development of the Subject Property will also require the engagement of several other consultants and professionals, including but not limited to:

Traffic Consultant

Environmental Consultant

Zoning Attorney

Civil Engineer / Site planner

Attorneys and Accountants

Real Estate Brokerage Firm / Leasing Agent

Property Management Firm

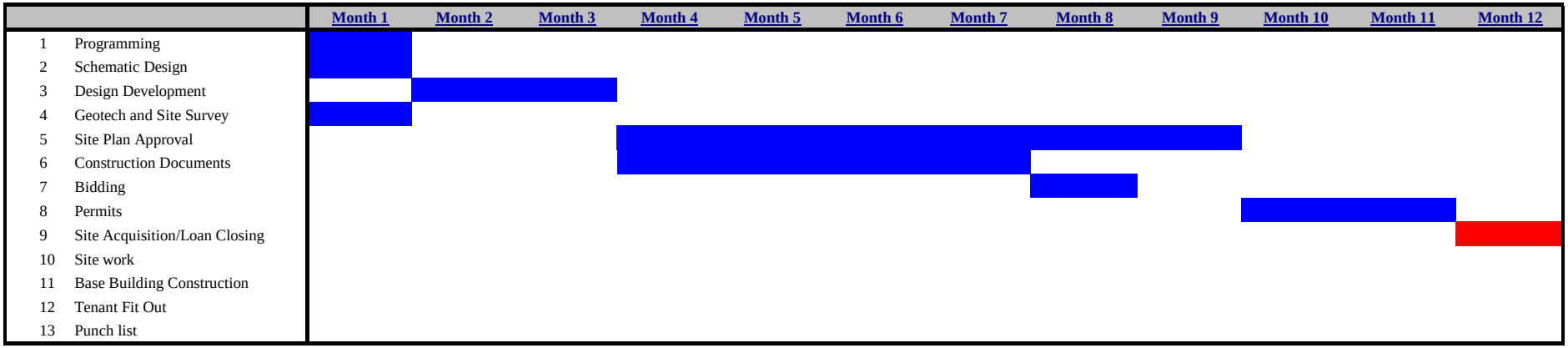
## *Project Schedule – Critical Path*

| | Task | Duration | Predecessor |
|---|---|---|---|
| 1 | Programming | 1 month(s) | - |
| 2 | Schematic Design | 1 month(s) | - |
| 3 | Design Development | 2 month(s) | 2 |
| 4 | Geotech and Site Survey | 1 month(s) | - |
| 5 | Site Plan Approval | 6 month(s) | 3 |
| 6 | Construction Documents | 4 month(s) | 3 |
| 7 | Bidding | 1 month(s) | 6 |
| 8 | Permits | 2 month(s) | 6 |
| 9 | Site Acquisition/Loan Closing | 1 month(s) | 8 |
| 10 | Site work | 8 month(s) | 8 |
| 11 | Base Building Construction | 15 month(s) | 9 |
| 12 | Tenant Fit Out | 5 month(s) | 9 |
| 13 | Punch list | 2 weeks | 10 |

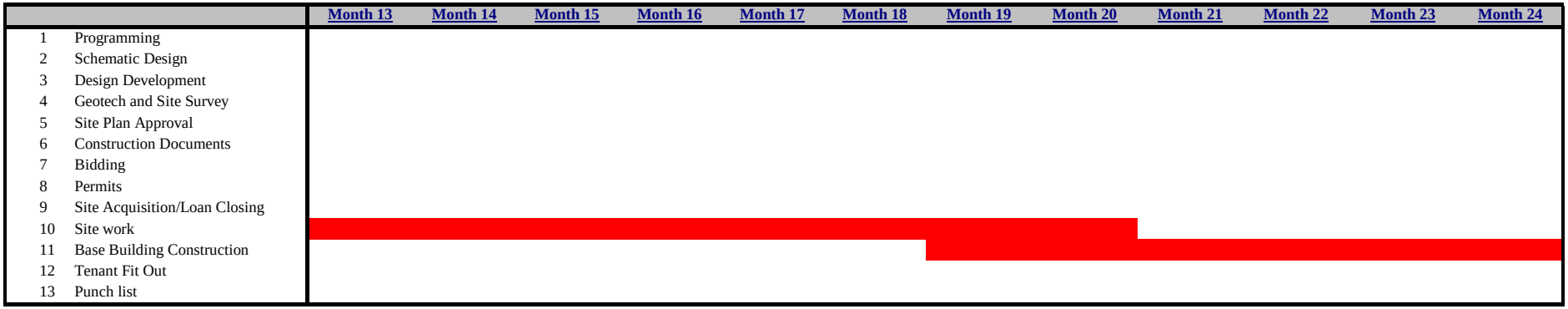
# Clark Road Retail Center

Critical Path

**Year One**




**Year Two**



# Clark Road Retail Center

Critical Path

**Year Three**

| | | Month 25 | Month 26 | Month 27 | Month 28 | Month 29 | Month 30 | Month 31 | Month 32 | Month 33 | Month 34 | Month 35 | Month 36 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Programming | | | | | | | | | | | | |
| 2 | Schematic Design | | | | | | | | | | | | |
| 3 | Design Development | | | | | | | | | | | | |
| 4 | Geotech and Site Survey | | | | | | | | | | | | |
| 5 | Site Plan Approval | | | | | | | | | | | | |
| 6 | Construction Documents | | | | | | | | | | | | |
| 7 | Bidding | | | | | | | | | | | | |
| 8 | Permits | | | | | | | | | | | | |
| 9 | Site Acquisition/Loan Closing | | | | | | | | | | | | |
| 10 | Site work | | | | | | | | | | | | |
| 11 | Base Building Construction | | | | | | | | | | | | |
| 12 | Tenant Fit Out | | | | | | | | | | | | |
| 13 | Punch list | | | | | | | | | | | | |

**Year Four**

| | | Month 37 | Month 38 | Month 39 | Month 40 | Month 41 | Month 42 | Month 43 | Month 44 | Month 45 | Month 46 | Month 47 | Month 48 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Programming | | | | | | | | | | | | |
| 2 | Schematic Design | | | | | | | | | | | | |
| 3 | Design Development | | | | | | | | | | | | |
| 4 | Geotech and Site Survey | | | | | | | | | | | | |
| 5 | Site Plan Approval | | | | | | | | | | | | |
| 6 | Construction Documents | | | | | | | | | | | | |
| 7 | Bidding | | | | | | | | | | | | |
| 8 | Permits | | | | | | | | | | | | |
| 9 | Site Acquisition/Loan Closing | | | | | | | | | | | | |
| 10 | Site work | | | | | | | | | | | | |
| 11 | Base Building Construction | | | | | | | | | | | | |
| 12 | Tenant Fit Out | | | | | | | | | | | | |
| 13 | Punch list | | | | | | | | | | | | |

# Financial Analysis

## *Pro Forma Rent Roll*

Based upon an analysis of the market, the following pro forma rent roll was developed. As noted previously, the development program includes retail space designed for one big box user, which will anchor the center. While many big box users are shrinking their expansion plans or even closing locations, research from the International Council of Shopping Centers (ICSC) indicates that several grocery retailers are performing well despite the recent slowing of the national economy. In fact, in speaking with Michael Isen, a local retail leasing broker with NAI The Michael Companies, it was discovered that several grocery retailers are currently negotiating lease agreements and letters of intent for new projects within the Baltimore-Washington Corridor. While the rental rates for lager users are generally lower than smaller space users, these tenants will typically accept the space in shell condition and will complete their own build out. The smaller "in-line" users however, will rely on a tenant improvement allowance from the owner/developer to complete their build out. This was confirmed with Neil Tucker, a principal with Chesapeake Real Estate Group, the owner and developer of the Shops at Arundel Preserve. As such, the rent roll below and the development budget allow for a market rate tenant improvement allowance. Due to the weakened economic conditions and slowing leasing activity across all real estate asset classes, the pro forma rental rates are conservatively projected towards the low end of the market range.

| | Square Footage | Annual Rent | Rent per Square Foot | Lease Term | T.I. Allowance | Escalations |
|---|---|---|---|---|---|---|
| Grocery Anchor - Big Box | 65,000 | $845,000 | $13.00 | 20 years | $0.00 psf | 3% |
| Jr. Box - Anchor | 25,000 | $375,000 | $15.00 | 20 years | $0.00 psf | 3% |
| In Line | 95,000 | $3,040,000 | $32.00 | 10 years | $20.00 psf | 3% |
| **TOTALS** | **185,000** | **$4,260,000** | **$23.03** | | | |

## *Anchor / Jr. Box Rent Comparables*

The comparables below show a market rental rate for large box users ranging from $14 to $28 per square foot. All leases are triple net with the tenant reimbursing the landlord for their pro-rata share of the operating expenses. Based upon these comparables, rental rates at the Subject Property are projected to be $13 per square foot for the anchor and $15 per square foot for the "junior box" anchor.

| | Property | Size | Rent | Rent / Square Foot | Date |
|---|---|---|---|---|---|
| 1.) | Quarterfield Road, Severn, MD (La-Z-Boy) | 16,500 | $470,250 | $28.50 | 12/1/2008 |
| 2.) | 5 Mayo Road, Edgewater, MD (Gold's Gym) | 42,293 | $672,000 | $15.89 | 4/1/07 |
| 3.) | 7311 Ritchie Hwy, Glen Burnie, MD | 25,997 | $389,955 | $15.00 | asking |
| 4.) | 8358 Veterans Hw, Millersville, MD | 26,000 | $650,000 | $25.00 | asking |
| 5.) | Vista Garden, Lanham, MD (Shoppers) | 66,000 | $924,000 | $14.00 | 11/1/05 |
| 6.) | Ritchie Station, Landover, MD (TJ Maxx) | 26,000 | $338,000 | $13.00 | 11/1/08 |
| 7.) | 933 Washington Rd, Laurel, MD | 38,500 | $539,000 | $14.00 | asking |

## *In-Line Rent Comps*

The comparables below show a market rental rate for in-line users ranging from $30 to $40 per square foot. All leases are triple net with the tenant reimbursing the landlord for their pro-rata share of the operating expenses. Based upon these comparables, rental rates at the Subject Property are projected to be $32 per square foot, which is at the low end of the market range. Due to the current economic conditions, it is anticipated that rental concessions in the form of higher tenant improvement allowances and/or rent abatement will be needed to achieve a reasonable absorption pace. The in-line space will generally be occupied by smaller local businesses that are more impacted by a slowing economy. Therefore, it is expected that the in-line space and tenants will require more concessions than the big box and junior box spaces. These concessions will drive the effective rental rate downward. Therefore, in an effort to consider the current overall conditions of the economy and to underwrite conservatively, pro forma rental rates fall towards the low end of the market range.

| | Property | Size | Rent | Rent / Square Foot | Date |
|---|---|---|---|---|---|
| 1.) | 7556 Teague Road, Hanover, MD | 1,000 | $45,000 | $45.00 | asking |
| 2.) | 6030 Marshalee Drive, Elkridge, MD | 1,600 | $51,200 | $32.00 | asking |
| 3.) | 7916 Dorsey Rd, Jessup, MD | 2,000 | $60,000 | $30.00 | asking |
| 4.) | 7690 Dorchester Blvd, Hanover, MD | 2,302 | $92,080 | $40.00 | 4/1/2008 |
| 5.) | 7698 Dorchester Blvd, Hanover, MD | 1,466 | $63,038 | $43.00 | 10/1/2008 |
| 6.) | Quarterfield Road, Severn, MD | 3,400 | $153,000 | $45.00 | 12/1/2008 |
| 7.) | 1700 West Nursery Rd, Linthicum, MD | 2,735 | $101,195 | $37.00 | asking |

## *Pro Forma Stabilized Operating Cash Flow Analysis*

A pro forma operating statement and ten-year cash flow analysis was developed based upon the income generated as outlined in the pro forma rent roll. The analysis assumes a static vacancy and collection loss rate of 5%. As noted previously, the current vacancy rate in the BWI / Anne Arundel submarket is 3.6%. Operating expenses are assumed to increase at an inflation rate of 3% annually and are estimated as follows:

Real Estate Taxes - The assessment of real property in Anne Arundel County and in the State of Maryland is established by a triennial assessment system. This method is based on a three-year cycle in which one-third of all real property is reviewed and assessed each year. The assessment is the product of the Full Cash Value (FCV), which is analogous with, but not necessarily equal to a full market value, multiplied by the assessment factor. The assessment is also controlled by a phase-in provision. For any increase in the FCV of a property, state law requires that the increase in value over the previous assessment be phased in over a three-year period. This provision limits the increase in assessed value to one-third of the total increases in FCV per year.

Property tax rates are expressed as a dollar amount per $100 of assessment value. The current statewide property tax rate is $0.112 and the current Anne Arundel County tax rate is $0.888, thus the tax rate for the Subject Property is $1.00.

The current real estate tax assessment data for the property includes the land only at $7,199,300. The property was recently reassessed and this new assessed value is being phased in over the three-year period ending in 2010. The current (as of July 1, 2008) “Phased-In Value” of the site is $3,415,366. Upon completion of construction, the property will be reassessed. For purposes of a stabilized cash flow analysis, an analysis of the assessed values of comparable properties was conducted and is summarized in the table below.

| Property | Location | Size | Assessed Value | $ / SF |
|---|---|---|---|---|
| Arundel Mills Mktplace | 7659 Arundel Mills Blvd, Hanover, MD | 106,334 sf | $16,218,200 | $152.52 |
| Arundel Village | 7648 Arundel Mills Blvd, Hanover, MD | 87,234 sf | $16,656,100 | $190.94 |
| Shops at Arundel Preserve | 7690-7698 Dorchester Blvd, Jessup, MD | 22,500 sf | $3,593,400 | $159.71 |
| Ridgeview Plaza | 2633- 2659Annapolis Road, Hanover, MD | 161,950 sf | $16,678,800 | $102.99 |
| Corridor Marketplace | 3361-3351 Corridor Mkt Pl., Laurel, MD | 410,082 sf | $43,439,100 | $105.93 |
| | | | Average | $142.42 |

It is assumed that upon completion the Property will be reassessed at a FCV towards the upper end of the range above. Assuming a FCV of $180 per square foot, results in the property having a total assessed value of $33,300,000 and a resulting tax bill of $333,000 annually. It is assumed that the tenants reimburse the landlord for their pro-rata share of real estate taxes.

Insurance – Insurance costs are estimated at $0.20 per square foot. This assumption is based upon an analysis of insurance costs in comparable projects and is also based upon an estimate provided by an insurance broker. It is assumed that the tenants reimburse the landlord for their pro-rata share of insurance costs.

Common Area Maintenance – Common area maintenance costs are estimated to be approximately $1.20 per square foot. This assumption is based upon an analysis of costs experienced at comparable projects and estimates provided by real estate appraisers and a property management company. It is assumed that the tenants reimburse the landlord for their pro-rata share of the common area maintenance costs.

Management Fees – Management charges are proper operating expenses regardless of whether management services are contracted for through a property management company or if provided by the property owner. Management fees are typically expressed as a percentage of the effective gross income (gross income less vacancy and collection loss). Management fees are estimated at a rate of 4% of effective gross income. It is assumed that the tenants reimburse the landlord for their pro-rata share of the management fee.

Miscellaneous Expenses – Miscellaneous expenses are estimated to be $0.15 per square foot and are not reimbursed by the tenants.

Clark Road Retail Center

185,000 square foot retail center

13.36 acre site

**Stabilized Cash Flow Proforma**

| | Year One Stabilized | PSF | Year Two | PSF | Year Three | PSF | Year Four | PSF |
|---|---|---|---|---|---|---|---|---|
| Gross Potential Income | | | | | | | | |
| Gross Rental Income | $4,260,000 | $23.03 | $4,493,324 | $24.29 | $4,628,123 | $25.02 | $4,766,967 | $25.77 |
| Reimbursements | $783,659 | $4.24 | $792,876 | $4.29 | $798,200 | $4.31 | $803,685 | $4.34 |
| Total Potential Income | $5,043,659 | $27.26 | $5,286,199 | $28.57 | $5,426,323 | $29.33 | $5,570,652 | $30.11 |
| Less Vacancy | $151,310 | 3% | $158,586 | 3% | $162,790 | 3% | $167,120 | 3% |
| Less Collection Loss | $100,873 | 2% | $105,724 | 2% | $108,526 | 2% | $111,413 | 2% |
| Effective Gross Income | $4,791,476 | $25.90 | $5,021,889 | $27.15 | $5,155,007 | $27.86 | $5,292,119 | $28.61 |
| Operating Expenses | | | | | | | | |
| Real Estate Taxes | $333,000 | $1.80 | $333,000 | $1.80 | $333,000 | $1.80 | $333,000 | $1.80 |
| Insurance | $37,000 | $0.20 | $37,000 | $0.20 | $37,000 | $0.20 | $37,000 | $0.20 |
| Common Area Maintenance | $222,000 | $1.20 | $222,000 | $1.20 | $222,000 | $1.20 | $222,000 | $1.20 |
| Management | $191,659 | 4% | $200,876 | 4% | $206,200 | 4% | $211,685 | 4% |
| Miscellaneous | $27,750 | $0.15 | $27,750 | $0.15 | $27,750 | $0.15 | $27,750 | $0.15 |
| Total Operating Expenses | $811,409 | $4.39 | $820,626 | $4.44 | $825,950 | $4.46 | $831,435 | $4.49 |
| Net Operating Income | $3,980,067 | $21.51 | $4,201,264 | $22.71 | $4,329,057 | $23.40 | $4,460,684 | $24.11 |

*Notes and Assumptions*

Inflation Rate -3%

Clark Road Retail Center

185,000 square foot retail center

13.36 acre site

**Stabilized Cash Flow Proforma**

| | Year Five | PSF | Year Six | PSF | Year Seven | PSF | Year Eight | PSF |
|---|---|---|---|---|---|---|---|---|
| Gross Potential Income | | | | | | | | |
| Gross Rental Income | $4,909,976 | $26.54 | $5,057,275 | $27.34 | $5,208,993 | $28.16 | $5,365,263 | $29.00 |
| Reimbursements | $809,334 | $4.37 | $815,152 | $4.41 | $821,145 | $4.44 | $827,318 | $4.47 |
| Total Potential Income | $5,719,310 | $30.92 | $5,872,427 | $31.74 | $6,030,139 | $32.60 | $6,192,581 | $33.47 |
| Less Vacancy | $171,579 | 3% | $176,173 | 3% | $180,904 | 3% | $185,777 | 3% |
| Less Collection Loss | $114,386 | 2% | $117,449 | 2% | $120,603 | 2% | $123,852 | 2% |
| Effective Gross Income | $5,433,344 | $29.37 | $5,578,806 | $30.16 | $5,728,632 | $30.97 | $5,882,952 | $31.80 |
| Operating Expenses | | | | | | | | |
| Real Estate Taxes | $333,000 | $1.80 | $333,000 | $1.80 | $333,000 | $1.80 | $333,000 | $1.80 |
| Insurance | $37,000 | $0.20 | $37,000 | $0.20 | $37,000 | $0.20 | $37,000 | $0.20 |
| Common Area Maintenance | $222,000 | $1.20 | $222,000 | $1.20 | $222,000 | $1.20 | $222,000 | $1.20 |
| Management | $217,334 | 4% | $223,152 | 4% | $229,145 | 4% | $235,318 | 4% |
| Miscellaneous | $27,750 | $0.15 | $27,750 | $0.15 | $27,750 | $0.15 | $27,750 | $0.15 |
| Total Operating Expenses | $837,084 | $4.52 | $842,902 | $4.56 | $848,895 | $4.59 | $855,068 | $4.62 |
| Net Operating Income | $4,596,260 | $24.84 | $4,735,904 | $25.60 | $4,879,737 | $26.38 | $5,027,884 | $27.18 |

*Notes and Assumptions*

Inflation Rate -3%

Clark Road Retail Center

185,000 square foot retail center

13.36 acre site

**Stabilized Cash Flow Proforma**

| | Year Nine | PSF | Year Ten | PSF | Year Eleven | PSF |
|---|---|---|---|---|---|---|
| Gross Potential Income | | | | | | |
| Gross Rental Income | $5,526,221 | $29.87 | $5,692,008 | $30.77 | $5,862,768 | $31.69 |
| Reimbursements | $833,676 | $4.51 | $840,225 | $4.54 | $846,970 | $4.58 |
| Total Potential Income | $6,359,897 | $34.38 | $6,532,233 | $35.31 | $6,709,738 | $36.27 |
| Less Vacancy | $190,797 | 3% | $195,967 | 3% | $201,292 | 3% |
| Less Collection Loss | $127,198 | 2% | $130,645 | 2% | $134,195 | 2% |
| Effective Gross Income | $6,041,902 | $32.66 | $6,205,621 | $33.54 | $6,374,251 | $34.46 |
| Operating Expenses | | | | | | |
| Real Estate Taxes | $333,000 | $1.80 | $333,000 | $1.80 | $333,000 | $1.80 |
| Insurance | $37,000 | $0.20 | $37,000 | $0.20 | $37,000 | $0.20 |
| Common Area Maintenance | $222,000 | $1.20 | $222,000 | $1.20 | $222,000 | $1.20 |
| Management | $241,676 | 4% | $248,225 | 4% | $254,970 | 4% |
| Miscellaneous | $27,750 | $0.15 | $27,750 | $0.15 | $27,750 | $0.15 |
| Total Operating Expenses | $861,426 | $4.66 | $867,975 | $4.69 | $874,720 | $4.73 |
| Net Operating Income | $5,180,476 | $28.00 | $5,337,646 | $28.85 | $5,499,531 | $29.73 |

*Notes and Assumptions*

Inflation Rate -3%

Reversion

| | |
|---|---|
| NOI | $5,499,531 |
| Exit Cap Rate | 8.50% |
| Sales Cost | 6% |
| Net Proceeds | $60,818,348 |

## *Land Acquisition Cost*

The cash flow pro forma was used to derive land acquisition price. At a minimum, the total project costs should equal the net present value of the future cash flows generated by the project. Based upon an assumed required rate of return (the discount rate) of 15% and a terminal capitalization rate of 8.50%, the net present value of the future cash flows from the stabilized project is $35,630,000. Therefore, the total project costs should not exceed $35,630,000.

**Project Cash Flow – Ten Year Pro forma**

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Net Operating Income | $3,980,067 | $4,199,508 | $4,325,493 | $4,455,258 | $4,588,916 |
| Cash Flow From Sale | | | | | |
| Total Cash Flow | $3,980,067 | $4,199,508 | $4,325,493 | $4,455,258 | $4,588,916 |

| | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|
| Net Operating Income | $4,726,583 | $4,868,381 | $5,014,432 | $5,164,865 | $5,319,811 |
| Cash Flow From Sale | | | | | $57,229,080 |
| Total Cash Flow | $4,726,583 | $4,868,381 | $5,014,432 | $5,164,865 | $62,548,891 |

| | |
|---|---|
| Discount Rate | 15% |
| Net Present Value | $35,630,000 |

| Reversion Assumptions | |
|---|---|
| Year Eleven NOI | $5,479,405 |
| Terminal Cap Rate | 9.00% |
| Value | $60,882,000 |
| Sales Costs | 6% |
| Net Cash Flow From Sale | $57,229,080 |

The project hard costs and soft costs total approximately $30 million (see development budget below), and, as stated previously, the total project costs should not exceed $35,630,000. Therefore, the cost to acquire the land should be no greater than $5,630,000 or $5,600,000 rounded. This equates to a land price of $9.62 per square foot or $419,100 per acre. This estimated value is further supported by the land comparables below.

| | Property | Size | Price | Price / Square Foot | Sale Date |
|---|---|---|---|---|---|
| | Subject Property - 7960 Clark Rd, Jessup, MD | 13.36 acres | $6,000,000 | $9.62 | |
| 1.) | Wright Road, Hanover, MD | 6.85 acres | $2,460,000 | $8.24 | 1/2/2007 |
| 2.) | Waugh Chapel Rd, Gambrills, MD | 16.55 acres | $3,937,500 | $5.46 | 7/18/2007 |
| 3.) | 7381 Montevideo Rd, Jessup, MD | 6.17 acres | $2,380,000 | $8.86 | 11/21/2007 |
| 4.) | 7405-7407 Ridge Road, Hanover, MD | 17.00 acres | $5,050,000 | $6.82 | 2/8/2007 |
| 5.) | 1550 West Nursery Rd, Linthicum, MD | 9.26 acres | $6,500,000 | $16.11 | 6/8/2007 |
| 6.) | 7482 Ridge Road, Hanover, MD | 9.45 acres | $3,640,000 | $8.84 | 6/26/2007 |
| | | | | $9.06 (avg.) | |

## *Development Budget*

The following budget was formed with the aid of architects, engineers, contractors, consultants, leasing agents and other developers. Additionally, costs for comparable retail centers that have been recently constructed were analyzed. The hard construction costs outlined in the budget below are in step with the costs experienced in those comparable projects.

| | | PSF | % of Total Cost |
|---|---|---|---|
| **Land Acquisition** | $5,600,000 | $9.62 | 15.71% |
| | | | |
| **Hard Costs** | | | |
| Site Development | $2,909,800 | $5.00 | 8.17% |
| Base Building Costs | $16,650,000 | $90.00 | 46.72% |
| Tenant Improvements Allowance | $1,900,000 | $10.27 | 5.33% |
| 5% Contingency | $1,073,000 | $5.80 | 3.01% |
| **Total Hard Costs** | $22,532,800 | $121.80 | 63.23% |
| | | | |
| **Soft Costs** | | | |
| Architectural & Engineering | $1,014,000 | $5.48 | 2.85% |
| Legal Fees | $100,000 | $0.54 | 0.28% |
| Environmental | $10,000 | $0.05 | 0.03% |
| Traffic Consultant | $35,000 | $0.19 | 0.10% |
| Leasing Commissions | $1,880,000 | $10.16 | 5.28% |
| Taxes | $150,000 | $0.81 | 0.42% |
| Insurance | $90,000 | $0.49 | 0.25% |
| Permits / Utilities / Impact Fees | $800,000 | $4.32 | 2.24% |
| Closing Costs/Recording Fees | $225,000 | $1.22 | 0.63% |
| Financing Fees | $250,000 | $1.35 | 0.70% |
| Contingency | $500,000 | $2.70 | 1.40% |
| Interest Carry | $1,450,000 | $7.84 | 4.07% |
| Developers Fee | $1,000,000 | $5.41 | 2.81% |
| **Total Soft Costs** | $7,504,000 | $40.56 | 21.06% |
| | | | |
| **Total Project Costs** | $35,636,800 | $192.63 | |

## *Development Timeline / Funding Schedule*

The funding schedule and pro forma construction cash flow schedule that follows is based upon the following timeline and assumptions:

- Land acquisition / closing occurs upon receiving the grading permit.
- Site development – begins in month 1 and continues for 8 months.
- Vertical construction – begins one month prior to completion of all site work. Construction begins in month 8 and continues for 15 months.
- Tenant Improvement work – begins in month 23 and continues for 5 months.
- Project complete in 28 months.

Clark Road Retail Center
185,000 square foot retail center
13.36 acre site

**Funding Schedule**

| | | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Land Acquisition** | $5,600,000 | $5,600,000 | | | | | | | | | |
| | | | | | | | | | | | |
| **Hard Costs** | | | | | | | | | | | |
| Site Development | $2,909,800 | | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | |
| Base Building Costs | $16,650,000 | | | | | | | | $1,110,000 | $1,110,000 | $1,110,000 |
| Tenant Improvements Allowance | $1,900,000 | | | | | | | | | | |
| 3% Contingency | $1,073,000 | | | | | | | | | | |
| **Total Hard Costs** | $22,532,800 | $0 | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | $363,725 | $1,473,725 | $1,473,725 | $1,110,000 |
| | | | | | | | | | | | |
| **Soft Costs** | | | | | | | | | | | |
| Architectural & Engineering | $1,014,000 | $608,400 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 |
| Legal Fees | $100,000 | $50,000 | | | | | | | | | |
| Environmental | $10,000 | $10,000 | | | | | | | | | |
| Traffic Consultant | $35,000 | $35,000 | | | | | | | | | |
| Leasing Commissions | $1,880,000 | | | | | | | | | | |
| Taxes | $150,000 | | | | | | | | | | $75,000 |
| Insurance | $90,000 | $30,000 | | | | | | | | | |
| Permits / Utilities / Impact Fees | $800,000 | $800,000 | | | | | | | | | |
| Closing Costs/Recording Fees | $225,000 | $225,000 | | | | | | | | | |
| Financing Fees | $250,000 | $250,000 | | | | | | | | | |
| Contingency | $500,000 | | | | | | | | | | |
| Interest Carry | $1,450,000 | | | | | | | | $1,352 | $4,675 | $10,442 |
| Developers Fee | $1,000,000 | | | | | | | | $43,478 | $43,478 | $43,478 |
| **Total Soft Costs** | $7,504,000 | $2,008,400 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $64,144 | $67,468 | $148,235 |
| | | | | | | | | | | | |
| **Total Project Costs** | $35,636,800 | $7,608,400 | $383,039 | $383,039 | $383,039 | $383,039 | $383,039 | $383,039 | $1,537,869 | $1,541,193 | $1,258,235 |
| **Cummulative Funding** | | $7,608,400 | $7,991,439 | $8,374,479 | $8,757,518 | $9,140,557 | $9,523,596 | $9,906,636 | $11,444,505 | $12,985,698 | $14,243,932 |
| | | | | | | | | | | | |
| Developer Equity Funding | | $500,000 | | | | | | | | | |
| Equity Partner Funding | | $7,108,400 | $383,039 | $383,039 | $383,039 | $383,039 | $383,039 | $383,039 | $1,242,944 | $816,071 | |
| | | $7,108,400 | $7,491,439 | $7,874,479 | $8,257,518 | $8,640,557 | $9,023,596 | $9,406,636 | $10,649,580 | $11,465,651 | |
| Loan Funding | | | | | | | | | $294,925 | $725,122 | $1,258,235 |
| | | | | | | | | | $294,925 | $1,020,047 | $2,278,281 |
| | | | | | | | | | | | |
| Interest Rate | | 5.50% | | | | | | | | | |

Clark Road Retail Center
185,000 square foot retail center
13.36 acre site

**Funding Schedule**

| | | Month 11 | Month 12 | Month 13 | Month 14 | Month 15 | Month 16 | Month 17 | Month 18 | Month 19 | Month 20 | Month 21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Land Acquisition** | $5,600,000 | | | | | | | | | | | |
| **Hard Costs** | | | | | | | | | | | | |
| Site Development | $2,909,800 | | | | | | | | | | | |
| Base Building Costs | $16,650,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 |
| Tenant Improvements Allowance | $1,900,000 | | | | | | | | | | | |
| 3% Contingency | $1,073,000 | | | | | | | $1,073,000 | | | | |
| **Total Hard Costs** | $22,532,800 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 | $2,183,000 | $1,110,000 | $1,110,000 | $1,110,000 | $1,110,000 |
| **Soft Costs** | | | | | | | | | | | | |
| Architectural & Engineering | $1,014,000 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 | $19,314 |
| Legal Fees | $100,000 | | | | | | | $25,000 | | | | |
| Environmental | $10,000 | | | | | | | | | | | |
| Traffic Consultant | $35,000 | | | | | | | | | | | |
| Leasing Commissions | $1,880,000 | | | | | | | | | | | |
| Taxes | $150,000 | | | | | | | | | | | |
| Insurance | $90,000 | | | $30,000 | | | | | | | | |
| Permits / Utilities / Impact Fees | $800,000 | | | | | | | | | | | |
| Closing Costs/Recording Fees | $225,000 | | | | | | | | | | | |
| Financing Fees | $250,000 | | | | | | | | | | | |
| Contingency | $500,000 | | | | | | | $500,000 | | | | |
| Interest Carry | $1,450,000 | $15,890 | $21,363 | $27,000 | $32,524 | $38,074 | $43,650 | $56,608 | $62,269 | $67,956 | $73,669 | $79,408 |
| Developers Fee | $1,000,000 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 |
| **Total Soft Costs** | $7,504,000 | $78,683 | $84,156 | $119,793 | $95,317 | $100,867 | $106,442 | $644,401 | $125,062 | $130,748 | $136,461 | $142,201 |
| **Total Project Costs** | $35,636,800 | $1,188,683 | $1,194,156 | $1,229,793 | $1,205,317 | $1,210,867 | $1,216,442 | $2,827,401 | $1,235,062 | $1,240,748 | $1,246,461 | $1,252,201 |
| **Cummulative Funding** | | $15,432,615 | $16,626,771 | $17,856,564 | $19,061,881 | $20,272,747 | $21,489,190 | $24,316,591 | $25,551,652 | $26,792,401 | $28,038,862 | $29,291,063 |

Developer Equity Funding
Equity Partner Funding

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loan Funding | | $1,188,683 | $1,194,156 | $1,229,793 | $1,205,317 | $1,210,867 | $1,216,442 | $2,827,401 | $1,235,062 | $1,240,748 | $1,246,461 | $1,252,201 |
| | | $3,466,964 | $4,661,120 | $5,890,913 | $7,096,230 | $8,307,096 | $9,523,539 | $12,350,940 | $13,586,001 | $14,826,750 | $16,073,211 | $17,325,412 |

Clark Road Retail Center
185,000 square foot retail center
13.36 acre site

**Funding Schedule**

| | | Month 22 | Month 23 | Month 24 | Month 25 | Month 26 | Month 27 | Month 28 | Month 29 | Month 30 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Land Acquisition** | $5,600,000 | | | | | | | | | |
| | | | | | | | | | | |
| **Hard Costs** | | | | | | | | | | |
| Site Development | $2,909,800 | | | | | | | | | |
| Base Building Costs | $16,650,000 | $1,110,000 | | | | | | | | |
| Tenant Improvements Allowance | $1,900,000 | | $380,000 | $380,000 | $380,000 | $380,000 | $380,000 | | | |
| 3% Contingency | $1,073,000 | | | | | | | | | |
| **Total Hard Costs** | $22,532,800 | $1,110,000 | $380,000 | $380,000 | $380,000 | $380,000 | $380,000 | $0 | $0 | $0 |
| | | | | | | | | | | |
| **Soft Costs** | | | | | | | | | | |
| Architectural & Engineering | $1,014,000 | $19,314 | | | | | | | | |
| Legal Fees | $100,000 | | | | | $25,000 | | | | |
| Environmental | $10,000 | | | | | | | | | |
| Traffic Consultant | $35,000 | | | | | | | | | |
| Leasing Commissions | $1,880,000 | | | | | | | $1,880,000 | | |
| Taxes | $150,000 | $75,000 | | | | | | | | |
| Insurance | $90,000 | | | | $30,000 | | | | | |
| Permits / Utilities / Impact Fees | $800,000 | | | | | | | | | |
| Closing Costs/Recording Fees | $225,000 | | | | | | | | | |
| Financing Fees | $250,000 | | | | | | | | | |
| Contingency | $500,000 | | | | | | | | | |
| Interest Carry | $1,450,000 | $85,519 | $87,863 | $90,217 | $92,721 | $95,213 | $97,601 | $106,907 | $107,599 | $108,295 |
| Developers Fee | $1,000,000 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 | $43,478 |
| **Total Soft Costs** | $7,504,000 | $223,312 | $131,341 | $133,695 | $166,199 | $163,691 | $141,079 | $2,030,385 | $151,077 | $151,773 |
| | | | | | | | | | | |
| **Total Project Costs** | $35,636,800 | $1,333,312 | $511,341 | $513,695 | $546,199 | $543,691 | $521,079 | $2,030,385 | $151,077 | $151,773 |
| **Cummulative Funding** | | $30,624,375 | $31,135,716 | $31,649,411 | $32,195,610 | $32,739,301 | $33,260,380 | $35,290,765 | $35,441,843 | $35,593,616 |

Developer Equity Funding
Equity Partner Funding

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loan Funding | $1,333,312 | $511,341 | $513,695 | $546,199 | $543,691 | $521,079 | $2,030,385 | $151,077 | $151,773 |
| | $18,658,724 | $19,170,065 | $19,683,760 | $20,229,959 | $20,773,650 | $21,294,729 | $23,325,114 | $23,476,192 | $23,627,965 |

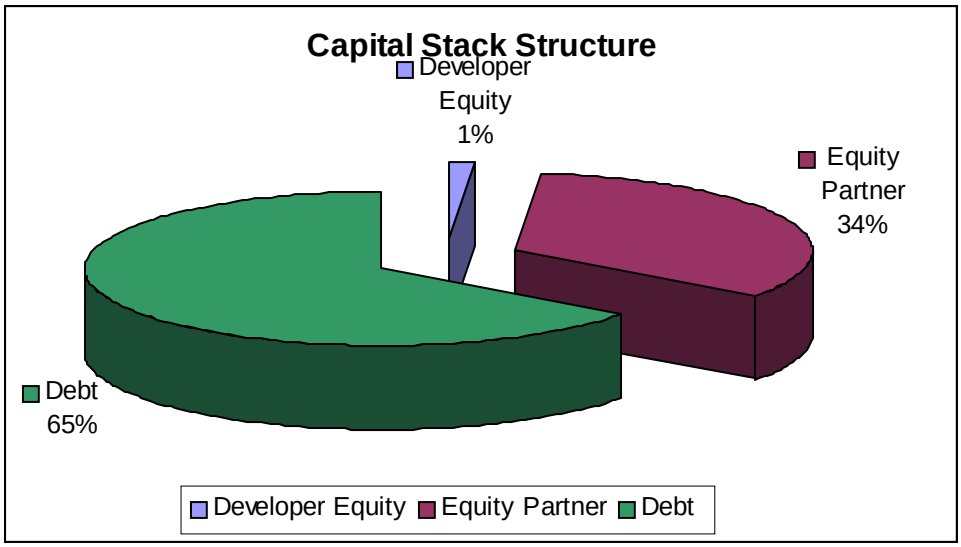
# Investment Structure

Due to the current stress in the financial markets and the overall weakened global economy, financing new real estate development projects has become extremely challenging. During 2008, the availability of debt for real estate has dwindled. Based upon the scarce amount of debt in the market, most development projects are not moving forward. Based upon conversations with many mortgage brokers and real estate lenders, there are a select number of projects that have been successfully financed recently; however, the placement of the debt has been the primary challenge and drives the composition of the capital stack.

## *Capital Stack Structure*

In recent history, the market allowed for real estate development to be financed with a relatively high degree of leverage. In many instances, first mortgage construction debt could be obtained for 80% to 85% of the total project cost. However, in the current financial environment, the maximum loan to cost ratio for a new retail commercial development has been significantly reduced. Commercial construction debt is now being structured at a level that accounts for between 65% and 70% of the capital stack. As such, the proposed financing structure consists of first mortgage debt for 65% of the total project cost. The remaining project costs will be funded from equity contributions of the development team and an equity partner.

| Sources | | | | Uses | |
|---|---|---|---|---|---|
| Developer Equity | $500,000 | 1% | | Land Acquisition | $5,600,000 |
| Equity Partner | $11,973,000 | 34% | | Hard Costs | $22,532,800 |
| Debt | $23,163,800 | 65% | | Soft Costs | $5,054,000 |
| | | | | Interest Carry | $1,450,000 |
| | | | | Development Fee | $1,000,000 |
| **Total** | **$35,636,800** | | | **Total** | **$35,636,800** |




## *Debt Analysis and Structure*

As noted previously, the availability of debt for commercial real estate is very limited in the current economic environment. As the real estate markets and the economy have deteriorated, most lenders have significantly modified their underwriting standards and lending requirements, and some lenders have exited the market altogether. For transactions and developments that require less than $25 million in debt, such as the Subject Project, the most likely source in the market is either a regional or local bank. A brief survey of regional and local banks that are active within the Baltimore-Washington Corridor was conducted and the lending parameters are summarized in the following tables.

| **Construction Debt** | |
|---|---|
| Maximum Loan to Cost | 65% - 70% |
| Minimum Debt Coverage Ratio | 1.25 X |
| Recourse | Full Recourse |
| Interest Rate | 300 – 400 basis points plus LIBOR<br>or<br>Prime to Prime plus 1% |
| Pre-leasing Requirement | Yes |

| Permanent Debt | |
|---|---|
| Maximum Loan to Value | 65% - 75% |
| Minimum Debt Coverage Ratio | 1.25X |
| Maximum Amortization | 25 years |
| Interest Rate | 7.25% - 8.00% |
| Recourse | 50% |
| Underwritten Cap Rates | 7% - 8% |

The proposed terms and plan for obtaining debt conform to the underwriting standards and pricing parameters outlined above. Debt financing will be pursued at the following terms:

| Proposed Construction Debt | |
|---|---|
| Loan Amount | $23,163,800 |
| Loan to Cost | 65% |
| Term | 30 months;<br>1 option to extend 12 months |
| Interest Rate | LIBOR + 350<br>Current indicative rate of 4.90% |
| Fee | 1%; 1/2% for extension |
| Recourse | Full Recourse |

## *Equity Analysis and Structure*

While the availability of debt in the current economic environment is limited, the availability of equity has not been constrained. There has not yet been a reduction in the number of players within the equity market; however, these players have adjusted their return expectations and requirements. Additionally, similar to the debt market participants, the equity market has become more conservative as it underwrites new transactions. An examination of the current market for equity was conducted by interviewing local intermediaries and brokers that represent (or interact with) a variety of equity sources. Equity investors for retail property within the Baltimore-Washington Corridor have IRR expectations in a range of 18%-21% and a return multiple of 2 times the initial investment.

The equity for this transaction has been proposed with the equity investor receiving a 12% preferred return during the course of a four year investment. As shown in the analysis below the equity investment will yield the investor an IRR of 19%. The analysis below shows the cash flow the equity

partner and the developer each receives during the term of the investment. The return of the equity investment occurs at the conclusion of the investment period when the exit strategy of asset disposition is implemented.

***Equity Investments***

| | |
|---|---|
| Developer | $500,000 |
| Equity Partner | $11,973,000 |
| **Total Equity Investment** | **$12,473,000** |

| | |
|---|---|
| Preferred Return to Partner | 12% |
| Annual Accrual | $1,436,760 |
| 4 year cumulative return | $5,747,040 |
| Split | 75% |

| | |
|---|---|
| Preferred Return to Developer | 12% |
| Annual Accrual | $60,000 |
| 4 year cumulative return | $240,000 |
| Split | 25% |

| | **Initial Investment** | **Construction Year 1** | **Construction Year 2** | **Construction Year 3** | **Stabilized Year One** | **Sale** |
|---|---|---|---|---|---|---|
| Project Cash Flow | $0 | $0 | $0 | $1,353,029 | $2,706,058 | $26,212,233 |
| Equity Partner | ($11,973,000) | $0 | $0 | $1,353,029 | $2,706,058 | $13,787,953 |
| Split | | | | | | $8,950,710 |
| Developer Fee | | $108,696 | $239,130 | $152,174 | | |
| Total Cash Flow | ($11,973,000) | $108,696 | $239,130 | $1,505,203 | $2,706,058 | $22,738,663 |
| IRR | 19% | | | | | |
| Multiple | 2 | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Developer | ($500,000) | $0 | $0 | $0 | $0 | $490,000 |
| Split | | | | | | $2,983,570 |
| Developer Fee | | $108,696 | $239,130 | $152,174 | | |
| Total Cash Flow | ($500,000) | $108,696 | $239,130 | $152,174 | $0 | $3,473,570 |
| IRR | 62% | | | | | |
| Multiple | 8 | | | | | |

*Notes:*

1.) Construction is completed in month 30 of the investment. Therefore "Construction Year 3" includes 6 months of stabilized income.

## *Exit Strategy*

As noted previously, the exit strategy, source of loan repayment, and the return of the investor's capital is a sale of the property upon reaching stabilization. An alternative exit strategy is to refinance the property upon reaching stabilized operations. In this case, at the conclusion of the four years the construction loan is refinanced, the capital is returned to the equity partner and ownership in the property is retained. Due to the current constrained state of the debt market, new development transactions are requiring large amounts of equity. As noted previously, the proposed financing structure assumes maximum leverage to be equal to 65% of the total project cost. At this level of debt, loan proceeds are not sufficient to return the equity investors capital and provide a satisfactory return. As such, the strategy of disposition will be executed. The strategy of a refinance and retaining property ownership can be used as a fall back, to provide the equity investor a satisfactory return, albeit over the course of a longer investment period.

The analysis of partitioning the IRR shows that the returns are driven primarily by the cash flow generated at disposition.

Partitioning the IRR

| Equity Partner | Cash Flow Year 1 | Cash Flow Year 2 | Cash Flow Year 3 | Cash Flow Year 4 | Cash Flow Sale |
|---|---|---|---|---|---|
| Cash Flow | $108,696 | $239,130 | $1,505,203 | $2,706,058 | $22,738,663 |
| 20% Discount Rate/IRR | | | | | |
| PV of Cash Flow | $90,580 | $166,063 | $871,067 | $1,305,005 | $10,965,790 |
| PV of Total Cash Flow | $13,398,504 | | | | |
| Cash Flow from Operations | $2,432,714 | **18.16%** | | | |
| Cash Flow from Refinance | $10,965,790 | **81.84%** | | | |

| Developer | Cash Flow Year 1 | Cash Flow Year 2 | Cash Flow Year 3 | Cash Flow Year 4 | Cash Flow Sale |
|---|---|---|---|---|---|
| Cash Flow | $108,696 | $239,130 | $152,174 | $0 | $3,473,570 |
| 92% Discount Rate/IRR | | | | | |
| PV of Cash Flow | $56,612 | $189,415 | $142,037 | $0 | $3,497,787 |
| PV of Total Cash Flow | $3,885,852 | | | | |
| Cash Flow from Operations | $388,065 | **9.99%** | | | |
| Cash Flow from Refinance | $3,497,787 | **90.01%** | | | |

An internal rate of return that is heavily dependent upon a disposition (or refinance) rather than cash flow from the project is generally a characteristic of an investment that has a high degree of risk. It should be noted that the period of the contemplated investment period is four years. As the IRR is so dependent upon the return of equity via disposition and the amount of proceeds that are generated through the sale, a sensitivity analysis was conducted. The following table shows the impact to the investment partner IRR and the development partner IRR when the assumed terminal cap rate is changed.

| Terminal Cap Rate | 7.50% | 7.75% | 8.00% | 8.25% | 8.50% | 8.75% | 9.00% |
|---|---|---|---|---|---|---|---|
| Investment Partner IRR | 22% | 21% | 20% | 19% | 18% | 17% | 16% |

# Market Strategy / Leasing

## *Leasing Strategy*

A significant challenge in completing the proposed development will be achieving lease up and stabilization quickly. With consumer confidence low, housing values falling, and unemployment rising, the current economic conditions are not favorable for retailers. The retail sector has seen several notable bankruptcy filings in 2008, such as Linens N Things, Mervyn's Department Stores, Steve & Barry's, and Circuit City. In addition to the bankruptcy filings, many retailers are announcing store closings, such as Starbucks, Talbot's, La-Z Boy, and others. Most retailers have reduced or eliminated plans for short-term growth. Author Lauren Shepherd recently wrote in an article in Retail Traffic Magazinge, that the retailers that have experienced a degree of success in the current economic environment are "discount retailers," such as Costco, Family Dollar, Dollar Tree, Sam's Club, and Wal-Mart. Additionally, a recent Washington Post article written by Ylan Q. Mui and Annys Shin indicates that grocery retailers remain successful, albeit with a focus reoriented from high-end specialty products to traditional grocery staples.

An analysis of the restaurant and food service segment of the market reveals a similar trend. According to published reports from the International Council of Shopping Centers, casual sit-down and fine dining restaurants have been hit the hardest on the sales side. However, despite the pain being felt within the sector, there are still chains looking to expand. According to an article published in Retail Traffic Magazine that was written by Leon Hortense, the chains are generally fast food chains, such as Chick-fil-A, McDonald's, and Burger King.

So, while there continues to be some expansion and leasing activity within the retail sector, the landlords and their leasing agents need to weigh an important factor: Do landlords and leasing agents increase their ability to lease space by targeting these expanding retailers, even if they are deemed to be a downgrade from the quality of tenants originally envisioned for the center? Similarly, does the market in which the center is being developed demand these "value oriented" retailers? Another challenge is one of economics and feasibility. In many instances, as the retailers that are expanding are generally less lucrative and have smaller margins, they are often not willing or able to pay rents at the targeted level.

As noted previously, the intent is to deliver to the market a retail center that will be suitable for the surrounding development. The surrounding development is all of a high quality and is comprised of Class – A office space, new luxury apartment product, and single-family housing that is generally being

sold at price points above the market's median housing price. As such, the leasing strategy will focus on tenants that are in-line with the trends and product within the community. Leasing efforts will not be geared toward discount retailers. It is expected that given the economic conditions, utilizing this strategy may result in slower absorption of the space; however, it is also expected that retailers will be attracted to the site based on the development activity in the submarket and the benefits that BRAC/Ft. Meade bring to the market.

As noted previously, the proposed development will bring three types of retail space to the market:

1.) Big Box – Targeted users/tenants will consist of grocery retailers. As stated previously, many grocery retailers continue to perform well in the current economic climate and have not reduced expansion plans. Giant is notably absent from the submarket and according to a Mat Adler, local broker with Transwestern, Food Lion (currently anchoring Ridgeview Plaza) may be searching a substitute location and/or a location for their new "Bloom" concept. These two tenants will be targeted early on in the development/entitlement process.
2.) Junior Box – traditional junior box users include drug stores, apparel retailers, and home goods retailers. Junior boxes are sometimes a suitable location within a center for restaurants. Notably absent from the submarket are some non-traditional users such as fitness centers, garden centers, and auto supply retailers.
3.) In-Line – users that occupy smaller bays within a retail center vary greatly. It is important to obtain a suitable mix of service providers (dry-cleaning operations, salons, brokerage offices, banks, etc), retailers, and restaurants. Again, uses and retail concepts that are currently absent from the submarket will be pursued.

## *Lender Requirements / Pre-leasing*

In speaking with commercial construction lenders at several local and regional banks including SunTrust Bank, Cardinal Bank, Virginia Commerce Bank, and Fulton Bank it is evident that speculative projects in today's market are not being financed. Pre-leasing requirements as a percentage of gross building square foot range somewhat; however, prior to issuing a commitment for financing, all of the lenders require that, at a minimum, the anchor tenant be identified and committed to the Project. Given the current economic conditions and the fact that many retailers are contracting, it is prudent to substantially pre-lease much of the center, prior to beginning construction. Therefore, in an effort to comply with lenders' standards and to reduce risk prior to commencement of construction, leases will be in place to generate enough income that the construction debt can be fully serviced on an interest only basis from cash flow. As shown in the following cash flow analysis, the property operates at a breakeven

debt service coverage ratio when gross income is at a level equal to $2,111,410, which is 49.6% of the pro forma gross potential income level of $4,260,000. Therefore, based upon a percentage of pro forma gross income, the Property will be 50% pre-leased prior to construction commencement.

| | Year One Stabilized | PSF |
|---|---|---|
| Gross Potential Income | | |
| Gross Rental Income | $2,111,410 | $11.41 |
| Reimbursements | $0 | $0.00 |
| Total Potential Income | $2,111,410 | $11.41 |
| Less Vacancy & Collection Loss | $42,228 | 2% |
| Effective Gross Income | $2,069,182 | $11.18 |
| Operating Expenses | | |
| Real Estate Taxes | $333,000 | $1.80 |
| Insurance | $37,000 | $0.20 |
| Common Area Maintenance | $222,000 | $1.20 |
| Management | $82,767 | 4% |
| Miscellaneous | $27,750 | $0.15 |
| Total Operating Expenses | $702,517 | $3.80 |
| Net Operating Income | $1,366,665 | $7.39 |
| Less Leasing Commissions | $0 | $0.00 |
| Less Tenant Improvements | $0 | $0.00 |
| Debt Service | $1,366,664 | $7.39 |
| DCR | 1.00 | |
| BTCF | $0 | |

| Debt Service Assumptions | |
|---|---|
| Loan Amount (fully funded) | $23,163,800 |
| Interest Rate Index | 1.40% |
| Interest Rate Spread | 3.50% |
| Cushion | 1.00% |
| Indicative Rate | 5.90% |
| 1 year of interest only debt service | $1,366,664 |

# Development Strategy

## *Implementation*

Implementation of the developing the Subject Property begins with negotiating a purchase/sales agreement for 7960 Clark Road. As noted previously, the market and financial analysis support a purchase price of $5,600,000. Effort will be made to obtain an option contract for site at the $5,600,000 level, subject to some of the following business terms:

- $250,0000 deposit at risk after acceptable due diligence period. Seek up to 120 days.
- Settlement upon achieving detailed site plan approval and receipt of grading permit.

Leasing efforts will begin immediately following ratification of the contract. Leasing agents will begin by marketing towards potential anchor tenants. Identification of the anchor tenant will generate interest from other junior box and inline tenants. As outlined within the leasing plan, the project will face a pre-leasing hurdle of 50% prior to commencement of the site work/construction work.

While obtaining debt financing in the current market will present a larger challenge, the financing plan involves pursuing the equity investor(s) prior to the placement of the debt. The plan seeks to achieve the goal of having equity investor in place prior to the time at which the purchase deposit is at risk. Placement of the debt will likely be tied to pre-leasing activity. At a minimum, it will be necessary to have the anchor tenant identified to generate interest from potential lenders. The possibility exists, that during the time consumed in identifying the anchor tenant (and equity investor), the debt market may return to a somewhat more normalized state. Therefore, while placement of the debt is a critical challenge, it will not be pursued immediately.

Upon meeting the stated pre-leasing goal, obtaining grading permits, and obtaining financing construction will commence. Construction commencement within an acceptable timeframe should enable 7960 Clark Road to deliver space to market prior to the competition. As stated in the market analysis, retail space is planned within Arundel Preserve and within the Parkside development. Both of Arundel Preserve and Parkside have significant residential components to their development programs. Due to the extremely weak housing environment, these projects will likely be delayed. Therefore, delivering space within the contemplated timeframe will allow 7960 Clark Road to be well received by the market.

## *Risk Analysis*

Effort has been made to address and mitigate the risks associated with the development of 7960 Clark Road. While risk cannot be entirely eliminated from the development, the risks associated with the entitlement process, construction, leasing, and financing have all been significantly mitigated.

1.) Entitlement risk – The development program does not require a zoning change. The existing zoning allows for the contemplated project to be developed by right. However, there is risk associated with the approval of the detailed site plan and achieving permits. This will be mitigated by:
   - Engaging architects, landscape architects, and engineers that have intimate experience with retail development in Anne Arundel County.
   - The land contract will stipulate a settlement that is tied to achieving site plan approval and grading permit, which will limit carrying costs during an extended site plan approval process.
   - Meeting often and early with local community groups and the local county council member in an effort to gain community and legislative support for the development.

2.) Construction Risk – Construction risk is inherent in all real estate development. The nature of the program for the Subject Property itself mitigates some of the construction risk in the proposed development. The program does not involve the construction of below grade structures and the retail buildings themselves are generally uncomplicated large "boxes." Construction risk will be mitigated further by procuring a guaranteed maximum price contract from a general contractor that has significant experience with retail product in the local market. Furthermore, in an effort to limit change orders, bids from the contractors will be obtained based on construction documents that are no less than 75% complete. Finally, the general contractor will be required to provide satisfactory payment and performance bonds and adequate insurance coverage.

3.) Leasing Risk – As noted previously, the current economic conditions have restrained leasing activity within the retail market. Generating leases will undoubtedly be challenging, however it is expected that the Property's strong demographics and the Property's proximity to Fort Meade will generate interest in the project. Efforts have been made to mitigate the risk of having substantial vacancy and slow absorption, by imposing a pre-leasing requirement of 50% of the

pro forma gross income. At this level, the project generates sufficient cash flow to service the contemplated debt.

4.) Financing Risk – Given the current distressed state of the debt markets, financing will likely be the largest obstacle the Project faces. The current markets for debt and construction debt for commercial real estate construction debt are unlike any in recent history, and there is no *one* thing that can be done to overcome the challenge of obtaining financing. However the following aspects of the proposed development may make it attractive to potential lenders:

- Transaction Size – One of the players within the debt market that remains active are the local/regional banks. As such, many of the projects that are successful in obtaining financing in the current market are the smaller transactions (seeking debt of less than 25 million), which generally fit within the model of a balance sheet lender, such as a regional bank.
- Terms – It is imperative that expectations for loan terms are realistic and that the underwriting be in-line with what is available in the debt marketplace. As noted previously, the loan terms being sought in conjunction with the Subject Property involve low leverage ratios, large interest rate spreads, substantial pre-leasing requirements, and full recourse. These terms are what the debt market require and generally reduce the financial risks to the project that are associated with high leverage transactions.

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# Interviews and Comments

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- Greg Fernebok, Harvey Property
- Farhad Saba, The Saba Group
- Donnie Gross, Potomac Holdings
- Mike Fox, Anne Arundel Planning and Zoning Office
- Brad Kotz, Seneca Properties, Inc.
- Fred Wine, The Quantum Companies
- Brett Griffith, Fortis Development
- Mathew Adler, Transwestern
- Neil Tucker, Chesapeake Real Estate Group
- Michael Isen, NAI The Michael Companies
- Brandon Weiss, NAI
- Stephen Pugh, The Rappaport Companies
- Raymond Lyon, SunTrust Bank
- Robert Lavery, Cardinal Bank
- Thomas Loomis, Virginia Commerce Bank