

# Update of Market Conditions Landmark/Van Dorn Plan Advisory Group

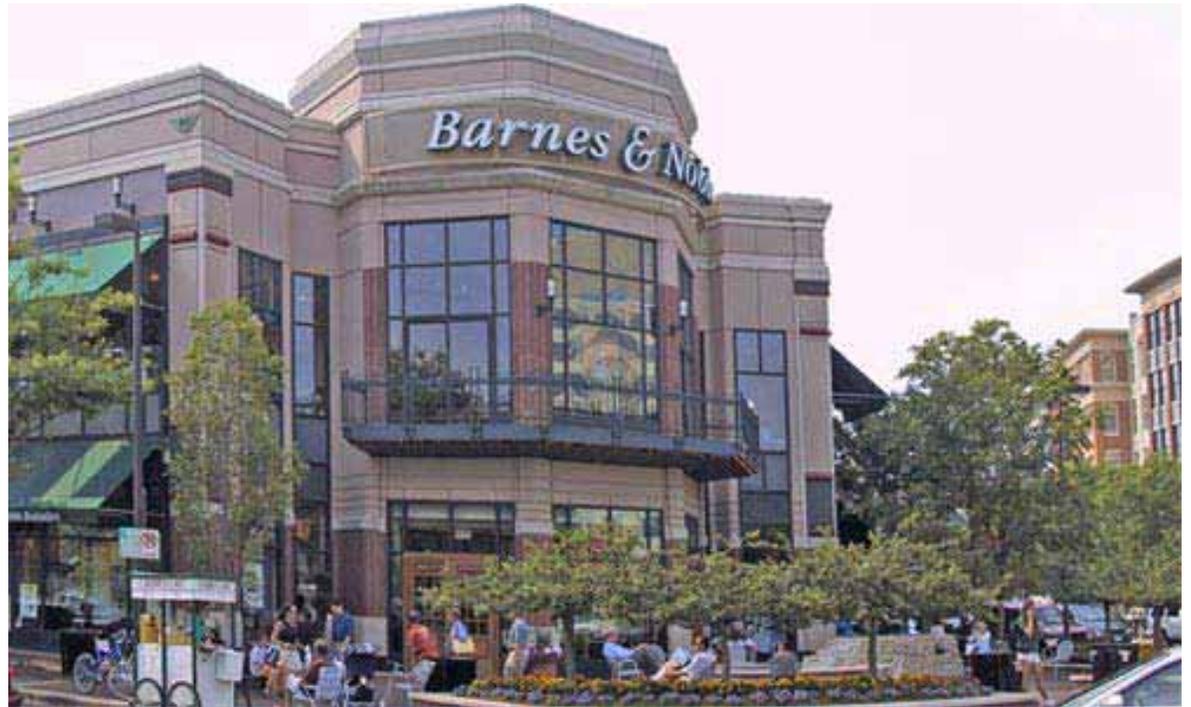
City of Alexandria, Virginia | March 17, 2008  
Marc McCauley, Senior Principal



# MARKET EVOLUTION OF VAN DORN AREA FROM THIS...



# MARKET EVOLUTION OF VAN DORN AREA TO THIS...



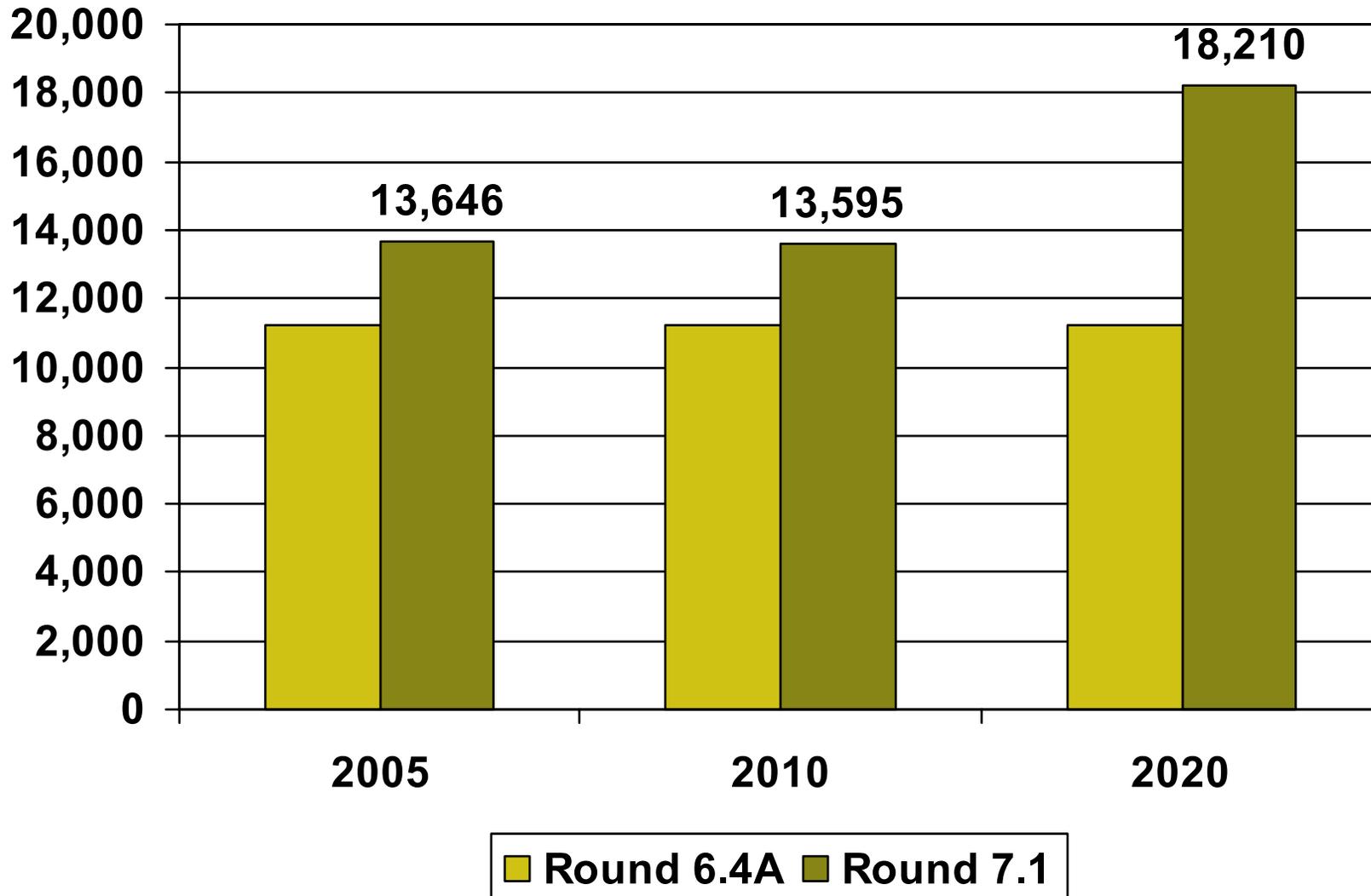
# MARKET EVOLUTION

## WHAT DRIVES LAND USE SHIFTS?

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

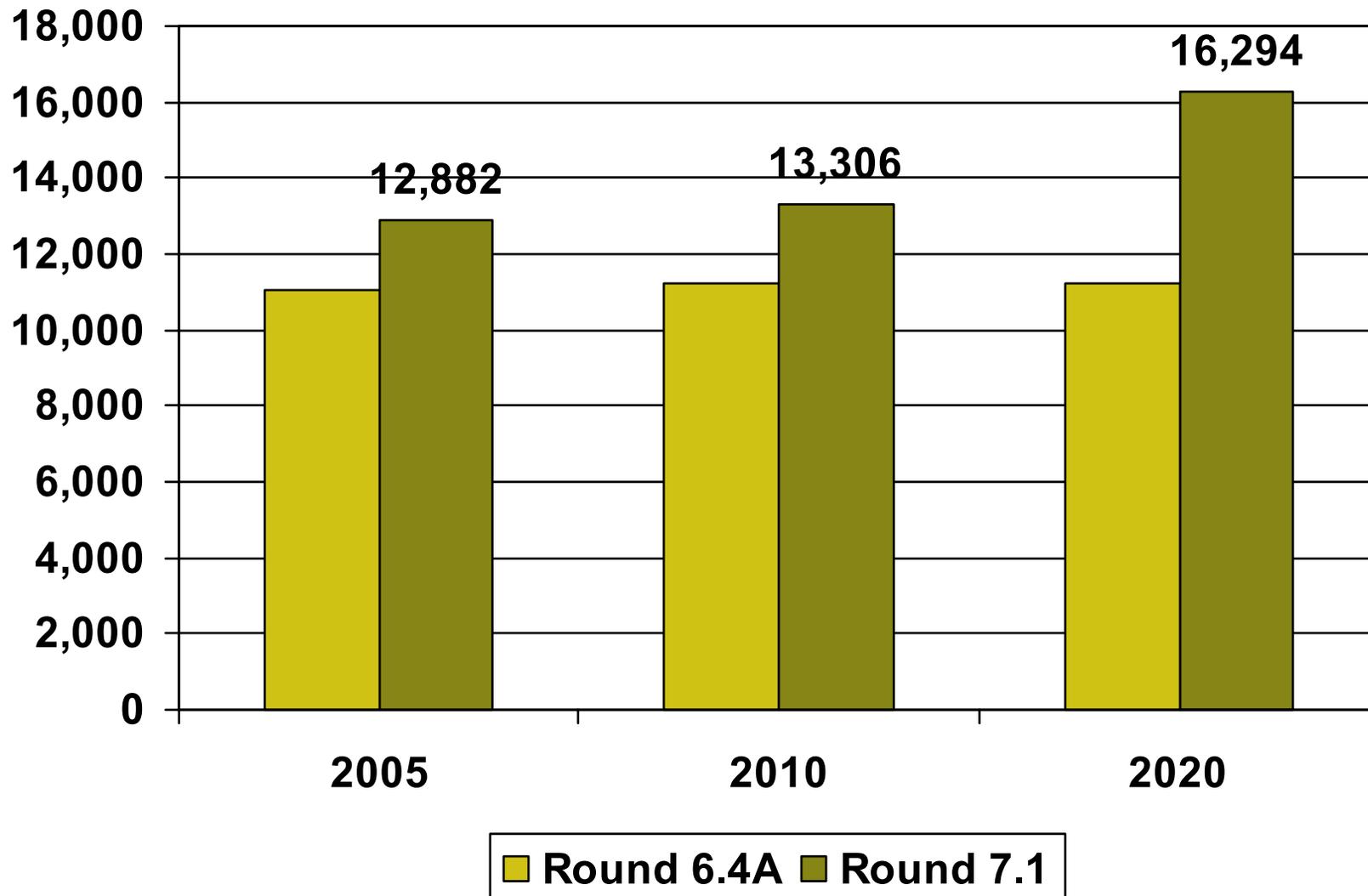
# GROWTH PROJECTIONS REFLECT SHIFT SIGNIFICANT SHIFT IN EMPLOYMENT PROJECTIONS

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



# GROWTH PROJECTIONS REFLECT SHIFT SIMILAR SHIFT IN HOUSEHOLD PROJECTIONS

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



# PROJECTED GROWTH: IMPACT ON LAND USE

## WILL DRIVE MIX OF LAND USES

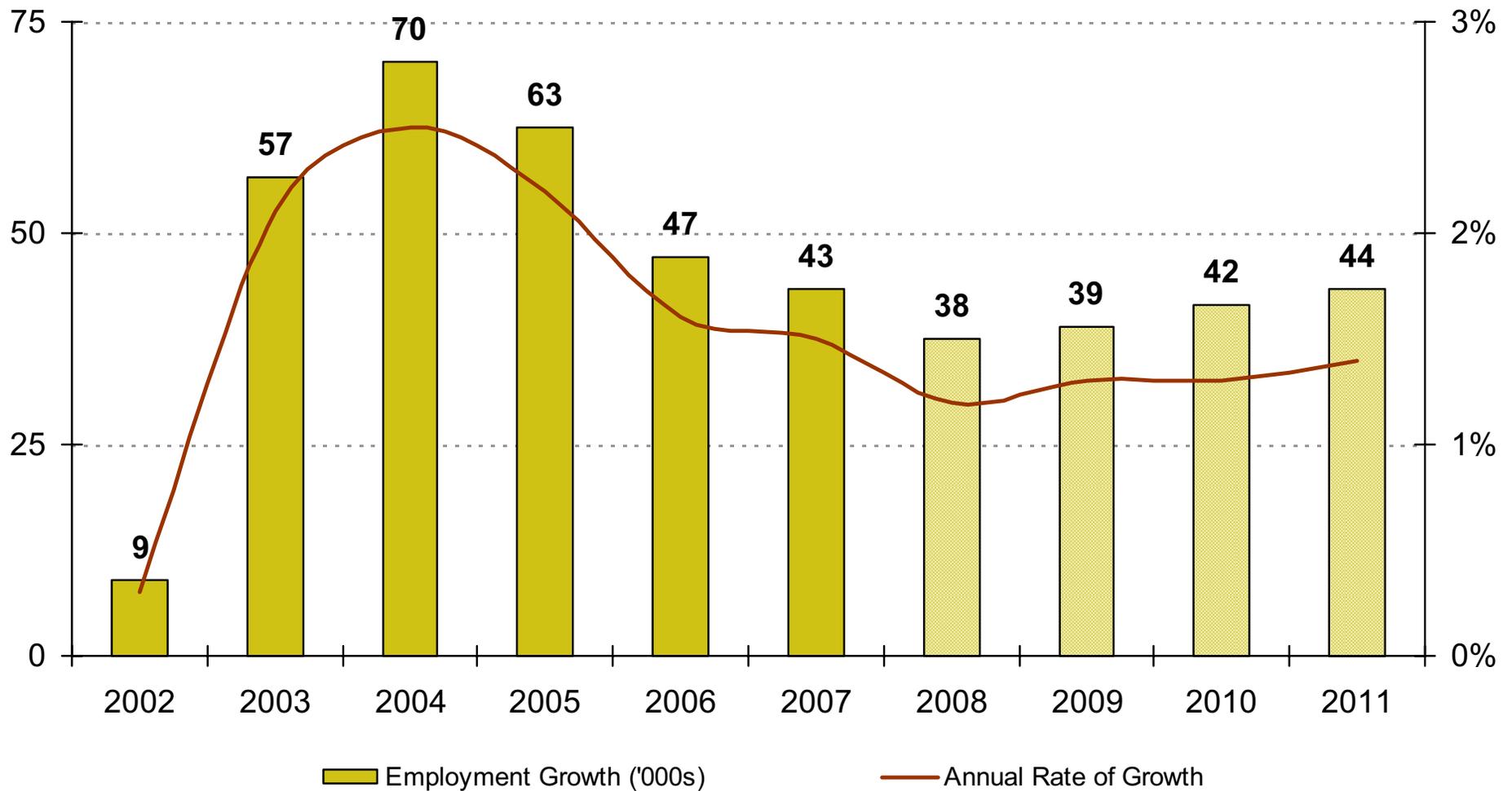
- **Assumes Significant Redevelopment at Higher Densities**
- **Projections Reflect Strong Demand for Multiple Land Uses:**
  - **Residential: Multifamily housing, with density of product increasing over time as the market continues to shift**
  - **Retail: Strong existing demand, combined with household growth, will drive reinvention of retail environment**
  - **Retail: Mix of destination and neighborhood-serving retail options**
  - **Office: Strong local and community-serving boutique office opportunities as part of mixed-use cores**
  - **Office: Select opportunities for large, regional Class A office development, but requires creation of market that does not exist today**

# NEAR-TERM BEST CASE: SOFT LANDING

## IS DC RECESSION PROOF?

### Employment Projections for the Washington Region

2008 - 2011



SOURCE: Center for Regional Analysis, George Mason University

# LONG-TERM VIEW, NEAR-TERM REALITIES

## ASSUME MARKET CYCLES, BUT FUNDAMENTALS STRONG

- **Plan Should Reflect Longer-Term Fundamentals**
- **Longer-Term Vision Should be Primary Focus of Planning Process**
- **Plan Should be Flexible:**
  - **With Regard to Land Uses & Built Forms**
  - **Allow For Inevitable Market Cycles**
- **Current Market Cycle: Challenges Ahead**
  - **Economic Slowdown Very Likely**
  - **Supply-Demand Imbalances in Variety of Product Types**
  - **Will Impact Timing, Character of First-Generation of Redevelopment Projects**



# Residential Market Opportunities

# RESIDENTIAL MARKET OPPORTUNITIES

## VAN DORN POISED FOR GROWTH IN THE LONG-TERM

- **Emergence as Class A Multifamily Submarket**
- **Long-Term Growth Fundamentals Still Very Strong**
  - **Expect COG Projections by 2020 to Hold**
  - **Vast majority of New Housing Units Will Be MF**
  - **2,000 – 3,000 Net New MF Units by 2020 in Van Dorn Area**
- **Significant Rehabilitation and Repositioning of Existing MF Housing Stock In Addition to Redevelopment**

# MF HOUSING TYPOLOGIES

## MARKET WILL EVOLVE OVER TIME

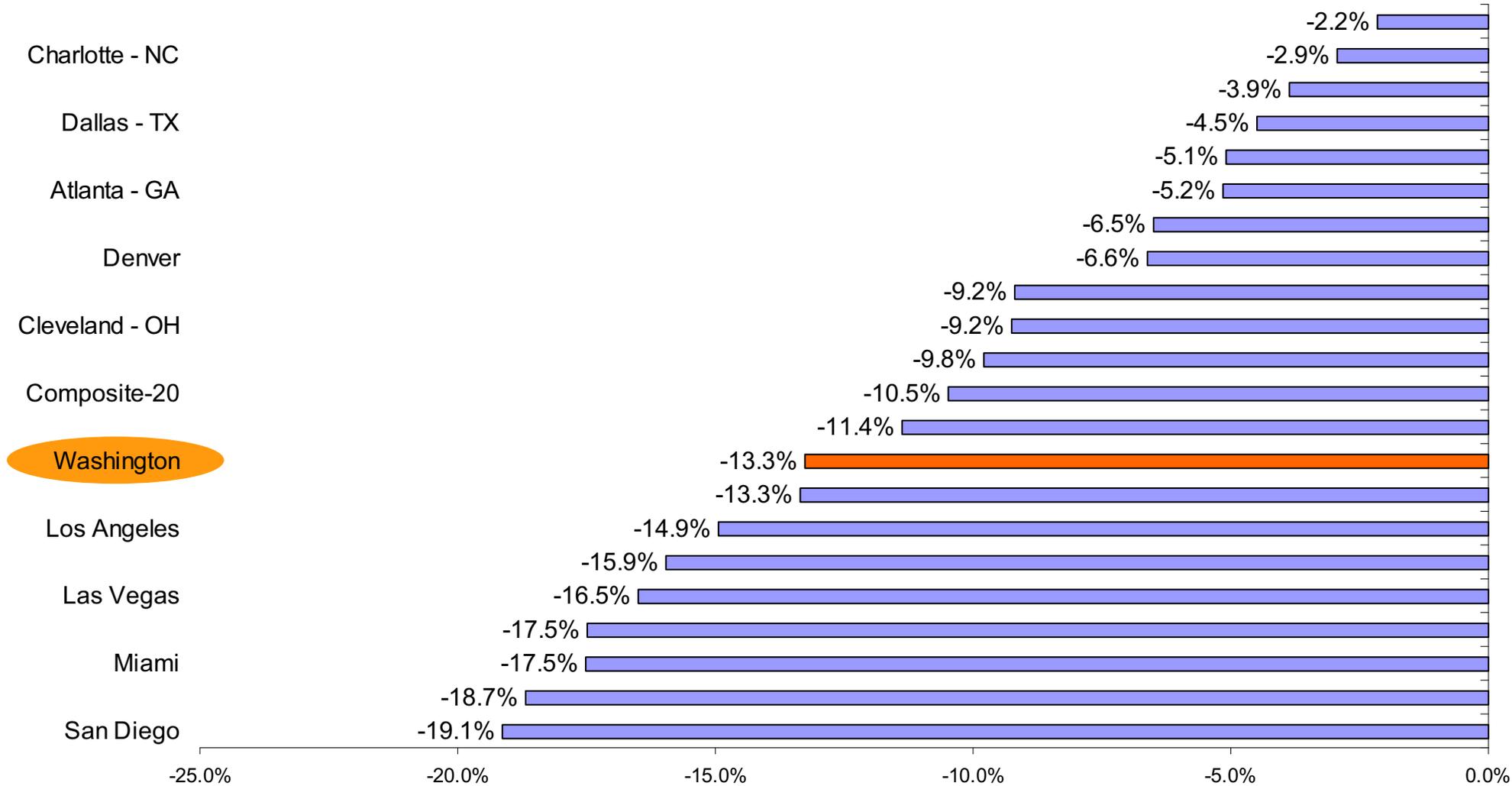
- **As Ability to Achieve Higher Rents/Prices Evolves, Market Will Deliver More Dense and More Costly Product Types**
- **Rents/Prices Very Sensitive to Site Location**
- **Height: Movement from Stick-Built Product (3 to 5 Stories) Into Mid-Rise (6 to 8 stories) and High-Rise (10+ Stories) Products**
- **Mixture of Uses: Movement from Limited Bottom Floor Retail to More Complicated Mixed-Use Projects**
- **Parking: Movement Away From Surface Parking, First to Structured Parking and Eventually to Underground Parking**



# WE ARE CURRENTLY IN A PERIOD OF RESIDENTIAL MARKET CORRECTION

## Annual Percent Change Price

Recent Change from Recent Peak to January 2008

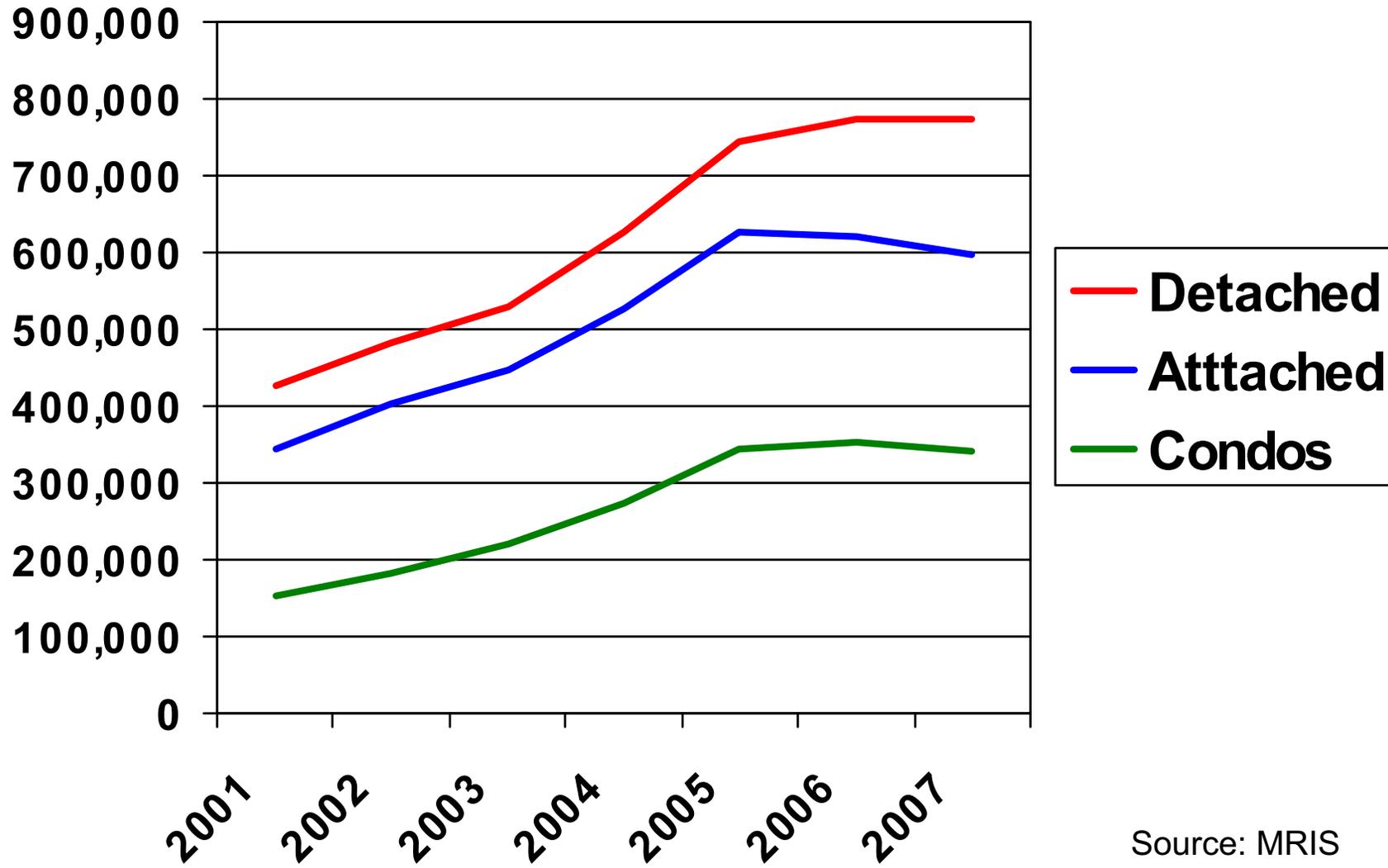


SOURCE: S&P/Case-Shiller Home Price Index

# ALEXANDRIA NOT IMMUNE, BUT RESISTANT

## PRICES HAVE STAGNATED, BUT GENERALLY HOLDING

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



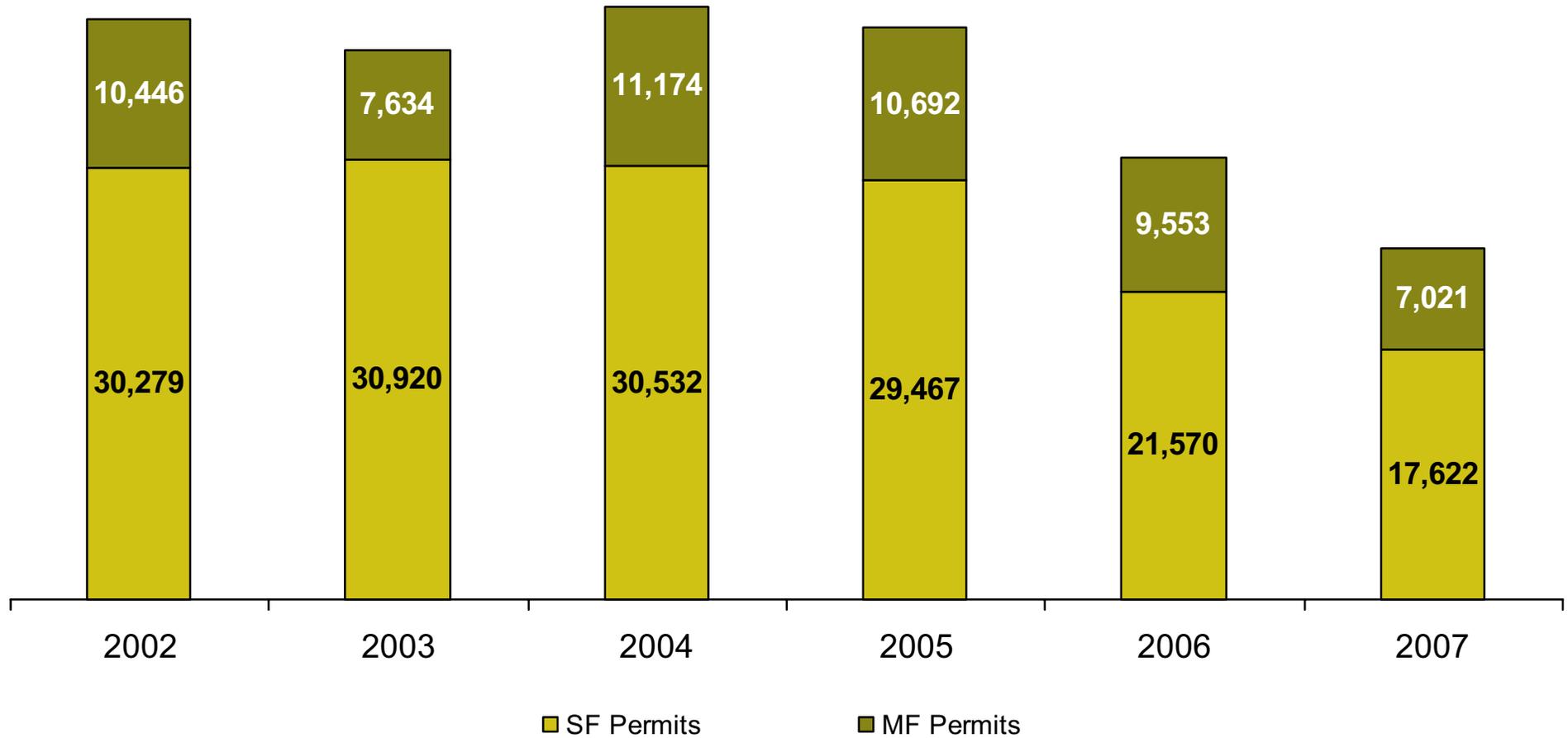
Source: MRIS

# REGIONAL MF DEMAND

~9,500 MF PERMITS PER YEAR IN RECENT PAST

## Single-Family and Multifamily Housing Permits

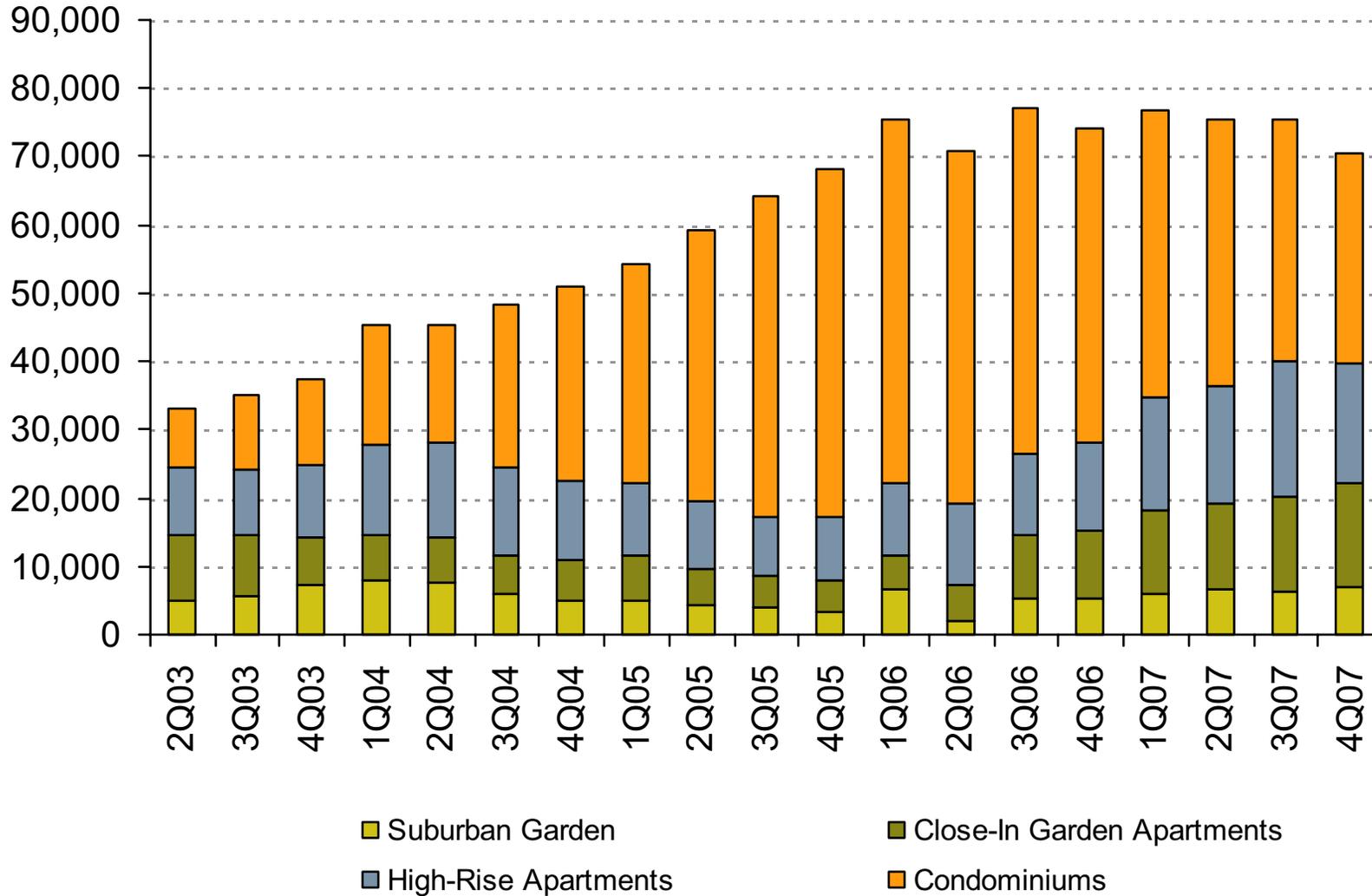
Washington, DC Region, 2002 to 2007



SOURCE: US Census Bureau

# EVEN IF RECENT PAST REFLECTS NEAR TERM ...THE 36-MONTH PIPELINE HAS ~7.5 YEARS OF SUPPLY

## 36 Month MF Pipeline in Washington DC Region

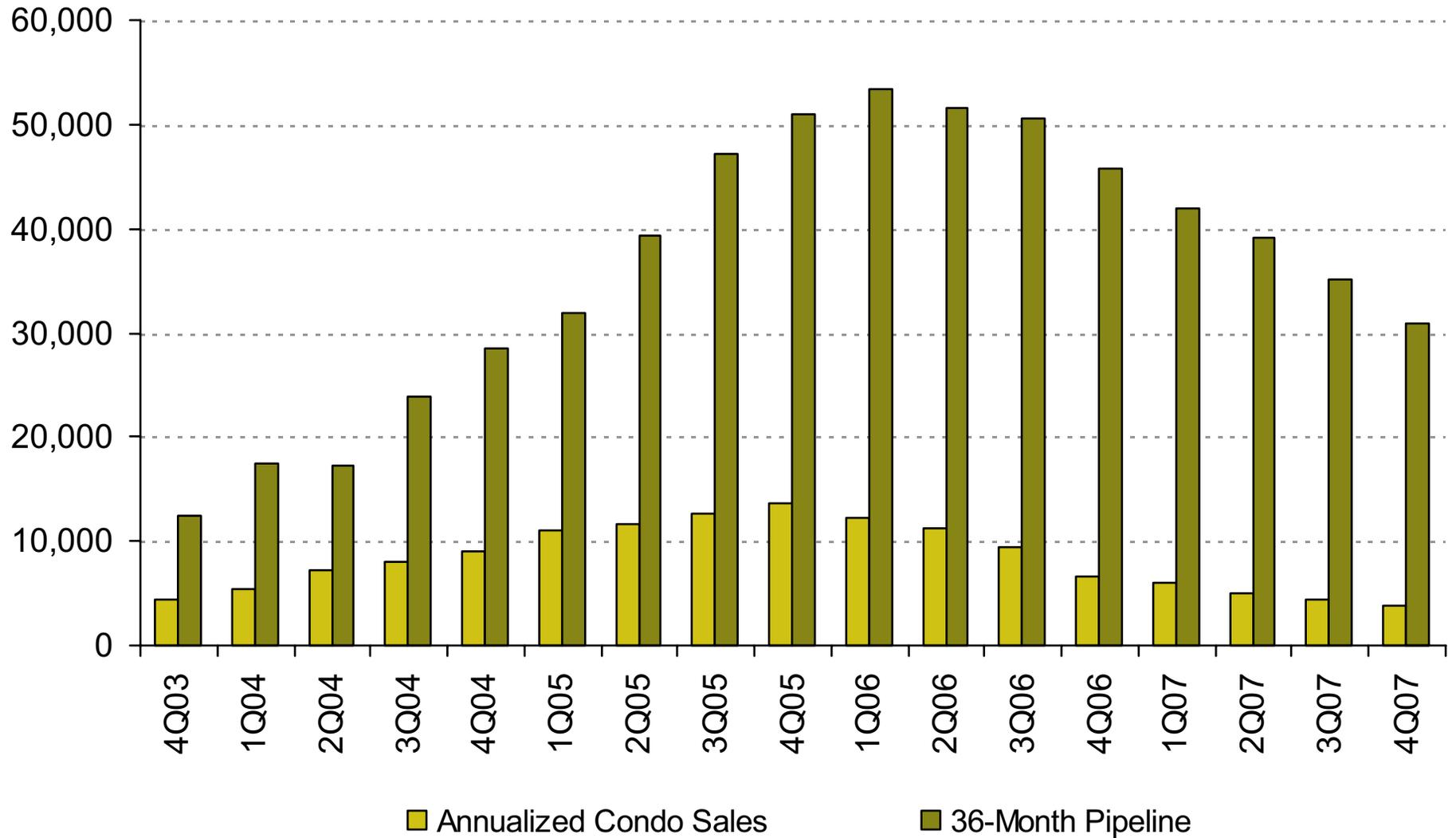


In 2005, rental apartments dropped to 25% to 30% of total MF pipeline, but climbed to over 50% by 4Q07.

SOURCE: RCLCO; Delta Associates

# THE CONDOMINIUM MARKET

## PIPELINE OUTPACED DEMAND EVEN BEFORE CRASH

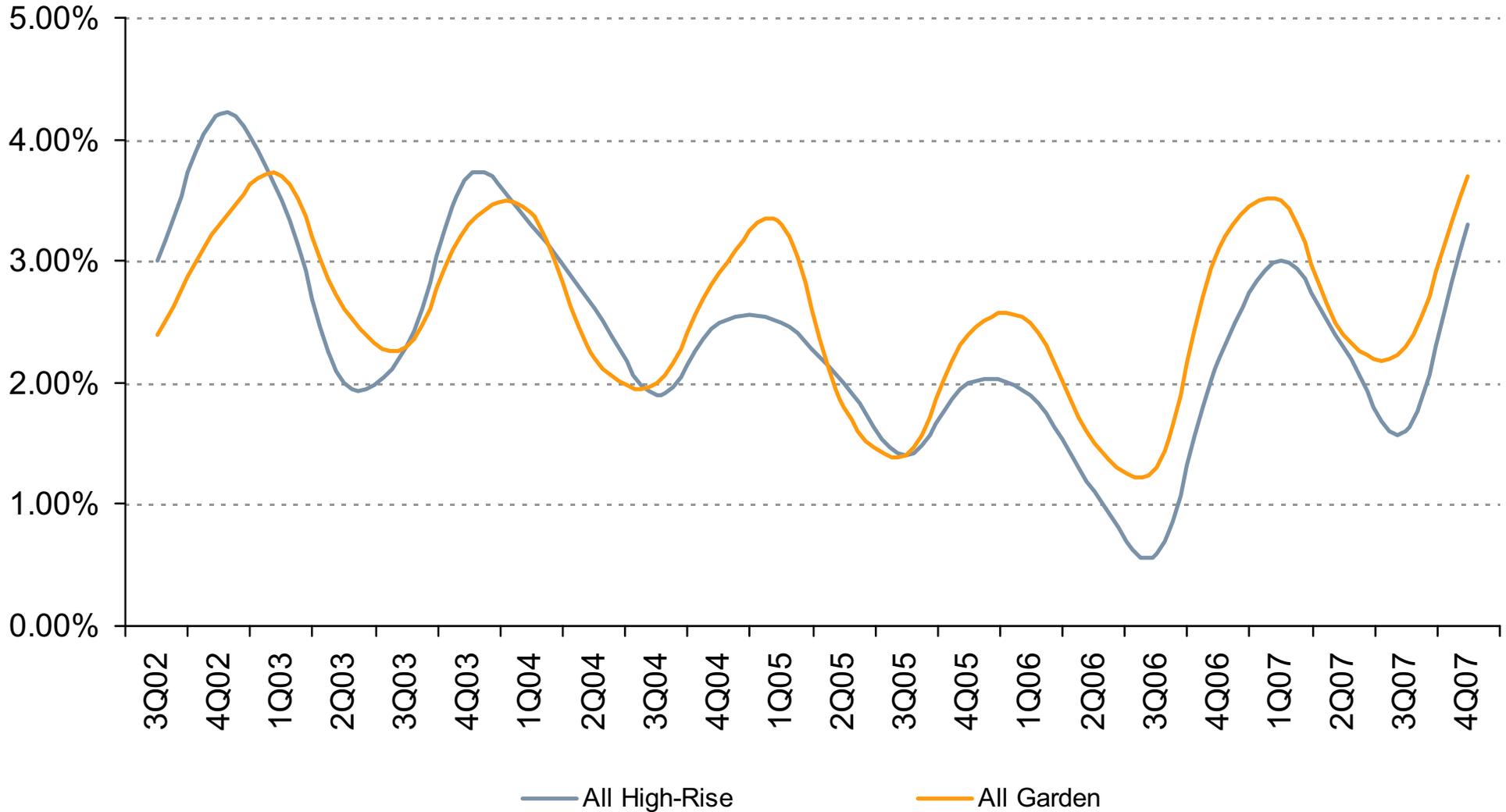


SOURCE: RCLCO; Delta Associates

# RENTAL APARTMENT MARKET

## HISTORICALLY HEALTHY

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

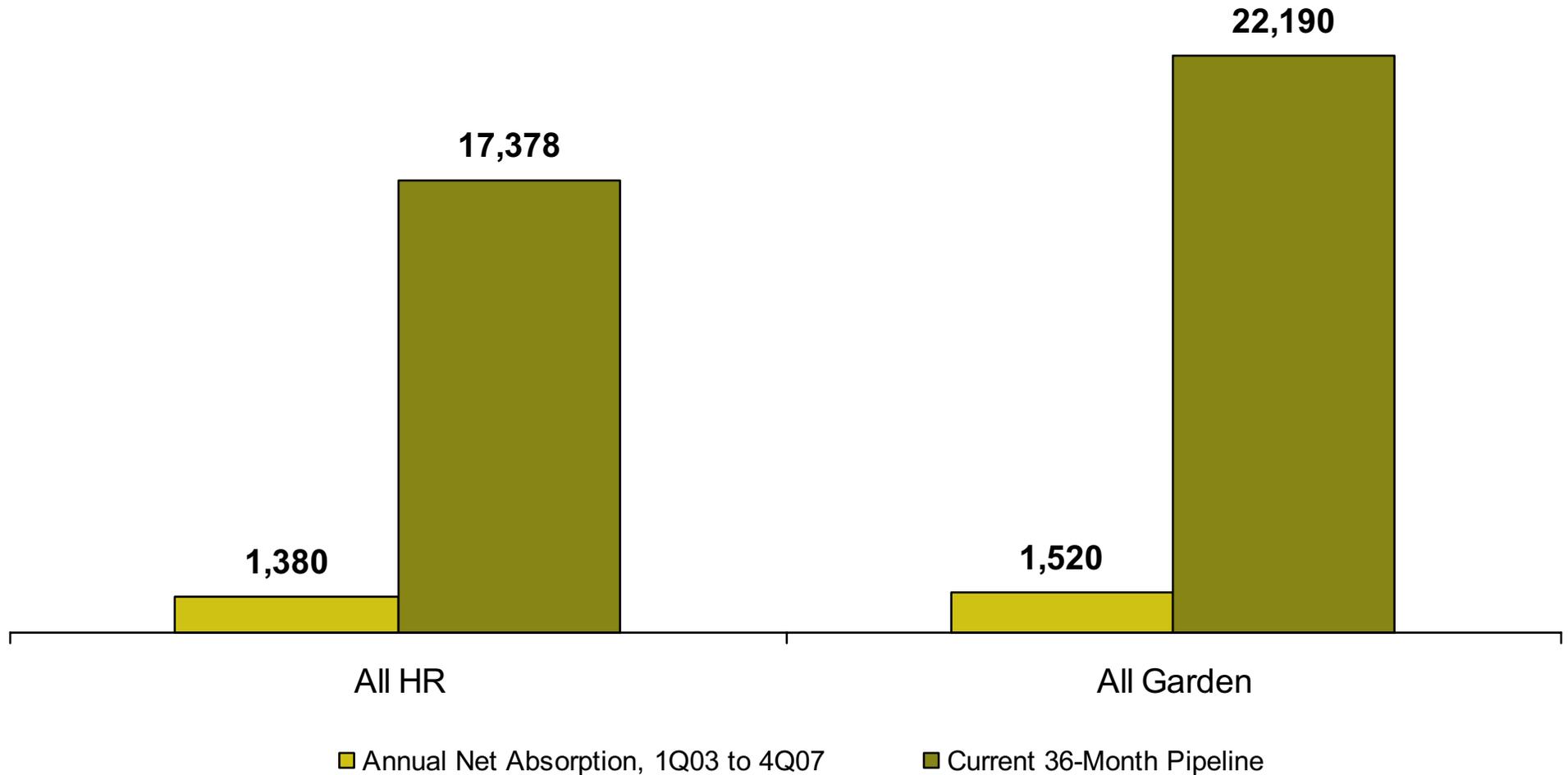


SOURCE: RCLCO; Delta Associates

# NET ABSORPTION OF CLASS A RENTALS

## PIPELINE VERY IMPOSING

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



SOURCE: RCLCO; Delta Associates

# MULTIFAMILY MARKET TRENDS

## KEY ISSUES FOR VAN DORN

- **Likely 3 to 4 Years of Market Imbalance in Regional MF Market**
- **No Submarkets Will be Immune, Established Submarkets/Locations Will Come Back First**
- **Near-Term Challenge for Van Dorn Area As It Works To Establish The Location Relative to Regional Competitors**
- **2008 to 2012 Period Will Likely See Less New Household Growth in Van Dorn Area Than Expected**
- **Long-Term Fundamentals for Redevelopment Still Very Strong**

# MULTIFAMILY MARKET TRENDS

## KEY ISSUES FOR VAN DORN

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



# Retail Market Opportunities

# RETAIL MARKET OPPORTUNITIES

## RETAIL REINVENTION

- **Excellent Access and Visibility Along Corridor Will Drive Investments in Retail**
- **Existing Retail Base In Van Dorn Area Aged and Inadequate**
- **Strong Pent-Up Demand for Upgraded Retail Offerings**
- **New MF Development/Rehabilitation Creates Fertile Environment for Retail Investment**
- **Van Dorn Area Has Ability to Serve Multiple Retail Markets – Regional/Community, Neighborhood, and Local**

# RETAIL TYPOLOGIES

## VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

- **Regional/Community Retail:** Typically 800K to 1M+ SF of retail serving broad market area. Anchored by big and medium box stores. Increasingly incorporating lifestyle retail component.



# RETAIL TYPOLOGIES

## VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

- **Lifestyle Retail: Typically 200K to 600K SF. Focus on entertainment, restaurants, boutique retail; larger formats incorporate movie theater and medium box retailers as anchors, as well as more conventional in-line comparison retailers.**



# RETAIL TYPOLOGIES

## VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

- **Neighborhood Retail: 100K to 250K of retail, typically anchored by grocery store. Focus on convenience retail, but often incorporates local-serving restaurants as well. Urban neighborhood retail concepts are now more common.**



# RETAIL TYPOLOGIES

## VAN DORN AREA ABLE TO SERVE MULTIPLE MARKETS

- **Local-Serving Retail: 15K to 50K SF of local-serving convenience retail and restaurants. Very limited target market area; designed to serve primarily immediate residents and workers.**



# RETAIL MARKET OPPORTUNITIES

## OPPORTUNITY MATRIX

Retail Type	Strength of Opportunity	Where
Regional/ Community	Strong in near and mid terms	Redevelopment of Landmark Mall
Lifestyle	Strong in near and mid term	As part of Landmark Mall redevelopment; over time smaller lifestyle concentrations along Van Dorn Street
Neighborhood	Strong in near and mid term	Fronting Van Dorn, or immediately off of Van Dorn but fronting major side road
Local Serving	Strong in mid and long terms	Ground floor on side streets and parts of Van Dorn not established as a primary retail core

# RETAIL MARKET OPPORTUNITIES

## HOW DO NEAR-TERM CHALLENGES IMPACT RETAIL?

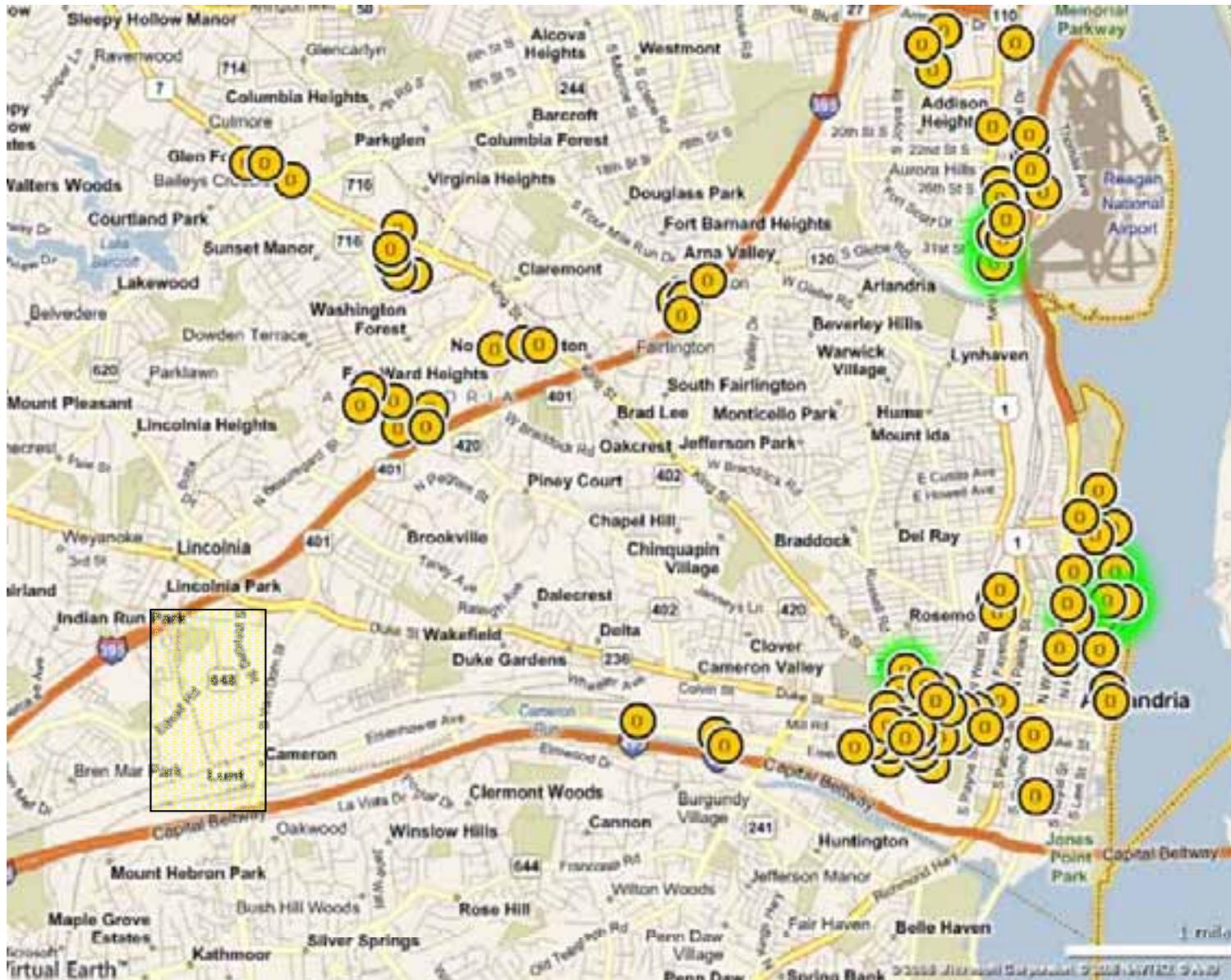
- **Retail Development Potential In Van Dorn Not Necessarily Driven by Projected HH Growth**
  - **Strong Pent-Up Demand From Existing HH Base For Higher Quality Retail**
  - **Ability to Draw From Larger Market Area With Destination Retail**
- **Stalling of Residentially-Driven Mixed-Use Projects in Near Term Will Limit Ability to Deliver New Retail**
- **Economic Weakness Threatens Short-Term Performance of Lifestyle Retail Sector**
- **Near-Term Softness in Lifestyle Retail Sector**



## Office Market Opportunities

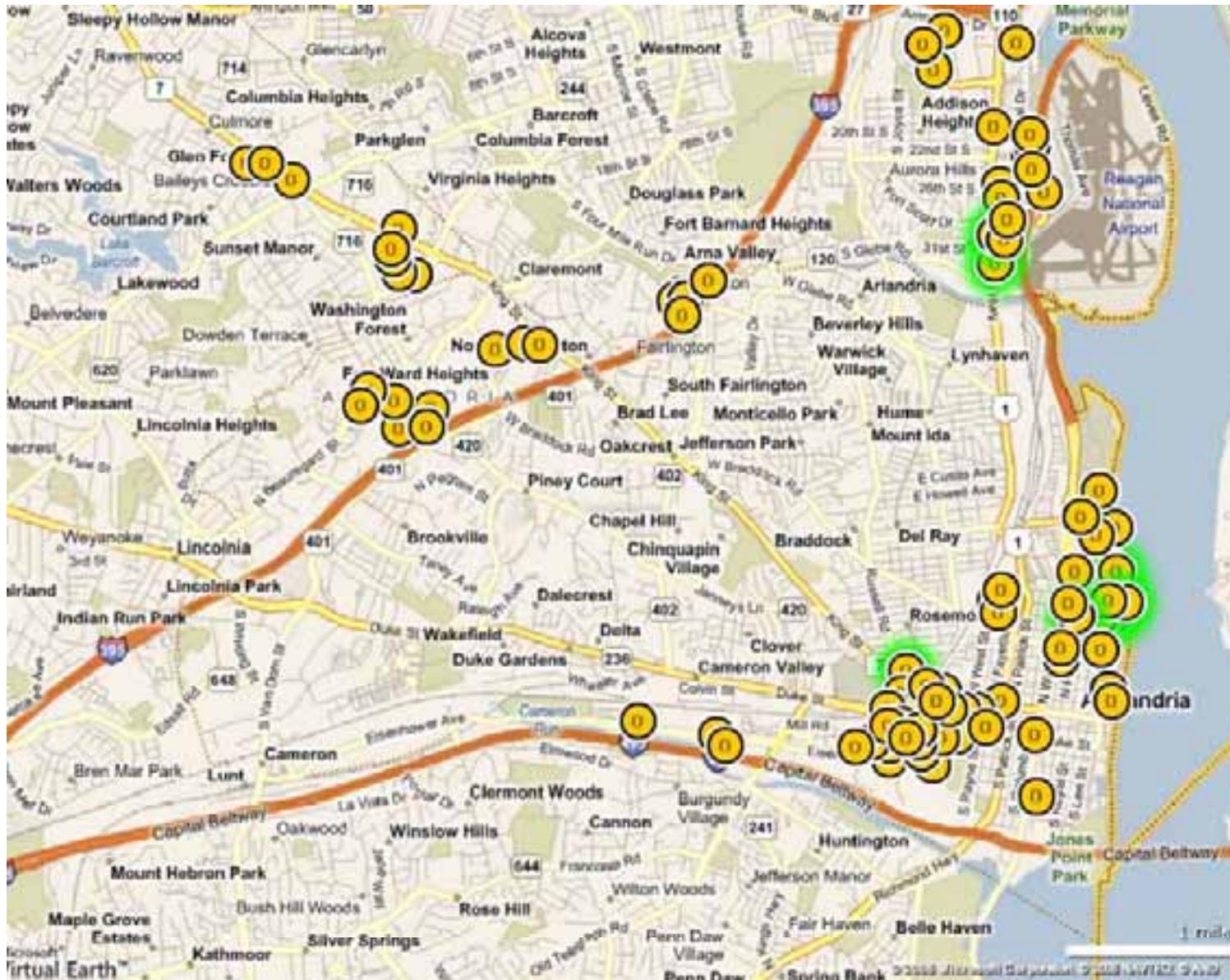
# CLASS A MARKET OFFICE MARKET

## VAN DORN TODAY: NOT A SIGNIFICANT OFFICE MARKET



SOURCE: RCLCO; Costar

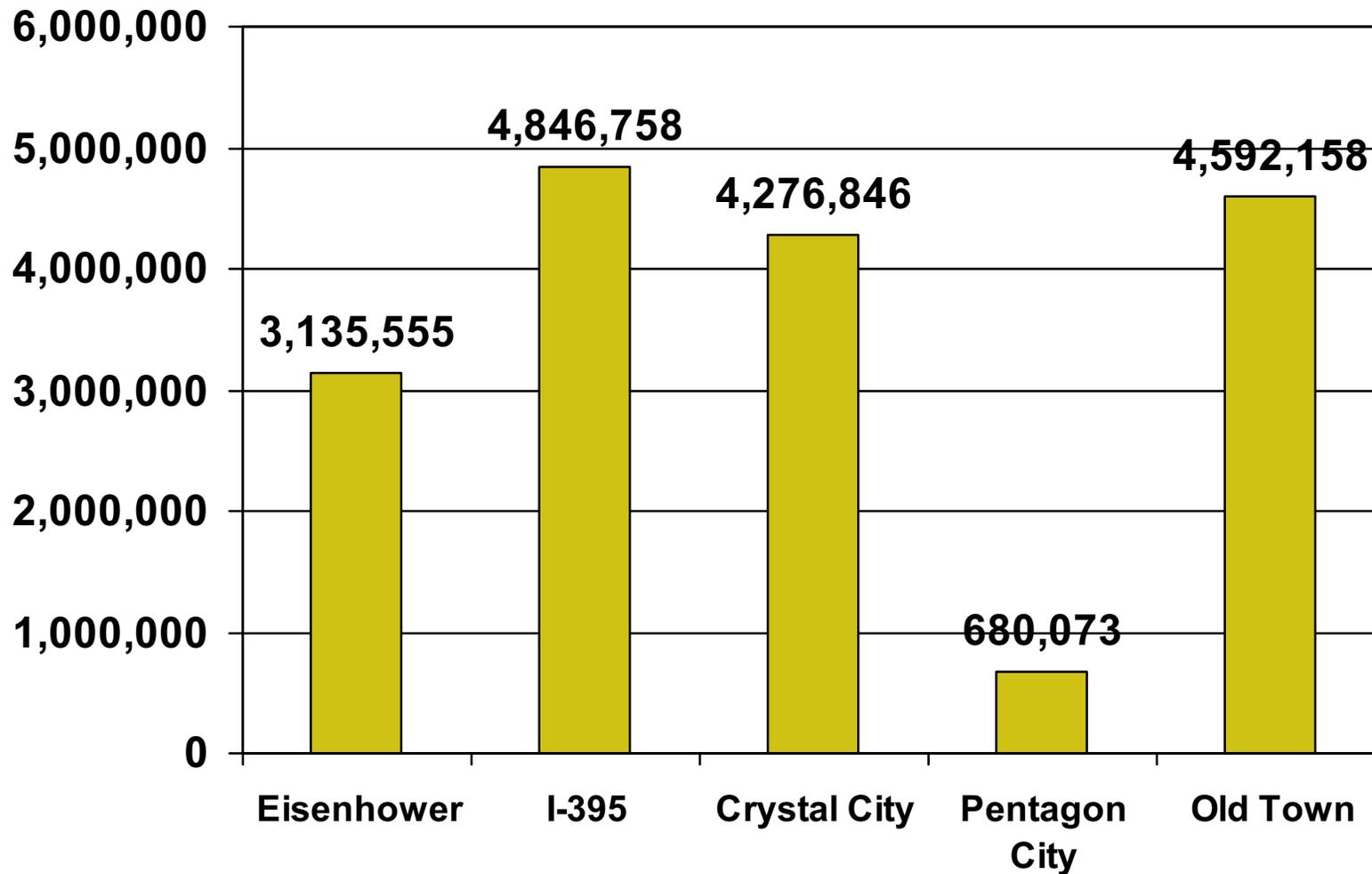
# CLASS A MARKET OFFICE MARKET BUT IS LOCATED AT EDGE OF EXISTING CORES



SOURCE: RCLCO; Costar

# CLASS A MARKET OFFICE MARKET OVER 17.5M SF IN NEARBY SUBMARKETS

Class A Inventory, March 2008, Selected Submarkets

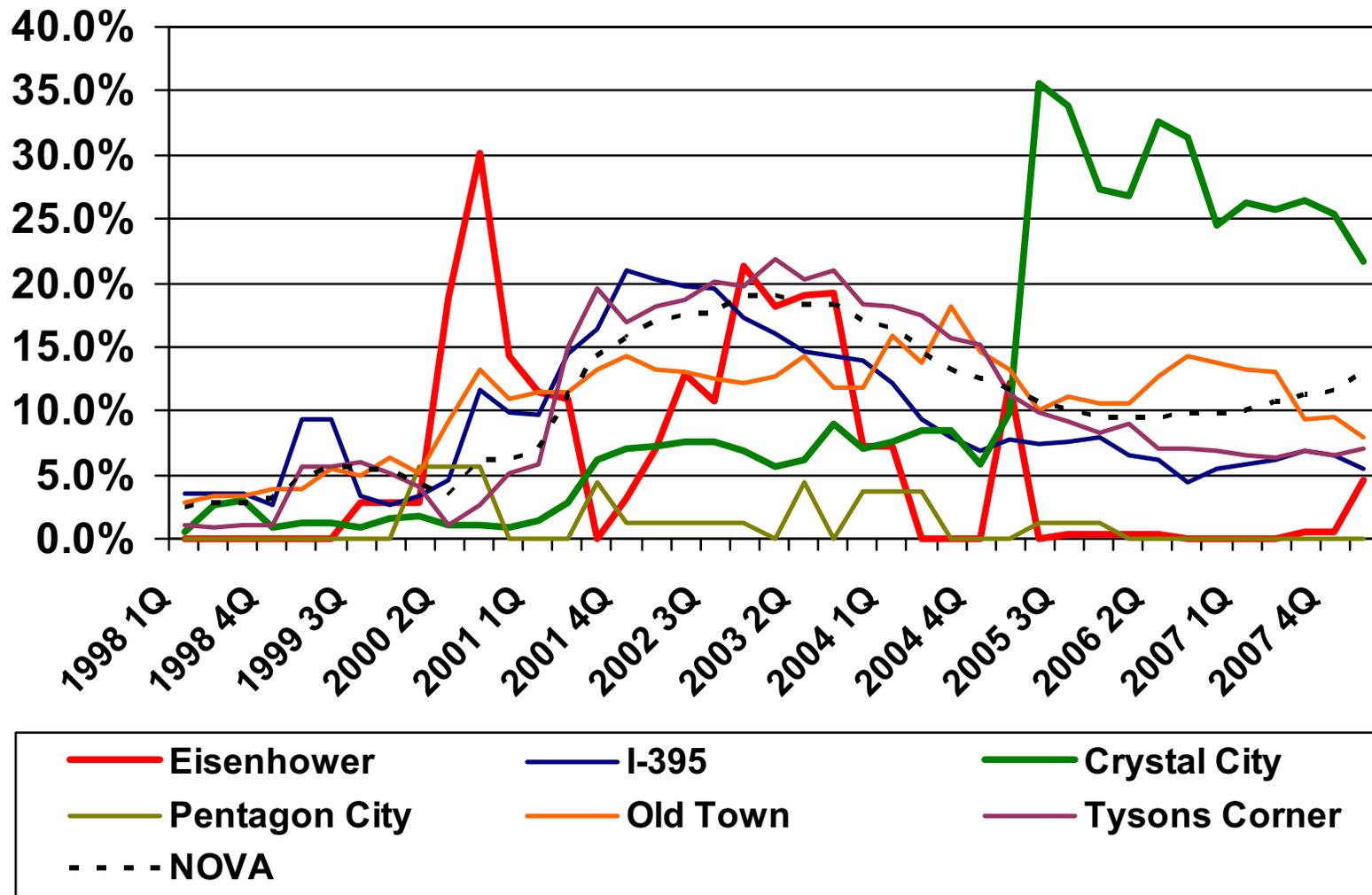


SOURCE: RCLCO; Costar

# CLASS A MARKET OFFICE MARKET

## HEALTHY VACANCY RATE TRENDS

Vacancy Rates, 1Q98 to March 2008, Selected Submarkets

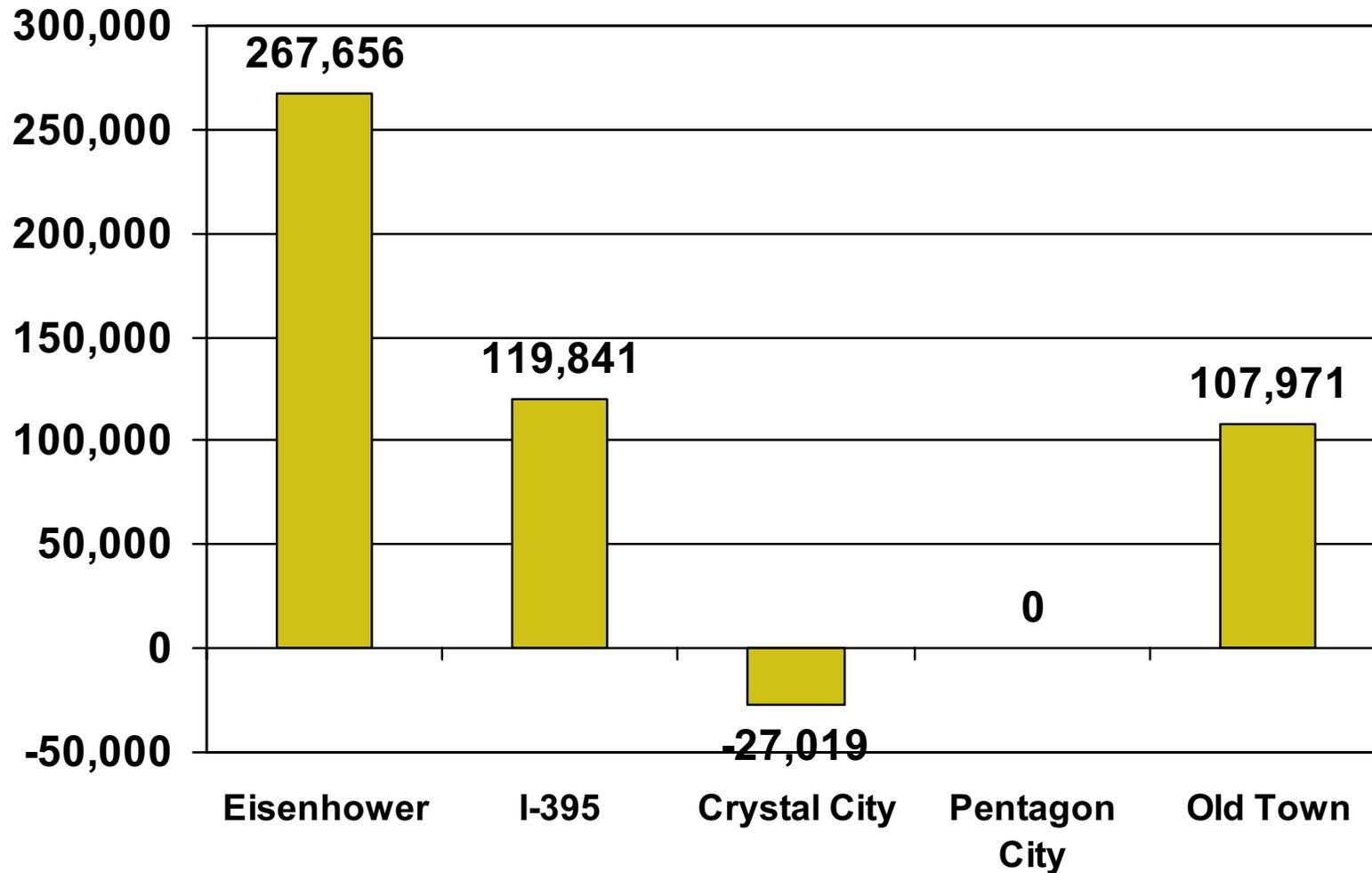


SOURCE: RCLCO; Costar

# CLASS A MARKET OFFICE MARKET

## MODERATE GROWTH IN SECONDARY CLASS A CORES

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

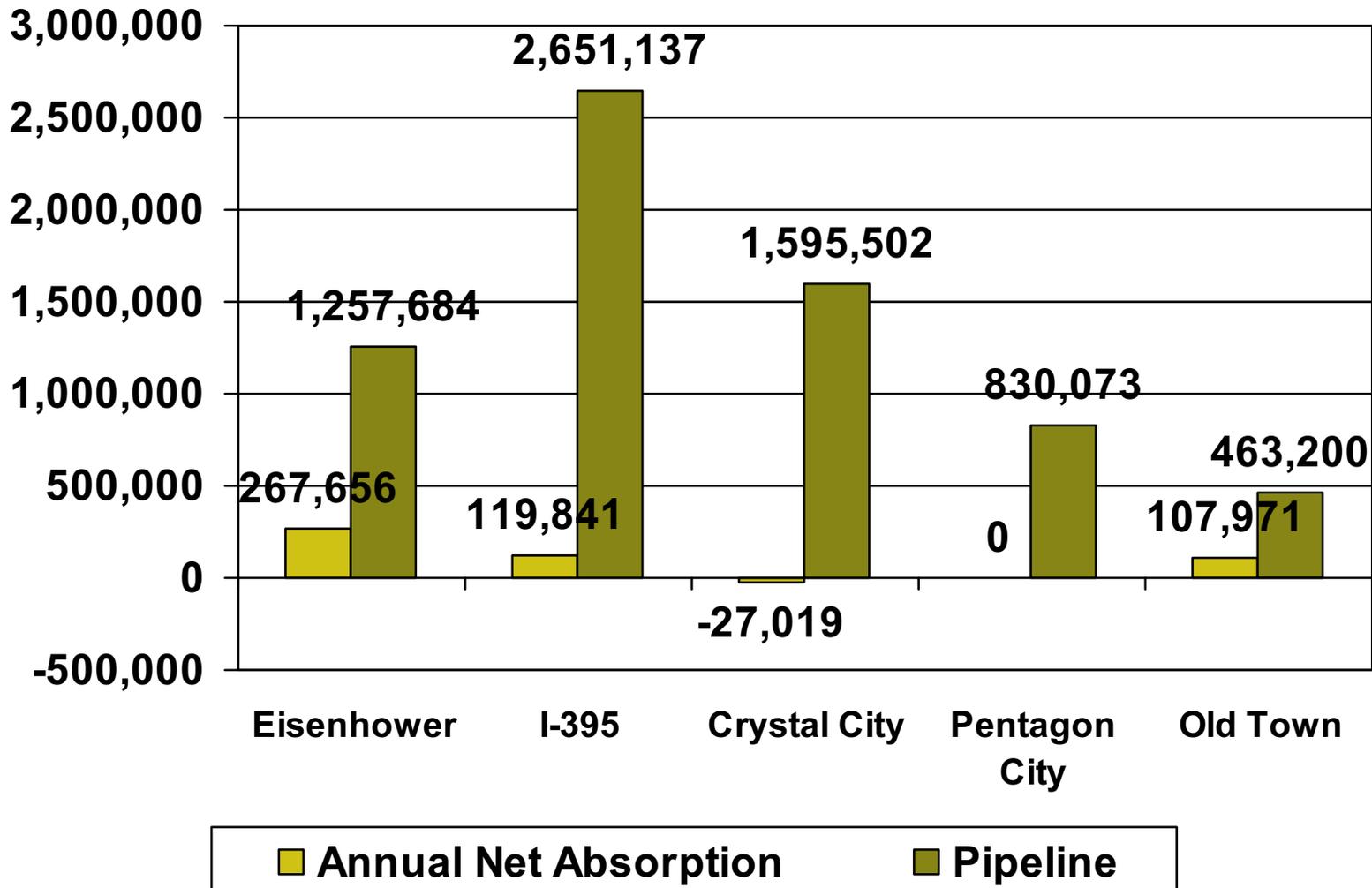


SOURCE: RCLCO; Costar

# CLASS A MARKET OFFICE MARKET

## SIGNIFICANT FUTURE COMPETITION

Net Absorption and Development Pipeline in Square Feet, March 2008, Selected Submarkets



SOURCE: RCLCO; Costar

# OFFICE MARKET OPPORTUNITIES

## MIXED-USE ENVIRONMENT WILL DRIVE LOCAL OFFICE

- **Local-Serving A & B Space: Strong Opportunity as Corridor Evolves Into Mixed-Use Environment**
- **Demand Drivers: Service Providers (Medical, Financial, etc.) and Small Businesses**
- **Extension of Existing Class B/C and Flex Market in Corridor, As Well as Alternative to Old Town**
- **Works Well With Retail – Many Tenants Want Similar Visibility**
- **Tenants Attracted by Vibrant Mix of Uses**
- **Typical Building: 25K to 75K SF**
- **Opportunity in Near Term Bolstered if Part of Large Catalytic Project**

# OFFICE MARKET OPPORTUNITIES

## LARGER OFFICE OPPORTUNITY LIKELY A NICHE

- **Van Dorn Not an Established Location for Larger-Scale Class A Office Construction**
- **Significant Current and Future Competition Regionally**
- **Near and Mid Terms: Potential for “Lightning Strike”**
  - **100% Location – Landmark Mall Site Could Create a Trophy Office Location**
- **Impact of BRAC**
  - **Potential for 1.5M to 2.0M SF of Space**
  - **Van Dorn Corridor Not a Likely Destination**
  - **Finalists: Victory Center & Mark Center**
  - **Potential Reduction of Competitive Supply**

# Update of Market Conditions Landmark/Van Dorn Plan Advisory Group

City of Alexandria, Virginia | March 17, 2008  
Marc McCauley, Senior Principal

