# Final 2011 Market Study for Walter Reed Army Medical Center Re-Use Feasibility Study

Prepared for:

Walter Reed Local Redevelopment Authority

December 6, 2011



mosaic urban partners

# Table of Contents

# Executive Summary

Section Contents:

Project Background
Market Study Methodology
Demand-Supported Development Program Summary
Residential Findings
Retail Findings
Office Findings
Hospitality Findings
Contingent Development Program Summary
Comparison of Demand-Supported and Contingent Development Programs

# Executive Summary

## Project Background

In May 2005, the Defense Base Closure and Realignment Commission ("BRAC") recommended moving the functions currently housed at the Walter Reed Army Medical Center ("WRAMC") in Washington, DC to the current campus of the National Naval Medical Center in Bethesda, Maryland. A 62.5 acre portion of the WRAMC was identified as surplus property by the federal government and made available to a local redevelopment authority in 2010. The District of Columbia Government formed a local redevelopment authority (the "LRA") to apply for a conveyance of the 62.5 acre portion of the WRAMC site from the Department of the US Army ("Army").

In 2010, a Market Study was commissioned as a part of a larger reuse and feasibility study for the 62.5 acre portion of the WRAMC site on behalf of the LRA. In 2011, following the conclusion of that study, a different portion of the WRAMC site (67.5 acres) became available to the LRA. This report is an updated Market Study report drafted to provide an economic/ market analysis and framework for the larger reuse and feasibility study of the newly available 67.5 acre portion of the WRAMC site.

## Market Study Methodology

Two program alternatives were identified that reflect a supportable 10-year development program projection: (i) a **Demand-Supported Development Program**; and (ii) a **Contingent Development Program**. There is an overall summary and comparison of the Demand-Supported Development Program and Contingent Development Program in the Contingent Development Program Summary section found later in this Executive Summary. The Demand-Supported Program represents the site development that the market is likely to support at the Walter Reed Army Medical Center site over a 10-year development phase based on identified market demand. The Contingent Development Program represents the site development that the market is likely to support *if* a series of specialized demand drivers are realized. These demand drivers are identified and defined in the Contingent Development Program Summary section below.

This Market Study report provides an assessment of trends in the real estate market surrounding Walter Reed Army Medical Center and an analysis of market demand for housing, retail, hotels and office space at the site. The report also leverages findings from Developer Focus Groups, Development Case Studies, a Request for Ideas for the Reuse of Building 1 (the historic hospital building), and the Selected NOI Applicant Uses to inform the Demand-Supported and Contingent Development Program recommendations.

The Market Study report also identifies Potential Demand Drivers which may influence the projected demand for and positioning of each product type. The analysis of these demand drivers suggests a potential Contingent Development Program. The Potential Demand Drivers include: (i) an accelerated streetcar delivery schedule; (ii) attraction of a destination retail anchor; or (iii) attraction of a large office tenant. The remainder of the Executive Summary outlines the methodology and findings for the Demand-Supported Development Program and the Contingent Development Program.

## Demand-Supported Development Program Summary

The Demand-Supported Development Program represents the mix and density of uses most likely to be realized at the Walter Reed site over a 10 year development period based on existing site and market conditions.

| | Residential | | Retail SF | | Office SF | | Total Program |
|---|---|---|---|---|---|---|---|
| Demand-Supported Program | 1,080 | + | 75,000 – 100,000 | + | 570,000 | = | 1.8 Million |

An alternative higher density program with a more diverse mix of uses may be realized over a 10-year development period if certain special demand drivers are realized through coordinated and dedicated public efforts. This program, which is *contingent* on the realization of the demand drivers, is described further in the “Contingent Development Program Summary” section of this Executive Summary.

The following sub-market sections summarize the <u>Demand-Supported Development Program</u> conclusions for residential, retail, hospitality and office products.

## Residential Findings

| | |
|---|---|
| **Demand-Supported Development Program** | Approximately 1,080 new residential units<br>450 Rental + 540 Home-Ownership + 90 NOI units |

The units projected in the Demand-Supported Development Program may be delivered in a variety of product-type formats; however the market may favor townhomes and mid-rise rental apartments in the early phases of the project. The findings for the timing, format and pricing for each of three product types – townhomes, rental apartments, and condominiums – are detailed below.

**Townhomes**

<u>Timing:</u> Townhomes are likely to be an attractive <u>early-phase</u> product. Findings from the demand analysis, developer focus groups and case studies support this timing.
<u>Density; Unit Mix:</u> A townhome program of 90 - 300 units is likely to be most attractive to potential developers in terms of efficiency and opportunity. Townhome developers who work in urban neighborhoods have indicated potential program densities of 25-30 units per acre.

Individual units are likely to be 14’-18’ wide representing 1400 -2300 gross SF including garages in order to achieve the indicated densities. Units may be 2, 3 or 4 bedrooms but will likely skew towards 3- and 4- bedroom formats. These findings are derived primarily from the developer focus groups and case study analysis.
Pricing: New construction urban-density townhomes at Walter Reed may be priced between $450,000 and $600,000 per unit. These findings are derived from market performance findings associated with the demand analysis.

**Rental Apartments**

Timing: Multifamily apartments are an additional product type for which there is immediate market demand, and are likely to be constructed in the early phase of construction. Findings from the demand analysis and developer focus groups support this timing.
Density; Unit-Mix: There is a market opportunity for wood-framed buildings of up to five stories. The market may support ground-floor retail or ground-level parking creating the need for a concrete podium base on which wood-framed apartments can be built above these other uses. The unit mix is likely to skew toward 1- and 2-bedroom units.
Pricing: Existing area rents range from between $1.50 per square foot in the immediate area to as much as $2.60 in Silver Spring and Takoma. A well-executed design and proximity to site amenities such as green space and retail may help a Walter Reed development achieve rates at the higher end of the range identified. However, rents at the Walter Reed site are likely to be discounted slightly relative to Silver Spring and Takoma due to the site’s distance to Metrorail compared to these competing locations. If rents remain closer to the current per-square-foot average, the rents may not provide enough revenue and returns to support a feasible development product.

**Condominiums**

Timing: Condominium development is likely to follow the successful implementation of a high-quality mixed-use program. Correspondingly, condominiums are a mid- and late phase product type.
Density; Unit-Mix: Based on the demand study and developer focus group findings, the site may support a 20-40 unit mid-rise stick-construction project in the mid-term phase. Once a retail program, site amenities, and townhomes have been delivered, there may be demand for larger, 60-80 unit higher-rise projects in the late-phases. The unit mix is likely to skew toward 1- and 2-bedroom units.
Pricing: The market is anticipated to price mid-phase condominium product between $200,000 and $400,000. Condominiums in the late-phase may reach somewhat higher price points than the preceding phase. The lower-end of this pricing range may not provide enough revenue and returns to support a feasible development product.

**Specialty Housing**

Findings from both the demand study and the developer focus groups indicate an opportunity to provide housing for senior citizens, artists, and residents requiring affordable housing at Walter Reed. NOI Applicants SOME and HELP USA have proposed providing 90 specialty affordable housing units.

## Retail Findings

| | |
|---|---|
| **Demand-Supported Development Program** | 75,000 – 100,000 SF phased over 10 years |

Retail implementation will be an important driver for other on-site land uses. On-site tenants should include a mid-sized neighborhood retail anchor and a variety of smaller, local-serving establishments.

**Retail**

Timing: The retail program will likely be phased over 10 years. The anchor tenant should be identified for early-phase retail development, which will help create additional demand for later-phase commercial and residential land uses.
Format Options: The Neighborhood Retail Anchor is expected to occupy approximately 25,000 – 40,000 SF. Potential tenants include a smaller-scale grocery store, a specialty food grocer, or a drug store. The remaining retail space will consist of smaller, in-line tenants, each occupying 800 to 6,000 SF.
Retail Mix: A variety of potential uses could serve as the anchor retail tenant, including, but not limited to, the store types listed above: a grocer, specialty food, or drug store. A well-rounded mix of smaller commercial enterprises would both create a desirable sense of place and provide a diverse set of amenities to serve the area residential population. Such a mix would likely include 1-5 restaurants, ranging from quick-serve and cafes to sit-down establishments; 1-5 service providers such as a bank, dry cleaner, and fitness studio or gym; and 1-3 goods retailers such as a hardware store, a wine shop, or other local retailers.
Pricing: Commercial rents are likely to be between $20 and $35 per square foot.

## Office Findings

| | |
|---|---|
| **Demand-Supported Development Program** | Approximately 550,000 – 575,000 SF to include:<br>200,000 SF in Building 1 (based on identifying and attracting an appropriate tenant)<br>50,000 to 75,000 SF of Medical Office (based on implementation of an ambulatory care center by a NOI public benefits respondent)<br>296,000 SF of NOI Uses (including school uses) |

There are three types of expected office users at the subject site: a medical office related to a proposed ambulatory care center; a user or users occupying historic Building 1; and users identified through the City's Notice of Interest (NOI) qualification process.

**Office Space**

Timing: Office space will be constructed in the early- and mid-project phases. Timing will depend on scheduling of the planned ambulatory care center and identification of a Building 1 tenant or tenants.

Site Potential: The subject site area is currently an untested office location. However, there are three reasons why the site may support office use. The first is the historic nature, high-quality design, and rare amenities (such as an auditorium and industrial kitchen) found in Building 1, which may create an ideal space for an organization such as a school or a corporate headquarters. The second driver of office demand is the proposed development of an ambulatory care center, which would likely lead to spin-off medical office space. Lastly, the City of Washington, DC has committed to assisting particular organizations identified through the City Notice of Interest (NOI) process. Ideas for NOI uses have ranged from educational facilities to clusters of high tech or medical users, and the ability for such entities to locate on site would depend heavily on government involvement.

Format Options: With the right government support, site design and execution, and marketing to potential office users, there is an opportunity to fill as much as 550,000 to 575,000 SF of office space. This includes 200,000 SF in building 1, 50,000-75,000 of medical office space related to the ambulatory care center, and 296,000 of space occupied by additional NOI users. The medical office is likely to be attached to or in close proximity to the ambulatory care center, and will require 3.5-4 parking spaces per 1,000 SF of space.

Pricing: Office space is expected to price at $25 to $40 per square foot.

## Hospitality Findings

| | |
|---|---|
| **Demand-Supported Development Program** | The location of the site and current demand are unlikely to support a hotel use within the Demand-Supported Program. |

The Demand-Supported Development Program at Walter Reed most likely to take the form of a neighborhood center. The market can support a mix of residential formats ranging from townhomes to mid-rise apartments and condominiums in addition to a neighborhood-center retail program. Daytime activity on the site is somewhat limited by the low-demand office market at the site, however a mix of school, medical center and associated medical office are planned for the program. In addition, a user in Building 1, if identified, rounds out the office and institutional Demand-Supported Program.

## Contingent Development Program Summary

The Demand-Supported Program reflects the realistic achievable build-out for each land use: 1,080 residential units, 75,000-100,000 SF of retail space, and 570,000 SF of office space. However, certain conditions, or "demand drivers," would allow for increased programming of particular land uses. We have identified three additional demand drivers that have the potential to significantly increase demand for each land use on site:

The implementation of accelerated timing for operational streetcar service by the year 2015 would increase short-term residential demand for the subject site because of the enhanced access it would provide residents to downtown DC.

The presence of a destination retail anchor would drawing large amounts of shoppers from throughout the DC area, would create strong demand for other retailers to locate nearby and would occupy a large amount retail space (75,000-100,000 SF)..

A corporate, academic, or medical anchor tenant could occupy as much as 770,000 of office space, and could possibly serve to establish the site as an office location and promote spinoff office space development nearby.

An accelerated operational streetcar has the potential to add 1,130 residential units to the Demand-Supported Program; an anchor retailer would add up to 100,000 SF of retail space; and a corporate, academic, or medical or anchor tenant would occupy between 50,000 and 200,000 SF of additional office space. The revised program based on the realization of these demand drivers is called the Contingent Program (see chart below).

| | Residential | | Retail SF | | Office SF | | Total Program |
|---|---|---|---|---|---|---|---|
| Demand-Supported Program | 1,080 | + | 75,000 – 100,000 | + | 570,000 | = | 1.8 Million |
| Demand Driver Impacts | +1,130 | + | +75,000 – 100,000 | + | +50,000 – 200,000 | = | +1.4 Million |
| Contingent Program | 2,110 | + | 150,000 – 200,000 | + | 620,000 – 770,000 | = | 3.2 Million |

# Introduction

Section Contents:

# Introduction

## Background

In May 2005, the Defense Base Closure and Realignment Commission ("BRAC") recommended moving the functions currently housed at the Walter Reed Army Medical Center ("WRAMC") in Washington, DC to the current campus of the National Naval Medical Center in Bethesda, Maryland. A 62.5 acre portion of the WRAMC was identified as surplus property by the federal government and made available to a local redevelopment authority ("LRA"). The District of Columbia Government formed an LRA to apply for a conveyance of the 62.5 acre portion of the WRAMC site from the Department of the US Army ("Army").

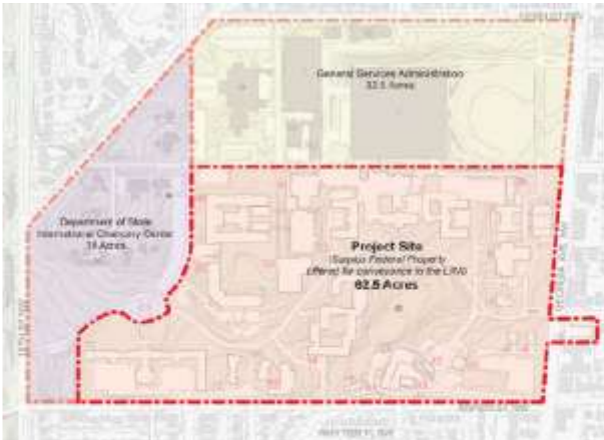
The District of Columbia Office of the Deputy Mayor for Planning and Economic Development ("ODMPED") commissioned a comprehensive planning effort to prepare a redevelopment or re-use plan for the WRAMC site in May, 2010. This plan was completed in October, 2010 and was intended for submission to the Army in application for conveyance of the surplus 62.5 acres at Walter Reed. A full Market Study was completed in August, 2010 to provide an economic framework for the planning effort. The original Market Study provided an assessment of trends in the real estate market surrounding WRAMC and an analysis of projected changes in market demand for housing, retail, office space and hotels. The Market Study also offered recommendations on positioning the primary product types within a larger development program and suggested ways in which changes in the market or the site program may influence the projected demand for each product type.

Subsequent to the completion of the first Reuse Plan, the US General Services Administration (GSA) withdrew their application to the Army for a 32.5-acre portion of the Walter Reed site. The withdrawal of GSA's claim at Walter Reed created an opportunity for the District's LRA to apply for a different division of land at the site. The District's LRA has now applied for a 67.5-acre portion of the Walter Reed site. The difference in the site area available to the District in 2010 and the site area available to the District in 2011 is illustrated by three site diagrams on the following page.

A Reuse Plan for the new 67.5-acre site is being developed. This Market Study report was requested in August, 2011 to provide an updated economic/ market analysis and framework for the Reuse Plan based on the new 2011 site boundaries.

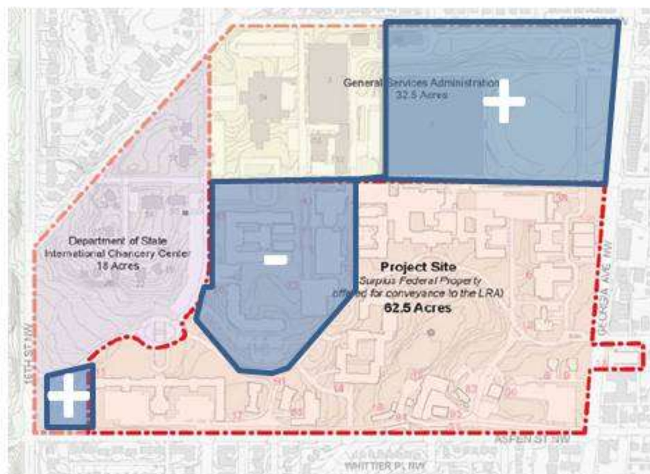
[Background Continues on the Next Page]

## Illustration of Changes to the LRA Walter Reed Site between 2010 and 2011




**<u>2010</u> Walter Reed Site Division between the District of Columbia, GSA and the US Department of State.**


**<u>2011</u> Walter Reed Site Division between the District of Columbia and the US Department of State.**




**The blue areas show the changes in available land between the 2010 site and the 2011 sites. Blue areas marked with a "+" sign have been added to the District's 2010 allocation to create the 2011 site. Blue areas marked with a "-" sign were removed from the District's 2010 allocation and are no longer a part of the District's allocation of land. Areas removed from the District's 2010 allocation (marked with a "-") are currently reserved for the Department of State.**

## Existing Site Conditions

The WRAMC site is laid out in a campus format and represents a unique development opportunity in the District of Columbia due to its large amount of available acreage. The following existing site conditions provide important context for understanding the development potential of the site:

- *Location within the District of Columbia*
- *Physical Surroundings and Housing Stock*
- *Transit Accessibility*
- *Current Ownership, Workforce Composition, and Security Practices*

**Location within the District of Columbia**

WRAMC is located closer to the District's border with Maryland than to the District's downtown core. Please see Figure 1 below. For purposes of this analysis, the submarket of downtown Silver Spring was evaluated as a competing commercial, retail and residential center. The trade areas were selected to reflect this aspect of the Walter Reed site's geography.

**Figure 1 WRAMC is situated closer to Maryland than to DC's Downtown**

**Physical Surroundings and Housing Stock:**

The site's surroundings also influence the findings and recommendations of the market analysis. The WRAMC site is bordered by Rock Creek Park on its western edge (See Figure 2 below). The park acts as both a physical and perceived barrier to attracting shoppers, residents, and businesses from the affluent and bustling northwestern DC communities of Chevy Chase, Friendship Heights and suburban Bethesda, MD. This market barrier may constrain the number of potential users for the site.

Alternatively, Rock Creek Park, a federally preserved park and recreation area, is perceived as an amenity for existing surrounding residential neighborhoods on the park's eastern edge. The benefits of this amenity may be realized in the residential program for the site. This may be particularly true along the southwest corner of the site, which is has the easiest access to the park from the Walter Reed Site. It is not likely that the adjacency of Rock Creek Park will change the supportable residential program, but it may influence decisions about where to locate residential uses on the site and the residential product types delivered in proximity to the park.

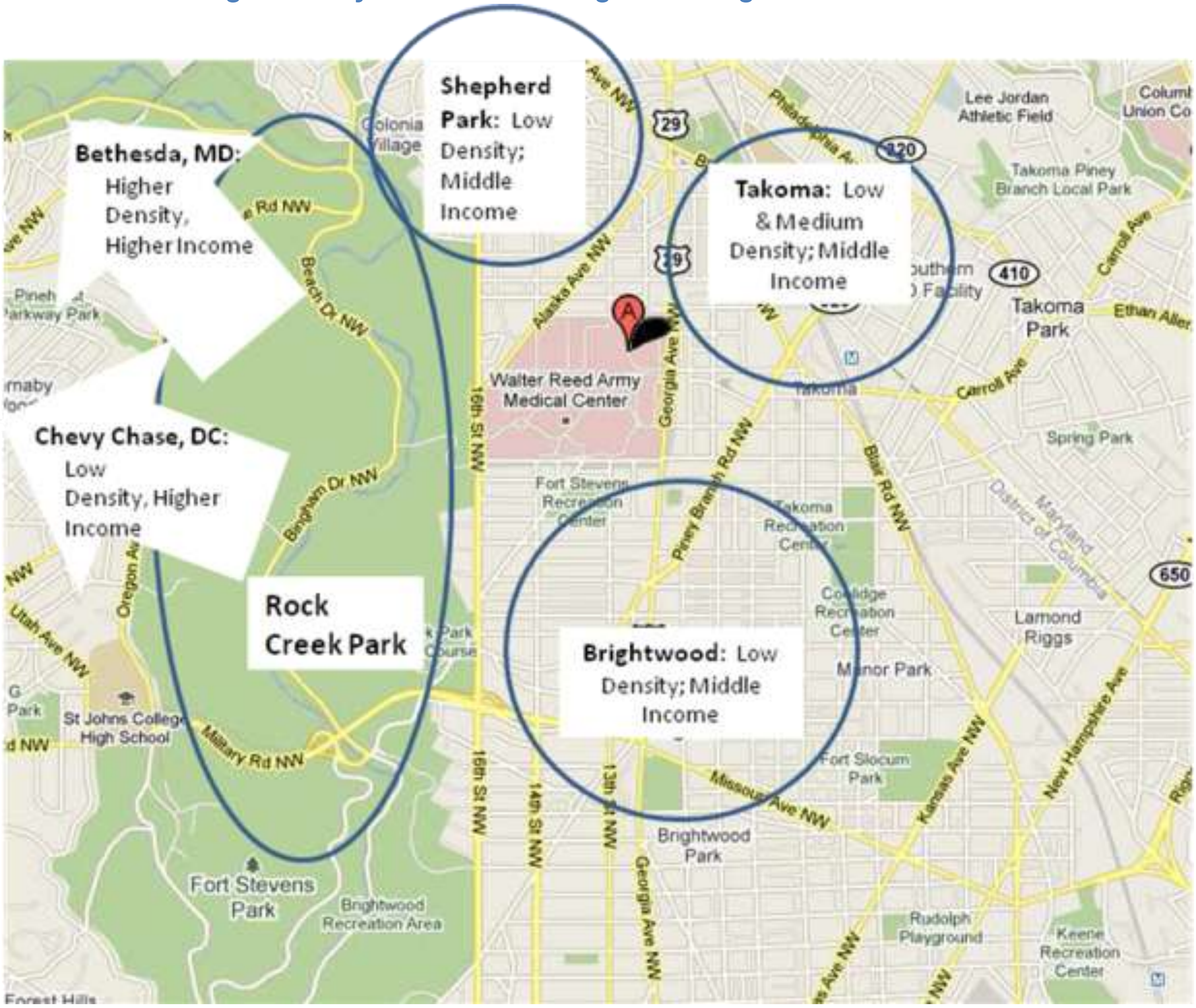
Additionally, the housing stock in the Shepherd Park, Takoma, and Brightwood neighborhoods surrounding the WRAMC site is largely detached single family homes. This housing stock is responsible for the area's low to medium density development pattern. Accordingly, we identify neighborhoods shown on Figure 2 as low, medium or higher density areas.

The median income of households in the study area which includes Shepherd Park, Takoma, and Brightwood is approximately $54,000. This figure is almost equivalent to the District of Columbia's $56,000 median income, as calculated by the US Census Bureau. We identify neighborhoods that surround the site as middle income neighborhoods where their median income is similar to the District's as a whole. The lower population density and middle incomes of the immediately surrounding area and the lack of any existing substantial retail or office uses will influence the market potential of the site.

WRAMC is also bounded on its eastern edge by major commuter artery Georgia Avenue, NW. Unlike the functional barrier created by Rock Creek Park, Georgia Avenue provides the site with a potential market of commuter users that live outside of the stabilized surrounding residential neighborhoods.

[Figure 2 on the following page]

**Figure 2 Physical Surroundings and Neighborhood Context**




### Transit Accessibility

Metrorail: The Takoma Station is the closest Metrorail stop to Walter Reed. This stop is located a little more than a half-mile from the edge of the Walter Reed site. This distance can be covered on foot in about 15 minutes depending on pace. The use of the WRAMC site by pedestrians and those using mass transit is limited by a number of factors. First, the uses at the site today do not attract commuters other than those with a specific, Army-related reason to be at the site. Most of those commuters are not residents of the surrounding neighborhoods. Accordingly, much of the access paths to the site are automobile-oriented. Additionally, the pedestrian routes accessing WRAMC from the Metrorail station do not provide visual access of the site, helpful signage or other tools which would encourage transit riders to walk or bike to the site from the Metro station. The combined effect of the site's distance from Metro and its lack of a pedestrian orientation is that commuters using the Takoma Metro station and neighborhood pedestrians do not currently provide a significant population for driving future uses in the redevelopment program. The distance from Metro and the lack of apparent and direct pedestrian connections between Metro and the site may also make it difficult for the site to attract tenants and residents who rely on or highly value Metrorail accessibility.

Metrobus: The site is served by a number of Metrobus routes including the 70, 71 and 79 (express) routes traveling 7th Street and Georgia Avenue between southwest DC and Silver Spring, Maryland. The 70, 71 and 79 (express) buses travel close to 10 miles in each direction north and south across the District. The Walter Reed site is also served along 16th Street by the S1, S2, and S4 bus routes which run along 16th Street from Eye Street downtown to Silver Spring, Maryland. The Georgia Avenue and the 16th Street bus lines serve nearly 26,000 people each weekday. This volume of daily ridership is significant but only creates a minor source of market demand for new retail at Walter Reed. The bus lines are a beneficial amenity for potential office, residential and hotel users, but do not directly increase the market demand for those uses. A specific discussion of the impact of the Metrobus lines on each product type can be found in the applicable product type section of this report.

As a result of current transit-accessibility conditions and the near-term limitations on the site's ability to attract Metrorail riders, the current market data and projections do not draw heavily on commuters as potential sources of market demand for new uses on the site.

**Current Ownership, Workforce Composition, and Security Practices**

The facilities at Walter Reed are currently operated by the federal government. Accordingly, the site is exempt from District property taxes. Redevelopment of the site offers the District the opportunity to collect new revenue in the form of property taxes from the site. In 2010 the operations at Walter Reed employed 3,242 workers.[1] Those workers are in the process of relocating to new facilities as a result of the BRAC relocation to Bethesda, Maryland. Only 15 percent of the workers at Walter Reed in 2010 resided in the District of Columbia. See the table below. Accordingly, 85 percent of the workers at Walter Reed did not pay income taxes to the District of Columbia. This inability to collect property taxes and significant income taxes makes the Walter Reed site a limited revenue contributor to the District of Columbia economic base.

| Residence of Walter Reed Army Medical Center Employees by State (2010) | | |
|---|---|---|
| **Location** | **Number of Employees** | **Percentage of Total Employees** |
| District of Columbia | 496 | 15% |
| Maryland | 2,219 | 68% |
| Virginia | 444 | 14% |
| Other States | 83 | 3% |

Despite the significant number of employees who have been working at Walter Reed for many years, there is a perception that they have not served as a significant customer base for the retailers located along Georgia Avenue. The campus hosts a few food service vendors to meet the dining needs of the onsite population. There are only four access points along Georgia Avenue where pedestrians or commuters can enter the site. Those access points are patrolled

[1] All data for Walter Reed employees is 2010 data due to the relocation of employees beginning in 2011.

by armed guards and the rest of the campus is fenced off. The secure nature of the facility discourages entry and exit of the facility. In addition, the walk from inside of the campus to the nearest Georgia Avenue retail, which may exceed the equivalent of eight blocks, probably discourages WRAMC employees from venturing off-campus to patronize local retailers.

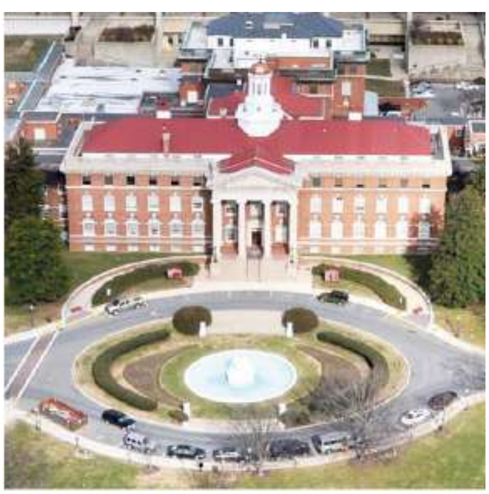
There is one important market feasibility implication to the current federal government ownership, workforce composition, and security practices at Walter Reed. The key implication is that the site currently contributes little to the District's economic tax base because no property taxes and very little income or sales taxes are collected. This represents a great opportunity for the District since most redevelopment program options should bring new property, sales and income taxes into the District's coffers.

## Site Opportunities and Constraints

The following site conditions are not considered fixed because they may be given certain treatments or changed in specific ways through the redevelopment process. The treatment of the following site factors may positively or negatively impact development program outcomes on the site. For each factor, a description of the existing condition and an analysis of the opportunity or constraint created by the factor are provided. The market analysis makes a baseline assumption about the state of each factor. Accordingly, the assumption that is used in the market analysis is defined for each factor as well. The site opportunities and constraints described in this section include:

- *Preservation and Future Use of Building 1*
- *Impact of Building 2*
- *Parking Infrastructure at the Northeast Corner of the Site*
- *Connectivity and Transit*
- *New Department of State Chancery Program on Adjacent Site*

**Preservation and Future Use of Building 1**

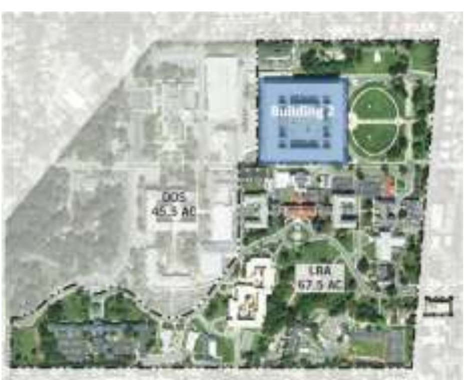



Building 1, also known as the Administration Building, is a focal point of the site and an important historic landmark. As such Building 1 is historically protected and its original footprint must be preserved, creating the need for an adaptive reuse strategy for the building. Built in 1908 as the first building of Walter Reed Hospital, and expanded a number of times, the building now boasts 396,000 gross square feet. Building 1 represents both a unique opportunity and challenge. As an opportunity, it is a landmark building that may provide highly desirable and unique commercial space to a visionary operator or tenant. The challenge of Building 1 is that the Walter Reed site is not within a commercial district that typically attracts the type of large office tenants that would use 400,000 square feet of space. However, many of the additions to the building have little architectural and historic value. By demolishing additions to the building, it is possible that Building 1 could be both restored to its historic size and appearance as well as reduced to a more feasible footprint of 200,000 gross square feet. <u>For purposes of the Demand-Supported Development Program and Contingent Development Program, this study assumes that the non-historic portions of Building 1 are demolished, leaving 200,000 SF. The study further assumes that any Building 1 tenant that requires additional space pursues new construction to meet their needs.</u>

The development advisory team circulated a Request for Ideas to corporate and non-profit users to identify possible uses for Building 1. It is possible that a use that requires such a significant footprint can serve to catalyze additional adjacent development on the Walter Reed site, influence the brand of the site and create the day-time activity required to realize a successful mixed-use community development at Walter Reed. Relevant findings from the Request for Ideas are incorporated into the submarket sections of this report and can also be found in Appendix C.

**Impact of Building 2**

Built between 1972 and 1977, Building 2 is the largest structure on the campus and has most recently served as the main hospital. The building originally contained 5,500 rooms and had 1,280 patient beds. The building is not considered historic and is constructed of approximately 110,000 cubic yards of reinforced concrete. The reinforced concrete construction may make the possible demolition of the structure a substantial undertaking in terms of time and resources. This building is an imposing structure on the campus and rises to or close to the District's 130-foot height limit.




Should a productive use be identified for and implemented at Building 2, the critical mass of activity at that location could anchor additional development around the site and attract demand from a variety of users. However, reusing the building may also interfere with the opportunity to create an urban street grid on the northeast corner of the site and hinder the corresponding development of mixed-uses within that grid.

Should Building 2 remain vacant on the Walter Reed site during the redevelopment of the northeast corner, it may foster a sense of economic failure rather than further the optimistic branding needed to attract interest to the new development at the site. A lack of activity at Building 2 may delay interest in the site from potential developers or tenants or slow the potential momentum of development at the northeast corner of the site. <u>For purposes of the market analysis, Building 2 is assumed to be demolished early in the redevelopment process.</u>

**Parking Infrastructure at the Northeast Corner of the Site**


The site available to the District includes a 1,200 space, 2-story parking garage below grade on the northeast corner of the site in front of Building 2. This parking garage may create an opportunity to provide parking for onsite development without adding the expense of constructing new parking. Parking is an important expense consideration in analyzing development feasibility. Given that the Walter Reed site may command rents at the lower end of the ranges demonstrated in the local market for residential, retail and office uses, reducing construction expenses may create new development opportunities on the site.

Conversely, the garage is over 30 years old, and building on top of the structure may either limit what is feasible from an engineering stand point or introduce new costs for reinforcing the existing structure to support new construction uses. According to preliminary findings in the Existing Conditions Report produced by Perkins + Will for the Site Boundary Update, dated August 31, 2011, single-story retail or three-story wood-construction residential over a floor of retail may be built on the existing structure with limited additional reinforcement costs. Increasing the height of the uses above the garage beyond those two options will require additional investment in the existing parking infrastructure.

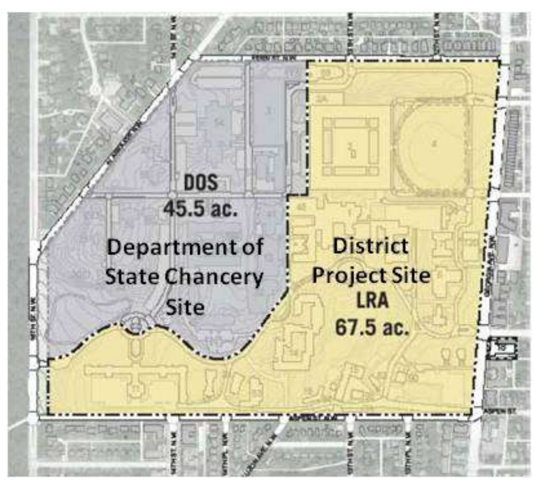
<u>For purposes of this study, the parking garage is assumed to be re-used with cosmetic upgrades to service office users at Building 1 or new multifamily residents. The parking is not assumed serve new retail development on site as its format is obsolete by current retail standards.</u>

## Connectivity and Transit

Bicycle Infrastructure: Given the distance to Takoma's Metro Station and the success of the Capital Bikeshare program, enhanced bicycle infrastructure may serve to better connect the Walter Reed site and the Takoma Metro Station in the short-term. Introducing Capital Bikeshare stations, enhanced bike security at the Metro Station and bike lanes connecting the site and the Metro may enhance the attractiveness of the site to residents and tenants who highly value Metrorail accessibility. Enhanced bicycle infrastructure is most likely to appeal to and attract residential customers given the limitations of biking for the purposes of shopping. Adding commuter bike services such as onsite showers and secure bike parking may also enhance the appeal of the site to progressive and unique office or institutional tenants in terms of connectivity to both the Metrorail and the rest of the City. Quantifying the specific impact of enhanced bicycle infrastructure on the market potential of Walter Reed is outside the scope of this market study, but additional analysis could be conducted to better understand this opportunity.

Streetcar: The site may eventually enjoy direct fixed-guideway service in the form of a streetcar. The demand-based program contemplated in this analysis is not likely to benefit from the impacts of a potential streetcar line if the certainty of its delivery is not clear or if it is not operational until after 2020. Developers and investors are more likely to value streetcar service when there is concrete evidence of its arrival in the form of funding or actual construction. There may be a more positive benefit to the site from streetcar if a streetcar line on Georgia Avenue is constructed sooner than 2020, and that line connects the site to the Takoma Metrorail Station or another station closer to downtown such as the Georgia Avenue-Petworth Station. A streetcar with well-located access to the site that occurs on the same timeline as the development contemplated for the site (2015) could have a positive impact on potential rents, types of tenants, and the site's competitiveness with other markets.

For purposes of the Demand-Supported Development Program analysis, streetcar service is expected to be operational at Walter Reed in 2020, the current projected timeline. Accelerated timing of streetcar service, defined as operational streetcar service at Walter Reed by 2015, is defined as a special demand driver for the Contingent Development Program.




## New Department of State Chancery Program on Adjacent Site

The Department of State (DoS) will control a 45.5 acre portion of the Walter Reed site to the west of the District's parcel. The DoS has suggested that the site will serve them as an International Chancery Center (ICC) to include offices and embassies that support foreign missions in the United States. The ICC is only roughly planned at this stage, but is assumed to serve approximately 30 embassies occupying between 800,000 and 1,000,000 square feet. The direct demand analysis of the impact of the ICC on the Demand-Supported Development Program is also informed by a Case Study of the Department of State's chancery cluster adjacent to the Van Ness Metrorail Station.[2] The program impact of the ICC on redevelopment of Walter Reed is discussed further in the Retail and Hospitality Market Assessment sections later in the document.

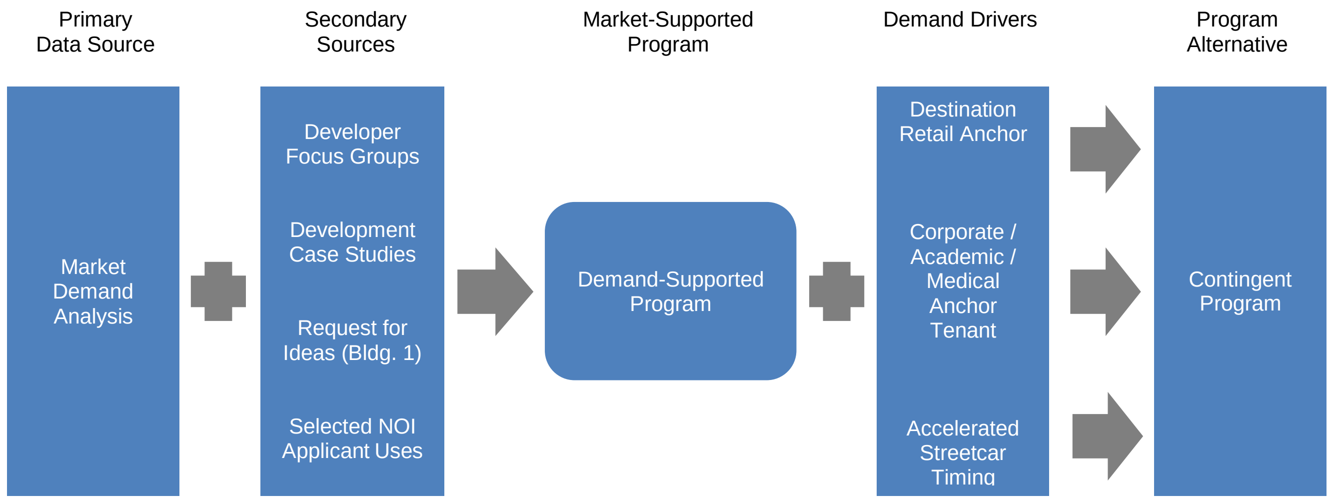
[2] Case study information is detailed in Appendix B.

# Market Study Methodology

Section Contents:

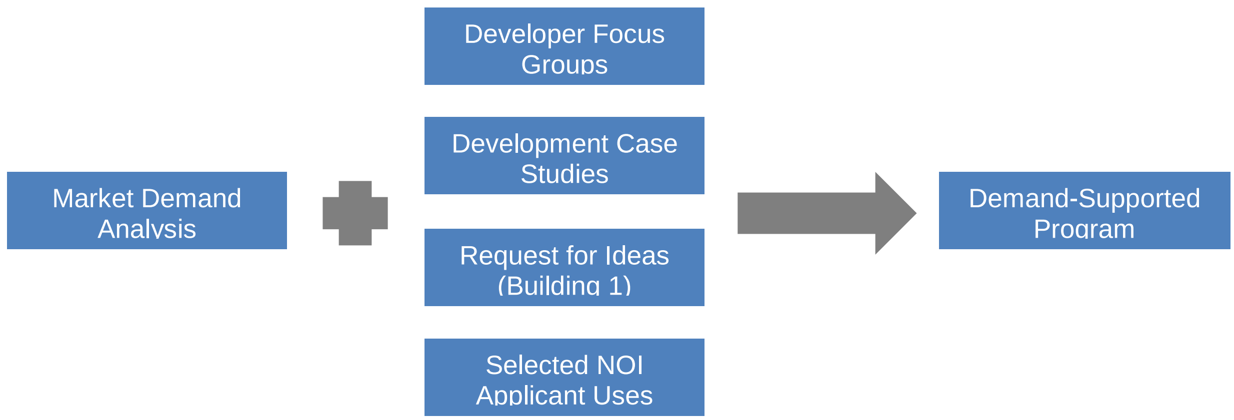
# Market Study Methodology

Two program alternatives were identified that reflect a supportable 10-year development program projection: (i) a **Demand-Supported Development Program**; and (ii) a **Contingent Development Program**. The Demand-Supported Program represents the site development that the market is likely to support at the Walter Reed Army Medical Center site over a 10-year development phase based on identified market demand. The Contingent Development Program represents the site development that the market is likely to support *if* a series of specialized demand drivers are realized.




## Methodology for Developing a Demand-Supported Development Program

In order to estimate the Demand-Supported Development Program, the Market Study synthesizes multiple analytical exercises including: (i) a Market Demand Analysis; (ii) Developer Focus Groups; (iii) Development Case Studies; (iv) a Request for Ideas for Building 1; and (v) Programming of Selected NOI Applicant Uses. The synthesis of this information is summarized in the graphic below.



The process for each source of inputs is briefly described below:

**Market Demand Analysis:** Analysis of US Census Bureau and other market performance data to determine demand (if any) for the following product types: office, retail, residential and hotel. A summary of key demand analysis findings and conclusions is provided in Appendix E.

**Developer Focus Groups:** Round-table discussions with over 20 development firms to identify development opportunities and constraints and implementation considerations. A list of industry specialists and developers interviewed for the study and a summary of key Focus Group findings and conclusions is provided in Appendix A.[3]

**Development Case Studies of Comparable Sites:** Analysis of local and national development projects with characteristics similar to Walter Reed to identify program opportunities and implementation considerations. A summary of developments assessed for the Case Studies and key findings is provided in Appendix B.[4]

**Request for Ideas for Building 1:** Solicitation to a wide range of industries and non-profit organizations to identify interest in and ideas for a corporate or institutional re-use of Building 1 (the original hospital building). A summary of respondents and key findings from the Request for Ideas for Building 1 is provided in Appendix C.[5]

**Selected NOI Applicant Uses:** The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. The report incorporates the preliminary NOI Applicant Uses into its analysis. A summary of the selected NOI Applicant uses and program is provided in Appendix D.

## Methodology for Developing an Contingent Development Program Influenced by Potential Demand-Drivers

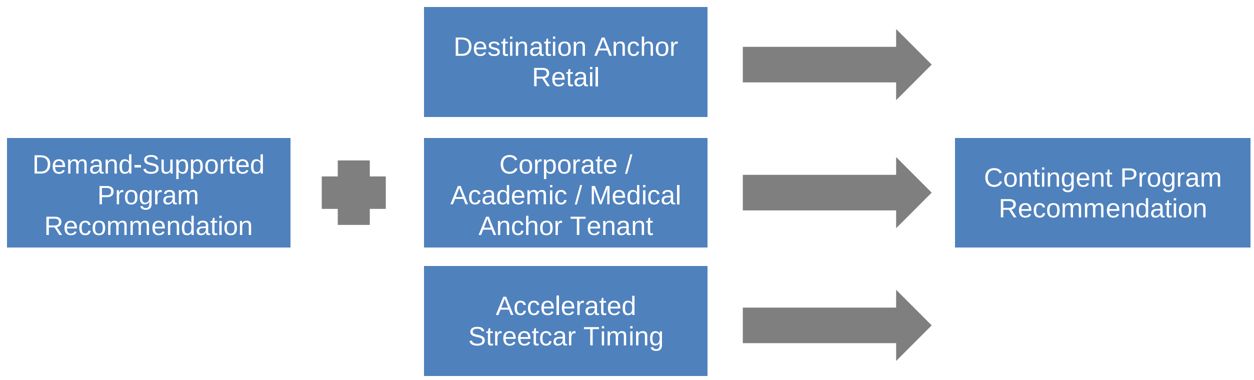
There are three specific outcomes which may be realized as a result of coordinated community and government efforts that could expand the Demand-Supported Program recommendation. These outcomes, if occurring simultaneously, could result in the program included as a Contingent Program recommendation. The synthesis of the Demand-Supported Program recommendation with the three Potential Demand Drivers is illustrated in the graphic on the following page.

[3] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

[4] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

[5] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

## Methodology for Developing an Contingent Development Program Influenced by Potential Demand-Drivers




**Destination Retail Anchor:** A retailer that draws customers from beyond a two-mile radius and therefore increases capture rates of retail demand. Destination retailers may include department stores (e.g. Kohl's), wholesalers (e.g. Costco) and large-format specialty stores (e.g. Harris Teeter). The retailers presented in the previous sentence are for illustrative purposes only.

**Corporate/ Academic/ Medical Anchor Tenant:** A single user or a cluster of cooperative users that have an immediate or planned need for more than the 200,000 SF offered in Building 1, requiring the construction of at least an additional 50,000 - 200,000 SF of new office space.

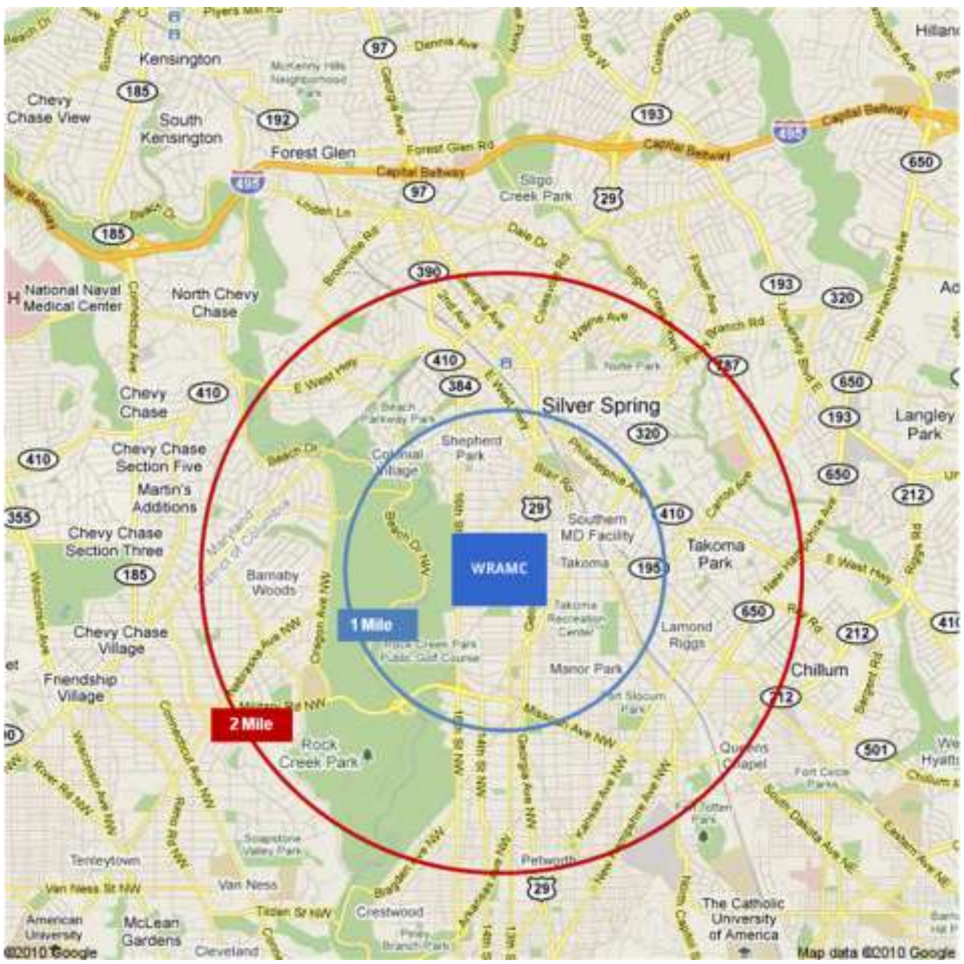
**Accelerated Streetcar Timing:** Streetcar is defined as an operational streetcar line that connects Walter Reed to the Metrorail system or to employment centers in Silver Spring, Maryland and downtown Washington, DC. The Demand-Supported Program assumes streetcar service to Walter Reed is operational in 2020. The Contingent Program assumes that operational date is at least five years sooner.

[Market Analysis Methodology Section continues on the Next Page]

## Definition of Study Areas

For purposes of this Market Study, a one-mile radius and a two-mile radius are defined as the areas of analysis for demographic, residential, retail, hotel and office trends. See Figure 3 below. These study areas provide sufficient data to establish baseline demographic and market trends that will impact redevelopment at WRAMC. The proposed study radii cover three focus areas for this study: (i) Downtown Silver Spring; (ii) the area immediately surrounding the Takoma Metro; and (iii) portions of the Shepherd Park, Takoma and Brightwood neighborhoods that are within a half a mile of the site. These three neighborhoods are differentiated by their anchors and development patterns. Comparing them will highlight opportunities for development at Walter Reed to serve demand not met by Silver Spring and Takoma and to create a neighborhood anchor unique to the study areas.

**Figure 3 One-Mile and Two-Mile Study Areas**




Source: Mosaic Urban Partners; Google Maps

## Demand Analysis Framework

The remainder of the report provides the detailed findings and data analysis which form the foundation of the Demand-Supported and Contingent Programs summarized in the Executive Summary. Each of the product-market sections offers findings which become components of the Demand-Supported Program. A separate section follows the product-market chapters which describe the additional findings that apply to the Contingent Program only. The detailed analysis is presented in the following chapters:

- Demographic & Market Trends
- Residential Market
- Retail Market
- Hospitality Market
- Office Market
- Contingent Program

# Demographic & Market Trends Assessment

Section Contents:

# Local and Regional Demographic Trends

## Household Characteristics

Analysis of population and household trends provides a basic context to assess an area's residential and commercial potential. The study area is characterized by some notable demographics which distinguish the area from District-wide trends.

Ward 4, which includes the Takoma and Brightwood neighborhoods of the study area, had the largest population losses of any ward from 2000 to 2005, compared to positive population growth in the District as a whole over that same time period.[6]

Median household income within a one-mile radius of the WRAMC site was $55,490 in 2010, which is slightly lower than the District as a whole. This median household income figure generally encompasses the neighborhoods of Brightwood, Shepherd Park, and Takoma. The median household income within a one-mile radius of the WRAMC site lags neighboring communities even more substantially than it lags the District's median. Households from the northern portions of the one-mile radius study area in the Shepherd Park neighborhood and northwestern portions of Takoma attain a median income of $61,055. In Silver Spring, MD, just beyond the one-mile study radius, households have median incomes of $71,606. As shown in the table below, household incomes in the study area, when examined in constant 2010 dollars, have declined since 1990.

| Median Household Income – One-Mile Study Area | | | |
|---|---|---|---|
| | **1990** | **2000** | **2010** |
| Median Household Income | $41,653 | $52,191 | $55,490 |
| **Median Household Income 2010 Dollars** | **$62,633** | **$58,132** | **$55,490** |

The study area also represents an older demographic than the District as a whole. The median age within a one-mile radius of the site is 41.5 years versus 33.6 years for the District as a whole. This census data was manifested at the sixth community meeting when America Speaks surveyed meeting participants. Of the 105 participants, 79 percent identified themselves as residents of the study area living in Shepherd Park, Takoma, and Brightwood. 53 percent of survey participants within the study area have lived in the community for over 20 years.[7]

Residents of the study area exceed home ownership rates for the District as a whole. Nearly 42 percent of homes in the District are homeowner occupied versus 51 percent within one mile of WRAMC.

The table below summarizes much of the data discussed in this section:

[6] "State of Washington, DC's Neighborhoods" prepared by the Urban Institute for the DC Office of Planning. September, 2008

[7] America Speaks electronic survey of November 15, 2011 WRAMC community meeting

**Household Income and Home Ownership**

| | 1-mile radius from site | Shepherd Park | Takoma | Silver Spring | District of Columbia |
|---|---|---|---|---|---|
| Median Household Income | $54,076 | $61,055 | | $71,606 | $56,428 |
| Median Age | 41.5 | 48.6 | 40 | 33 | 33.6 |
| Average Household Size | 2.36 | 2.42 | 2.18 | 2.49 | 2.11 |
| % Owner Occupied | 50.7% | 89.6% | 57.2% | 39.4% | 42% |
| % Renter Occupied | 49.3% | 10.4% | 42.8% | 60.6% | 58% |

Source: ESRI, CoStar, American Communities Survey 2009 (US Census Bureau), American Fact Finder US Census Bureau 2010

## Racial Characteristics

In 2010, the Washington DC population as a whole was 38.5 percent White, 50.7 percent Black and 9.1 percent Hispanic or Latino. In comparison, in 2000 the District was 30.8 White, 60 percent Black, and 7.9 percent Hispanic in 2000. This racial demographic data represents a trend in the last eight years of the District's African American and Black population decreasing and the White and Hispanic or Latino populations increasing. The demographic shift within the one-mile study area reflects this same District-wide trend. As shown in the following table, the Black population represented 77 percent of the population in 2000, 69 percent in 2010 and 62 percent in 2010. These shifts are occurring because of African American out-migration as well as White and Asian in-migration.

**Racial Composition Trends One-Mile Study Area**

| | 1990 | | 2000 | | 2010 | |
|---|---|---|---|---|---|---|
| | Totals | % | Totals | % | Totals | % |
| White | 5,521 | 19% | 5,293 | 19% | 6,649 | 23% |
| Black | 22,855 | 77% | 19,394 | 69% | 17,919 | 62% |
| Asian or Pacific Islander | 359 | 1% | 365 | 1% | 528 | 2% |
| Other race | 763 | 3% | 2,798 | 10% | 2,726 | 9% |

Source: US Census Bureau

## Population Growth Trends

Within the one-mile study area, the overall population growth over the past decade was slow, but reversed a population loss of nearly 2,000 people that occurred from 1990 to 2000. The -0.6 percent growth rate of 1990 to 2000 was replaced by a 0.3 percent growth rate from 2000 to 2010, according to decennial Census data.

### Alternative Population Projections

The potential problem with past trend based projections is that they do not take into account fundamental shifts in demographic trends that could significantly alter not only our study areas, but all urban areas over the next decade. During the past decades construction has been concentrated in suburban areas where less expensive land and easier development fundamentals drove steady growth. An analysis that utilizes only the past trend based projections limits the projected development potential of the WRAMC site from both space capacity and development programming standpoints. Such an analysis would also not accurately reflect the dynamic nature of the market in Washington DC and our study areas. This Market Study uses several projection methodologies to provide a broader range of possible scenarios. This approach also potentially captures positive changes in the market place that will take place regardless of WRAMC or other redevelopment efforts.

The story of the next decade will be the redevelopment of urban areas. The table below shows annual growth rates for the District of Columbia and three surrounding suburban counties during the past decade. While the District did show healthy growth during this time frame, Montgomery County and Fairfax County saw significantly higher levels of growth both in terms of population increase and annual percentage increase in population. The table below illustrates that during the previous decade, the more suburban areas within the metropolitan market attracted a higher proportional share of the new residents to the region.

| Census Bureau Total Population Estimates - Washington Metropolitan Area | | | | | |
|---|---|---|---|---|---|
| | District of Columbia | Montgomery County, Maryland | Prince George's County, Maryland | Fairfax County, Virginia | Total |
| April 1, 2000 (Census 2000) | 572,059 | 873,341 | 801,515 | 969,749 | 3,216,664 |
| April 1, 2010 (Census 2010) | 601,723 | 971,777 | 863,420 | 1,081,726 | 3,518,646 |
| | | | | | |
| 2000 - 2009 ave annual % Change | 0.51% | 1.07% | 0.75% | 1.10% | 0.90% |
| Source: US Census | | | | | |

If the new trend toward urban, not suburban, redevelopment persists, the WRAMC site may be part of the urban area that receives a disproportionate share of growth in the coming decade. The analysis below uses currently available data to determine future populations based on three projection scenarios: (1) a local past trend projection which reflects the historic growth rate for the District of 0.51%; (2) a metropolitan average projection which uses an average of the growth rates for all four jurisdictions shown in the above table of .90%; and (3) a highest growth projection based on the growth rate for the county in the region with the highest growth rate – Fairfax County, VA growth rate of 1.10%. Subsequent projections for supportable retail, residential and office square footage in the study area will reflect the same low, medium, and high projection framework when population projections are an input in the analysis.

These projections, taken together, represent a range of possible outcomes. The divergence of these projections initially results in minimal variation in the supportable square feet and types of use for WRAMC. However, in longer-term projections the more aggressive assumptions provide for meaningful differences in supportable space. We will discuss the implications of these differences further in the retail section of this report.

| Alternative Population Growth Projections | Local Past-Trend* | Metropolitan Average** | Highest Growth County*** |
|---|---|---|---|
| 2000 1-mile Radius | 25,058 | 25,058 | 25,058 |
| 2000 2-Mile Radius | 105,498 | 105,498 | 105,498 |
| 2000 3-Mile Radius | 255,222 | 255,222 | 255,222 |
| 2010 1-Mile Radius | 26,366 | 27,407 | 27,955 |
| 2010 2-Mile Radius | 111,004 | 115,387 | 117,694 |
| 2010 3-Mile Radius | 268,541 | 279,145 | 284,728 |
| 2015 1-Mile Radius | 27,045 | 28,662 | 29,527 |
| 2015 2-Mile Radius | 113,863 | 120,673 | 124,312 |
| 2015 3-Mile Radius | 275,459 | 291,935 | 300,736 |
| 2020 1-Mile Radius | 27,742 | 29,976 | 31,187 |
| 2020 2-Mile Radius | 116,796 | 126,202 | 131,301 |
| 2020 3-Mile Radius | 282,555 | 305,310 | 317,644 |
| 2025 1-Mile Radius | 28,456 | 31,349 | 32,940 |
| 2025 2-Mile Radius | 119,805 | 131,985 | 138,683 |
| 2025 3-Mile Radius | 289,834 | 319,299 | 335,503 |

Source: US Census, ESRI, Mosaic Urban Partners
* Local Past-Trend projections calculated using a .51% annual growth rate
**Metropolitan Average projections calculated using a .90% annual growth rate
***Highest Growth County projections calculated using a 1.10% annual growth rate

## Market Assessment Implications

The demographic findings of this study suggest that the one-mile study area is unique within the context of the District as a whole. The population tends to be older, has higher rates of home ownership and has a larger proportional Black or African American population than the broader city population. These characteristics suggest that the one-mile study area is composed of long time stable residents. In fact, in an electronic survey taken by America Speaks at the July 10, 2010 WRAMC Re-Use Plan community meeting, 51% of participants indicated that they have lived in Ward 4 for 10 years or longer. Given the mature nature of the surrounding communities, it is unlikely that substantial new demand for real estate will emerge at the Walter Reed site without some unique draw of product types or themed uses that attracts users from beyond the two-mile study area.

The unique character of the one-mile study area also suggests some opportunities to use branding or the development program itself to positively impact the trajectory of the study area and the outcomes at the site. For example, there may be an opportunity to create a mix of uses that is differentiated to appeal to the more mature population surrounding the site. This differentiation of the redevelopment at Walter Reed could favorably position WRAMC against the other large scale opportunity sites around the District and thus draw from an area larger than the study radius.

In addition, the relatively older population in the study area is significantly different from the urban core and the neighborhoods in DC that are often thought of as re-emerging and growing. Much of the demand growth in DC residential real estate and the re-emergence of neighborhood cores throughout the District have been attributed to the attraction and retention of new young professionals, typically ranging in age from 22 to 35. This demographic shift has sparked a market trend toward smaller units and higher density multifamily housing in high amenity, walkable and transit-accessible communities. The immediate study area does not currently provide the transit-orientation, walkabilty or high amenity base this younger demographic typically covets. By planning for such an environment, Walter Reed's program may expand the appeal of the site beyond the boundaries of the study area in a high-impact way.

## Labor Force Trends

Employment is projected to increase by six percent over the 10 year period from 2008 to 2018, with the addition of approximately 54,000 jobs in the Washington DC market. Professions poised to gain the most new positions include technology and education. Those white collar professions that can be easily automated may, however, see a significant loss of jobs. These changes may have important implications on the choice of a redevelopment program for the WRAMC site.

**Top 20 Occupations by Numeric Change**
**Washington, DC Employment Change Projections 2008-2018**

| Occupation Name | 2008 Employment | 2018 Projected Employment | Numeric Change | Percent Change |
|---|---|---|---|---|
| Total, All Occupations | 787,060 | 841,430 | 54,370 | 6% |
| Security Guards | 15,430 | 18,040 | 2,610 | 16% |
| Janitors and Cleaners, Except Maids and Housekeeping Cleaners | 19,160 | 21,220 | 2,050 | 10% |
| Postsecondary Teachers | 15,630 | 17,600 | 1,970 | 12% |
| Public Relations Specialists | 10,970 | 12,870 | 1,900 | 17% |
| Computer Software Engineers, Applications | 3,150 | 5,030 | 1,880 | 59% |
| Office Clerks, General | 14,190 | 16,030 | 1,840 | 12% |
| Executive Secretaries and Administrative Assistants | 15,770 | 17,570 | 1,810 | 11% |
| Accountants and Auditors | 13,480 | 15,290 | 1,810 | 13% |
| Network Systems and Data Communications Analysts | 2,730 | 4,540 | 1,800 | 66% |
| Lawyers | 42,410 | 44,180 | 1,770 | 4% |
| Network and Computer Systems Administrators | 4,140 | 5,890 | 1,760 | 42% |
| Paralegals and Legal Assistants | 7,520 | 9,190 | 1,680 | 22% |
| Legal Secretaries | 7,550 | 9,140 | 1,600 | 21% |
| Customer Service Representatives | 7,610 | 9,080 | 1,470 | 19% |
| Home Health Aides | 2,710 | 4,180 | 1,470 | 54% |
| Computer Systems Analysts | 4,070 | 5,450 | 1,380 | 33% |
| Receptionists and Information Clerks | 8,330 | 9,420 | 1,090 | 13% |
| Combined Food Preparation and Serving Workers, Including Fast Food | 6,810 | 7,790 | 980 | 14% |
| Computer Software Engineers, Systems Software | 1,940 | 2,840 | 900 | 46% |
| Market Research Analysts | 4,040 | 4,920 | 880 | 21% |

Source: DC Department of Employment Services

| Top 20 Occupations by Percent Change<br>Washington, DC Employment Change Projections 2008-2018 | | | | |
|---|---|---|---|---|
| OccupationName | 2008 Employment | 2018 Projected Employment | Numeric Change | Percent Change |
| Total, All Occupations | 787,060 | 841,430 | 54,370 | 6% |
| Network Systems and Data Communications Analysts | 2,730 | 4,540 | 1,800 | 66% |
| Computer Software Engineers, Applications | 3,150 | 5,030 | 1,880 | 59% |
| Home Health Aides | 2,710 | 4,180 | 1,470 | 54% |
| Computer Software Engineers, Systems Software | 1,940 | 2,840 | 900 | 46% |
| Network and Computer Systems Administrators | 4,140 | 5,890 | 1,760 | 42% |
| Computer Hardware Engineers | 830 | 1,170 | 330 | 40% |
| Dental Hygienists | 440 | 600 | 160 | 36% |
| Self-Enrichment Education Teachers | 1,230 | 1,660 | 430 | 34% |
| Industrial Engineers | 310 | 410 | 110 | 34% |
| Computer Systems Analysts | 4,070 | 5,450 | 1,380 | 33% |
| Database Administrators | 1,450 | 1,910 | 460 | 31% |
| Skin Care Specialists | 90 | 120 | 30 | 30% |
| Dental Assistants | 490 | 630 | 140 | 29% |
| Survey Researchers | 820 | 1,050 | 230 | 28% |
| Personal Financial Advisors | 970 | 1,230 | 260 | 27% |
| Veterinary Assistants and Laboratory Animal Caretakers | 90 | 120 | 30 | 27% |
| Employment, Recruitment, and Placement Specialists | 2,480 | 3,130 | 650 | 26% |
| Social and Human Service Assistants | 2,110 | 2,660 | 550 | 26% |
| Personal and Home Care Aides | 1,230 | 1,550 | 330 | 26% |
| Court Reporters | 980 | 1,240 | 260 | 26% |

Source: DC Department of Employment Services

| Bottom 20 Occupations by Numeric Change<br>Washington, DC Employment Change Projections 2008-2018 | | | | |
|---|---|---|---|---|
| Occupation Name | 2008 Employment | 2018 Projected Employment | Numeric Change | Percent Change |
| Total, All Occupations | 787,060 | 841,430 | 54,370 | 6% |
| Information and Record Clerks, All Other | 8,220 | 6,260 | (1,960) | -23% |
| General and Operations Managers | 32,220 | 31,080 | (1,150) | -3% |
| Managers, All Other | 34,760 | 33,670 | (1,090) | -3% |
| Economists | 5,280 | 4,730 | (540) | -10% |
| Business Operation Specialists, All Other | 36,370 | 35,920 | (460) | -1% |
| Computer Specialists, All Other | 10,240 | 9,860 | (380) | -3% |
| Office and Administrative Support Workers, All Other | 2,040 | 1,690 | (350) | -17% |
| Word Processors and Typists | 2,610 | 2,300 | (310) | -12% |
| Postal Service Mail Sorters, Processors, and Processing Machine Operators | 960 | 670 | (290) | -29% |
| Mail Clerks and Mail Machine Operators, Except Postal Service | 1,450 | 1,230 | (210) | -14% |
| Secretaries, Except Legal, Medical, and Executive | 11,360 | 11,160 | (200) | -1% |
| File Clerks | 790 | 620 | (160) | -20% |
| Human Resources Assistants, Except Payroll and Timekeeping | 1,640 | 1,500 | (140) | -8% |
| Order Clerks | 340 | 210 | (130) | -37% |
| Telemarketers | 710 | 580 | (130) | -18% |
| Artists and Related Workers, All Other | 3,500 | 3,370 | (130) | -3% |
| Historians | 540 | 430 | (110) | -21% |
| Prepress Technicians and Workers | 510 | 400 | (110) | -20% |
| Medical and Clinical Laboratory Technologists | 750 | 650 | (110) | -14% |
| Switchboard Operators, Including Answering Service | 940 | 820 | (110) | -12% |

Source: DC Department of Employment Services

# Market Trends

## Housing Market Trends

**Rental Housing Market:** The Washington, DC residential market continues to strengthen following some moderate declines in home values and rents during the recession between 2008 and 2009. The District's apartment market demonstrates improvements in terms of rent growth, vacancy declines and a relative shortage of units over the next 12 months. [Jon – insert info/ data for longer-term pipeline]

**For-Sale Housing Marketing:** The for-sale housing market, particularly condominiums, have demonstrated some declines in performance in the past quarter including a 1.3% decline in average price and a 15.3% increase in days on market. However, these declines are widely considered to be a factor of constrained supply and the under-performance of stagnant units that have been listed for over three years. The condominium market shows strength inside the Beltway including a 5.5-unit per month sales pace for new construction projects compared to a steady sales pace of 2.5 units per month region-wide in 2008-2009. This represents a 120 percent increase in sales pace in 2010-2011. The District also enjoys a short six-month inventory compared to an inventory of 2.1 years in the metropolitan region and as high as 3.1 years in Loudon, Prince William and Montgomery Counties.

The strength of the District's housing market rests on steady increases in population and a relatively stable job market.

**Population Growth Supports Housing Market:** Per Mosaic's population growth analysis in the previous demographic trends section of the report, the average population growth rate for the metropolitan area has been 0.9% over the last 10 years. Marcus & Millichap projects the addition of 25,000 new households within the metropolitan region in 2011. Within the two-mile study area a 0.9% population growth rate implies over 5,000 new residents may be expected to reside within two miles of Walter Reed by 2015. Should the demographic character of the neighborhood remain relatively stable, population growth of over 5,000 residents suggests the creation of over 2,000 new households within the study area over the next four years.[8]

**Job Growth and Employment Support Housing Market:** In the first half of 2011 the private sector added roughly 12,000 new jobs to the regional economy. Government jobs were lost during the same period resulting in the net addition of approximately 10,000 jobs. The metropolitan area is projected to add an additional 40,000 jobs in 2011 therefore raising the projected 2011 total of new jobs added to 50,000.[9] The District is expected to capture 8,200 jobs in 2011 and another 4,200 in 2012.[10] The District's unemployment rate was up to 10.2% as of May, 2011. This figure is a slight increase from the unemployment rate of 9.4% a year earlier. Job growth and employment stability are important indicators of housing market growth

[8] Households within in the Study Area have an average size of 2.3 persons. ESRI Demographic and Income Forecasts for 2010 and 2015.

[9] Marcus and Millichap ApartmentResearch Market Update Third Quarter 2011 Washington, DC Metro

[10] REIS Apartment-Asset Advisor Reis Observer August 22, 2011 District of Columbia Metro

and stability and the slight rise in unemployment suggests that there are some risks to the housing market from continued instability in the jobs market.

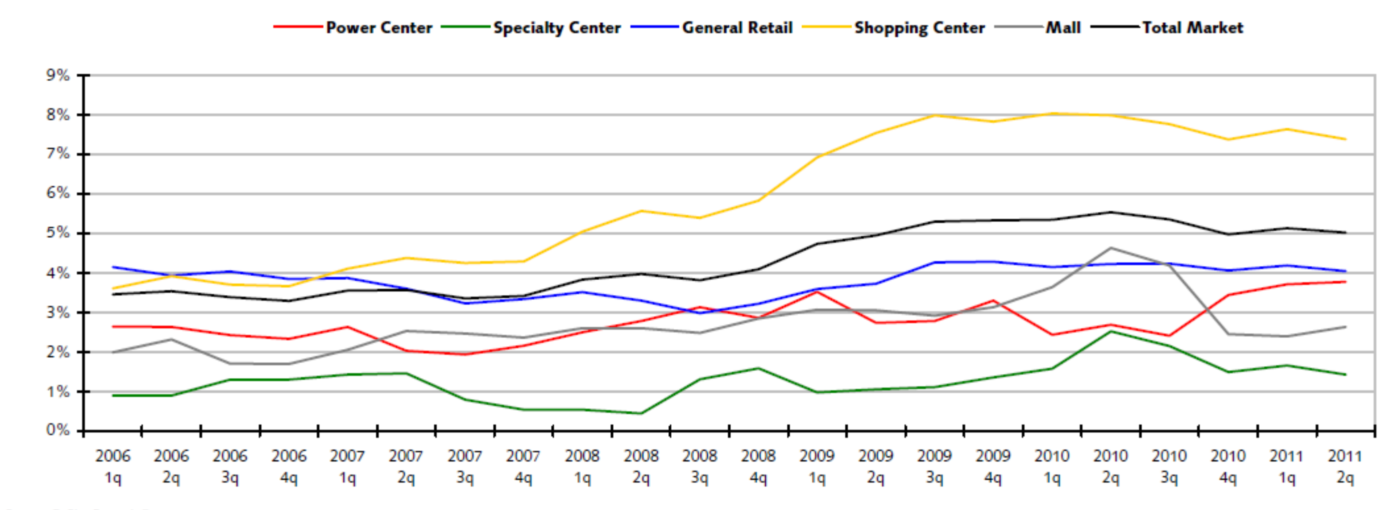
Within the healthy residential market of the District and surrounding metropolitan region, the Walter Reed site is well-positioned to support new residential development.

## Retail Market Trends

The retail market has suffered nationally in the recent recession with increases in vacancy and decreases in asking and effective rents. A decrease in “effective” rents means that landlords are offering higher rent and other financial concessions to lease retail spaces. The Washington Metropolitan area has experienced similar declines in the past, although not to the extreme weathered by the national market. However, in 2011 the DC retail market has shown some positive trends including an increase in year-over-year rents and a steady four-quarter decline in vacancy rates from 5.5% in 2010 to 5.1% in 2011. The District of Columbia market appears bullish on retail in the City with a city-wide retail pipeline topping out at 1.75M square feet of new retail. The District continues to be under retailed compared to the national average with only 8.6 square feet of retail per resident compared to the US average of 23.1 square feet. The metro region and the District also enjoy stable positive job growth which further bolsters the prospects for retail locally and regionally.

While the WRAMC study areas have relatively modest demand for retail space, it is encouraging to see that performance numbers for the existing retail space in the study areas remain strong. Vacancy rates in both the one-mile and two-mile study areas remain below the market average and rents are consistent with the market as a whole.

### Figure 4 Washington DC Vacancy by Retail Type 2006-2011




Source: CoStar 2011

## Hospitality Market Trends

The hotel market suffered significant challenges in 2009 as a result of the overall decline in the US economy. National average occupancy rates declined to below 55 percent. Average occupancy rates below 60 percent traditionally precipitate hotel room rate discounting. In addition, construction of hotels declined 47.7 percent nationally in 2009 from the previous year.

Despite the severe softening of the hotel market in 2009, hotel performance trended positively during late 2010 and the beginning of 2011. Full service hotel Average Daily Rates (ADR) were up in the first quarter of 2011 over 2010. 2011 performance for both full service and limited service is forecast to show improvement over 2010 in performance metrics categories like ADR and Revenue Per Available Room (RevPAR, a standard hotel industry measure of revenue) and occupancy. CBRE has projected annual growth in RevPAR for DC Hotels to reach $118.73 in 2012, a 13% increase over the first quarter of 2011. CBRE has also projected 2012 stabilized occupancies in the DC metro area will be 68-69 percent for 2012 compared to the low of 55 percent in 2009.

The District has weathered the softening of the hospitality market much better than the nation as a whole. The District and close-in suburban markets benefit from a consistent and diverse supply of customers. In general, hotels draw customers from tourism, business, and convention or “group” travel. In 2009 domestic leisure travel to Washington, DC increased 2 percent to 15.2M visitors and international travel jumped 22 percent to 1.4M visitors. The Washington, DC hotel market has also benefited from the relative strength of its business sector built on the federal government and a diverse group of national and international private sector service firms.

## Office Market Trends

The Bureau of Labor Statistics reports that unemployment in the District of Columbia for May, 2011 is up 80 basis points to 10.2 percent compared to 9.4 percent a year earlier. Employment is an important factor in projecting demand for office space. As unemployment rises, companies require less office space because they service fewer employees. However, the negative change in employment in the District may not be a direct indicator of the health of the office market. The majority of job losses in the District since 2010 have been in non-office industries including retail, leisure, hospitality and higher education. The professional and business sector, the sectors which generate the most office demand in the District, actually added 2,400 jobs. Looking to the future, Moody’s Economy.com forecasts the addition of 8,200 jobs in the District in 2011 and another 4,200 jobs in 2012.

**Vacancy:** The overall office market in the District continues to be one of the healthiest in the nation. Vacancy is down 100 basis points in the second quarter of 2011 from the same period a year earlier. Vacancy in Class A properties is 9.3% and in Class B/C is 8.7%.[11] The decline in vacancy indicates that supply is lagging demand slightly. REIS recorded only 544,000 square feet of new multi-tenant space under construction scheduled to deliver in 2011. Comparing this supply to projected absorption of 1.7M square feet over 2011 indicates positive demand for space. REIS also projects a pipeline of 1.7M square feet of new space delivering each year between 2012 and 2015.

[11] Office Asset Advisor REIS Observer August 22, 2011 for the District of Columbia.

**Rent:** Rents in all classes are up very modestly since 2010, but Class A rents appreciated more than Class B/ C rents. Asking rents in the District averaged $49.05 per square foot, an increase of 0.3 percent over 2010 rates. Class A asking rents average $53.61 per square foot and Class B/C rents average $42.41 per square foot according to REIS.[12] The District's office rent growth is somewhat constrained by the availability of more affordable suburban space. Companies may prefer the District's central location, but they can only justify a limited premium in the face of less expensive options. Rents are expected to increase in the District, but at a continued moderate pace of no more than 1% to 2% over the course of 2011 and 2012. This is based on continued economic uncertainty combined with stabile demand and only moderate increases in supply. Additional gains are expected in effective rent over 2011 and 2012. Effective rent is a measure of asking rent adjusted for any concessions or incentives offered to tenants such as tenant improvement allowances or free rent discounts. This indicates that lower tenant improvements and concessions will precede increases in asking rents over the next two years.

[12] Office Asset Advisor REIS Observer August 22, 2011 for the District of Columbia.

# Residential Market Assessment

Section Contents:

# Residential Market Assessment Overview

**Existing Conditions**
**Rental Housing Market**
**For-Sale Housing Market**

## Existing Conditions

Within the healthy residential market of the District and surrounding metropolitan region, the Walter Reed site is well-positioned to support new residential development. The following section will present data for housing demographics within the study area and market performance metrics such as rents and vacancy within specific neighborhoods in the study area.

**Housing Demographics Within the Study Area Compared to the District**

| | One-Mile Radius | Two-Mile Radius | District of Columbia |
|---|---|---|---|
| **Average Household Size** | 2.36 | 2.34 | 2.11 |
| **Owner-Occupied Units** | 51% | 46% | 42% |
| **Renter-Occupied Units** | 49% | 54% | 58% |
| **Units in Structure (Multifamily versus Single Family)** | | | |
| **1-unit (attached or detached)** | 58% | 53% | 41% |
| **2-units to 9 units** | 8% | 13% | 28% |
| **10 units or more** | 34% | 34% | 34% |
| **Age of Housing Stock** | | | |
| **Built Before 1960** | 79% | 74% | 67% |
| **Built 1960-1999** | 20% | 23% | 28% |
| **Built 2000 or Later** | 1% | 3% | 5% |

Sources: ESRI Business Analyst (one- and two-mile radii), US Census Bureau American Community Survey 2009, US Census Bureau American Fact Finder 2010 General Population and Housing Characteristics, Mosaic.

The residential character of the study area reflects a low density, predominantly single family development pattern today. The communities surrounding the Walter Reed site enjoy home ownership at higher rates than the District as a whole. The area's housing stock reflects a higher percentage of single family homes (58 percent in the one-mile study area) than the District as a whole (41 percent). Household size in the one-mile study area is slightly higher at 2.36 persons per household than the District average of 2.11. Housing stock in the submarket also was largely delivered before 1970. This may indicate that there has been little change in demand for a number of decades.

These demographic characteristics indicate the study area consists of stable neighborhoods with long-time residents and some families, the majority of whom are home-owners. The exceptions to this paradigm are Takoma on the border of the one-mile study area and Silver Spring, Maryland, a significant mixed-use downtown center one and a half miles from the site. New multifamily and townhome development surrounding the Takoma Metrorail Station has occurred recently and Silver Spring has enjoyed new development over the course of the past 10 years.

**Residential Performance Data within the Study Area Compared to the District**

| | One-Mile Radius | Two-Mile Radius | District of Columbia |
|---|---|---|---|
| **Average Monthly Asking Rents** | $1,256 | $1,307 | $1,347 |
| **Vacancy Rate** | 4.8% | 7.2% | 5.3% |
| **Pipeline**<br>(Units Planned for Construction) | 205 | 2,900* | 9,050 |

Sources: REIS Apartment Asset Advisor; Marcus and Millichap Apartment Research Report, Washington, DC Economic Partnership Development Report 2011.
*Includes Pipeline in Silver Spring as well as the District. 2,100 units of two-mile pipeline are within the District.

Rents within the one-mile study area are nearly 7% lower than the District's average rents, but only 3% lower when the study area is expanded to a two-mile radius. This change between 1 and 2 miles reflects the relatively higher rents in both Silver Spring and Takoma which have better Metro accessibility and new units with contemporary amenities, layouts and finishes.

There is a substantial residential pipeline planned within the study area. The majority of the pipeline units planned within the District are concentrated around the Fort Totten Metro Station with additional units planned near the Takoma Metro Station. Depending on the timing of construction for new units at Walter Reed, the pipeline units may be competition for residential development at Walter Reed and impact rents and absorption rates.

**Market Performance Metrics for Three Neighborhoods within the Study Area**

The Walter Reed Army Medical Center site, near the northernmost point of the District, is located in a market anchored by activity in Silver Spring and Takoma Park in Montgomery County, Maryland. Development at both of these locations is driven by proximity to Metro Stations, as well as past development that has helped create a sense of place. Silver Spring stands out as the dominant player in commercial development in the study area. However, in the residential market Silver Spring, Takoma Park and the Walter Reed area each fill a unique niche. Analyzing these submarkets is important because residential performance in close proximity to the Walter Reed site impacts perceptions of the site by developers and buyers of residential products. In addition, these submarkets differ notably in amenities, access to transit and character. Understanding the residential pricing differences in these submarkets and drivers for those differences will best inform any assumptions about residential performance at Walter Reed. Demographic data is not available or necessarily informative at these neighborhood levels, but understanding variations in pricing for residential products will inform how rents and home prices will be perceived by the market.

The unique markets within the study area include: (i) the area within a half mile of the WRAMC site; (ii) Downtown Silver Spring; and (iii) the area surrounding the Takoma Metro Station. The area surrounding the Takoma Metro Station incorporates both Takoma, inside the boundaries of the District of Columbia, and Takoma Park to the east of the Metro Station in Maryland. For the purposes of this study we have analyzed the Takoma area within the District and the Takoma Park area east of the Metro together as a unique community. We will refer to them jointly as "Takoma/ Takoma Park." The relationship of these two jurisdictions to one another and to the WRAMC site is illustrated below.

**Figure 5 Relationship of Takoma, DC and Takoma Park, MD**


While discussing sense of place and defined market areas, it is worth mentioning that the Walter Reed site itself creates a sense of place and helps define the housing market in that area. Both rental and for sale listings will often use "near Walter Reed" rather than listing a neighborhood. Overall, the area is defined by well maintained single family homes. We refer to the residential neighborhoods within a half-mile of the site as the WRAMC Area when comparing housing data for various areas.

Silver Spring and Takoma/ Takoma Park are both defined by higher densities near their respective metro stations. Silver Spring is the densest and provides the most space and diversity in terms of office and retail options. Takoma/ Takoma Park is defined by its history and is known for its music festivals and year-round farmer's market. The Walter Reed area has been anchored by the medical and military uses at the site, but redevelopment presents an opportunity for the site to offer a new type of neighborhood center.

## Rental Housing Market

| Vacancy and Rent Rates in Three Study-Area Submarkets: Walter Reed Area, Silver Spring, Takoma/ Takoma Park | | | |
|---|---|---|---|
| | **Vacancy** | **Average Rent per Unit Per Month** | **Average Rent Per Square Foot** |
| **Walter Reed Area** | **5.6%** | **$1,261** | |
| Studio | | $1,068 | $1.77 |
| 1BR | | $1,284 | $1.81 |
| 2BR | | $1,700 | $1.71 |
| 3BR | | $2,007 | $1.75 |
| **Silver Spring** | **4.8%** | **$1,512** | |
| Studio | | $1,106 | $2.22 |
| 1BR | | $1,386 | $1.76 |
| 2BR | | $1,723 | $1.66 |
| 3BR | | $1,951 | $1.54 |
| **Takoma/ Takoma Park** | **2.9%** | **$1,192** | |
| Studio | | $962 | $1.71 |
| 1BR | | $1,050 | $1.68 |
| 2BR | | $1,279 | $1.63 |
| 3BR | | $1,526 | $1.64 |

#### WALTER REED AREA

Overall, the area has fairly modest rental rates as compared to the District of Columbia which averages approximately $1,350 monthly rents. Compared to the other sub-markets in the study area, Walter Reed-area rents fall below those in Silver Spring and above those in Takoma/ Takoma Park. The rents in Takoma/ Takoma park range broadly though. New apartments close to Metro garner premium rents, but much of the submarket's rental inventory is distant from Metro and 93 percent of the inventory was built before 1970.

With single family homes comprising the majority of housing units in this area, typical apartment units are somewhat rare. Offerings for entire houses for rent are nearly as common as listings for multifamily one and two bedroom apartment unit rentals. The demographics and lack of retail in the neighborhoods surrounding WRAMC are partly a result of the low-density housing market and lack of appropriate rentals for younger residents.

The few traditional apartments available in this submarket are in older buildings. Aspen Court Apartments is representative of the general character of traditional multifamily properties in the neighborhoods surrounding Walter Reed. Built in the 1950's, Aspen Court's 105 units are situated in seven, four-story buildings. Aspen Court does not offer contemporary amenities and averages rents for studios, one and two bedrooms of $1.31 per square foot. Aspen Court's rent, compared to the average District rent of $2.00 per square foot is 34.5% less.[13]

Comparable new construction multifamily will garner a rent and absorption premium at Walter Reed. First, a premium will be realized for providing a multifamily product which incorporates contemporary layouts, finishes and standard urban amenities like club rooms, fitness facilities, and programmed outdoor space. Available apartments do not provide these amenities in the Walter Reed area submarket. Second, the performance of a mid-rise multifamily project at Walter Reed may exceed current Walter Reed area comparables based on the delivery of new high quality retail and the building of an attractive site identity and brand at the Walter Reed site.

### DOWNTOWN SILVER SPRING, MARYLAND

Silver Spring has the most diversity in terms of existing housing stock, with older condominium units and apartments, upscale, new condominium and apartment units, and single family and townhomes. Newer developments include the Veridian, an upscale, downtown apartment building with studios starting at $1,380 monthly rent and two bedroom units up to $2,525 a month. The Veridian is located a third of a mile from the Silver Spring Metrorail Station. Within a block of the Veridian is another new construction, 14 story apartment building, 1200 East West. These buildings boast an amenities package comparable to downtown DC apartment and condominium buildings including fitness centers, lounges, game rooms, structured parking, and outdoor patio or roof space. They also enjoy rents averaging over $2.20 per square foot and have had healthy absorption. 1200 East West leased up in 2010 at 35 units per month.

Silver Spring's traditional multifamily market is strikingly healthy in terms of rents and absorption. The attraction of affordable access to Metro in an urban environment appears to be the primary driver for the market's success. Renters can lease luxury apartment units within a third a mile to Metro for substantially less than downtown District rates exceeding $3.00 per square foot. Residents do not have to sacrifice their urban experience to find affordable housing because Silver Spring offers a downtown experience with a variety of entertainment and shopping options. Discussions with developers and owners indicate that access to employers in Silver Spring is not the primary attraction of the market to renters.

Rental units at Walter Reed are likely to look and perform differently from the Silver Spring examples discussed above. Most importantly, the Walter Reed site is a greater distance from Metrorail. Further, while the site will offer a mix of uses, it is likely to reflect a lower density development pattern and a more limited base of entertainment and retail amenities than Silver Spring in terms of number of offerings. In order to compete for residents with Silver Spring, rental projects at Walter Reed will have to be both price competitive and capitalize on branding a different experience from that of their high density, urban neighbor to the north.

The downtown Silver Spring market is the opposite of the WRAMC area in that there is a wide selection of one and two bedroom apartment and condo units, but a relative dearth of single family homes.

### TAKOMA/ TAKOMA PARK

[13] $2 per square foot based on REIS Apartment- Asset Advisor 2nd Quarter 2011 for the District of Columbia.

Takoma/ Takoma Park also has a wide range of available residential units for rent (though not the quantity available in Silver Spring). Newly built and proposed projects near the Metro station provide more upscale accommodations at significantly higher prices than traditionally found in Takoma/ Takoma Park. Apartments at Gables Takoma Park start at approximately $1,300 per month for a studio, up to $1,800 per month for a two bedroom. The most expensive two bedroom units are priced at nearly $3,000 per month. Units at the Gables Takoma Park average $2.50 per square foot. This project offers residents free Wi-Fi, sundecks, garage parking, a club house and fitness facilities. Residents are also less than five minutes walking distance to the Metrorail Station in Takoma.

There is an opportunity for multifamily rental units at Walter Reed to compete with units in Takoma/ Takoma Park by offering a comparable product and experience with a competitive price. As a new development pattern and program emerges on the site, likely anchored by some mix of retail, the site will offer renters access to a neighborhood and retail experience not offered in Takoma/ Takoma Park. The potential retail experience at Walter Reed is likely to remain unique compared to Takoma/ Takoma Park because of the mature and low density nature of that community. Development projects in Takoma/ Takoma Park are subject to substantial public review, limiting the number and magnitude of new projects likely to compete with Walter Reed in that jurisdiction.

#### RENTAL HOUSING CONCLUSIONS

Demand for rental housing in the District is healthy and projected to stay that way over the next few years based on population and job-growth trends. The current pipeline supports this statement, with hundreds of units in some phase of the development process slated for delivery in the study area. In addition there is an evident vacuum of supply of new rental units in the area surrounding Walter Reed despite the healthy demand in nearby Takoma/ Takoma Park and Silver Spring. Given the site's opportunity to deliver new product at competitive rents, Walter Reed should support some new construction multifamily rental product.

Rents at new construction buildings at Walter Reed will likely lag those in Takoma/ Takoma Park and Silver Spring because of the site's relative distance to Metro and it's still emerging neighborhood identity. To be competitive in the market, a rental property on the WRAMC site will need to be less expensive than options in nearby Silver Spring and Takoma/ Takoma Park. Comparable product in these areas average rents of $2.40 and $2.50 per square foot respectively. Lowe Development Enterprises is developing rental properties at the Fort Totten Metro Station and targeting rents of about $2.60 per square foot per month. Without direct Metrorail accessibility, rental projects at the Walter Reed site may need to undercut the pricing at these more transit-oriented projects to attract customers. However, rents for new multifamily product at Walter Reed will garner a premium over existing units in the area immediately surrounding the site because of the opportunity to deliver modern design and amenities with new projects. Rent assumptions for WRAMC should be higher than the rents of $1.31 per square foot reflected at the representative project Aspen Court Apartments. Actual rents at the Walter Reed site, however, will depend on a number of development assumptions.

Given that WRAMC project rents will be constrained by competition, developers will look to deliver cost effective projects which are supported by lower rents than those in competing nodes in the study area. The ability of the site to support adaptive reuse market rate rental housing will depend on the cost of converting existing buildings. If rental housing on the site can garner rents equal to or in excess of competing markets over time, there may be an opportunity to deliver adaptive reuse rental projects in later phases of the Walter Reed redevelopment. Keeping costs low also requires low-cost parking solutions for apartment developers. It may be that the 1,200 unit parking garage on the northeast corner of the site can help to provide a parking solution for multi-family developers. There will have to be careful consideration of access and proximity of these parking spaces to potential renters and their units in order to keep new construction multifamily projects at Walter Reed competitive with the surrounding sub-markets.

The new rental product developed at Walter Reed will likely be the familiar mid-rise, stick-built (i.e. constructed with wood instead of steel or concrete) building, up to five floors. It is possible for retail to be developed on the first floor, forming a concrete deck for the residential product above, if an alternative parking solution is identified. Other for-rent residential concepts are possible. For example, rental townhomes could be accommodated on-site. We base this conclusion partly on the robust market for single family home rentals in the WRAMC Area. However, rental rates for alternative uses will likely not be as competitive in the marketplace. Also, the five story height is driven not only by market and financial considerations, but also by the character of the neighborhood and site. In order to effectively reintegrate the site into the surrounding neighborhood, the overall height and massing of buildings at the edge of the Walter Reed Site will be limited.

## For-Sale Housing Market

| Average Residential Sale Prices 2010 | |
|---|---|
| 1-Mile Average Sales Price | $386,000 |
| 2-Mile Average Sales Price | $382,000 |
| District Average Sales Price | $436,000 |

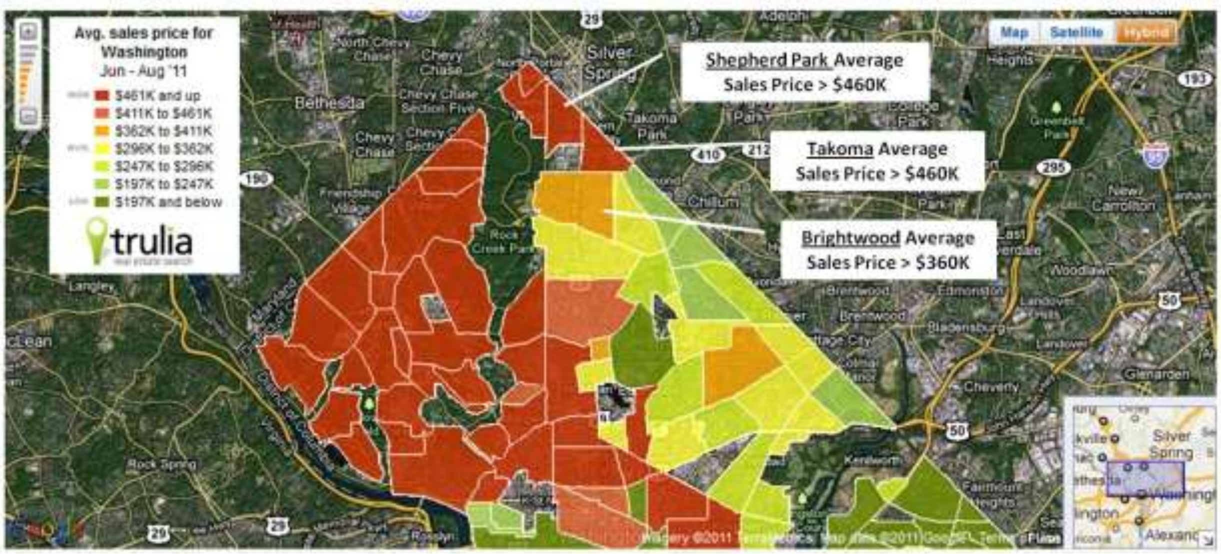
Source: PolicyMap, Boxwood Means, Mosaic

**Average Sales Prices**

We chose to focus on the average sales price rather than the median sales price for two reasons: 1) the average sales price is a more readily available statistic across all areas of comparison; and 2) the average sales price does a better job of capturing the housing value diversity within the one-mile and two-mile study areas. Using the median for these study areas would not account for the cluster of higher-priced units in the Shepherd Park neighborhood in very close proximity to the WRAMC study site.

The average housing sales price within a one-mile radius of the site is $386,000, compared to $382,000 for a two-mile radius and $436,000 in the District of Columbia overall. Both study areas lag the District's average 2010 home-sale price by over 10%. This is indicative of the study area's limited new construction product and a mix of very expensive housing, primarily in immediate proximity to the Walter Reed site, with more affordable homes beyond a half mile from the Walter Reed site. The Walter Reed area is desirable for home-owners and new construction of single family homes at the site may garner a premium.

The heat map below illustrates that most of the one-mile study area demonstrates average home sales prices in the highest ranges of the City.




The discrepancies between the average sales prices in the neighborhoods on the heat map above and the 1- and 2- mile study areas from the previous page result from two factors. First, the heat-map of the average neighborhood sales prices reflects averages for only summer months in 2011. Average sales prices in the summer of 2011 appear higher than those presented for the one- and two-mile study areas as aggregated in 2010 by Boxwood Means. 2011 prices may have trended up slightly since 2010, but it is important to note that summer sales prices are typically higher than other seasons because buyers are more active in the summer. Summer's pricing premium is evidenced by District-side statistics -- in 2010, the overall average sales price in the District of Columbia was $436,000 compared to $444,000 in the summer months. Second, both the one- and two-mile radii capture sales from adjacent neighborhoods which may have an overall lower average sales price. Neighborhoods captured in the one- and two-mile radii demonstrate average sales prices between $200,000 and $360,000 in the heat map for the summer of 2011, below the averages for the neighborhoods immediately surrounding Walter Reed (Shepherd Park, Takoma and Brightwood).

| For-Sale Housing | 1Mile Study Area | District of Columbia |
|---|---|---|
| % Owner Occupied | 51% | 42% |
| % Single Family Units | 58% | 41% |

Source: ESRI, CoStar, American Communities Survey (US Census Bureau)

**Rate of Home-Ownership** The study area enjoys a home ownership rate higher than the District's. Nearly 60 percent of the housing stock is single family units which is significantly higher than the District's ratio of 42 percent. These numbers are reflective of the low density, mature character of the one-mile study area. There may be an opportunity to attract new residents to the area by providing additional ownership opportunities such as condominium or townhome units with average sales prices lower than the current averages in the one- and two-mile radii of the site. This opportunity is considered in more detail below.

**Age of Housing Stock** One key feature of the existing housing stock in the one-mile study area is its age. Most of the units were built prior to 1960 and very little new construction took place in the two decades from 1980 to 2000. Recently, market demand pressure has resulted in some new units being built. New construction starts, temporarily hampered by current economic conditions, will likely continue to trend upward for residential units in the study areas.

| 2009 Housing Units by Year Built (One-Mile Study Area) | |
|---|---|
| Built 2000 to Present | 140 |
| Built 1990 to 1999 | 120 |
| Built 1980 to 1989 | 480 |
| Built 1960 to 1979 | 2,310 |
| Built 1940 to 1959 | 5,350 |
| Built 1939 or Earlier | 6,010 |

Source: US Census Bureau American Communities Survey

The relative age of the existing housing stock may give a competitive advantage to newly built housing at Walter Reed.

### WALTER REED AREA

The area surrounding Walter Reed does not have the same variety of residential options as other local competing neighborhoods, nor does it have the variety of commercial uses. Silver Spring has a variety of retail options and substantial office space (employment options). Takoma/Takoma Park has a reputation as an alternative community with a penchant for maintaining a sense of community and encouraging sustainable lifestyles. The Walter Reed area does not have this same sense of place and it does not have the Metro access that has driven higher densities and pricing in Silver Spring and Takoma/ Takoma Park. However, the area does have a strong single family for-sale housing market.

| Residential For-Sale Listings within One-Half Mile of WRMAC – September, 2011 | | |
|---|---|---|
| **List Price** | **Bedrooms/ Bathrooms** | **Description** |
| $425,000 | 4/ 2 | Single family in Brightwood neighborhood |
| $359,000 | 3/ 2.5 | Single family in Brightwood neighborhood |
| $299,000 | 3/ 2 | Single family in Brightwood neighborhood |
| $450,000 | 4/ 4 | Single family in Takoma neighborhood |
| $579,000 | 3/ 1.5 | Single family in Takoma neighborhood |
| $535,000 | 6/ 2 | Single family in Takoma neighborhood |
| $618,000 | 5/ 3.5 | Single family in Shepherd Park neighborhood |
| $499,000 | 3/ 2.5 | Single family in Shepherd Park neighborhood |
| $799,000 | 4/ 3.5 | Single family in Shepherd Park neighborhood |

Source: MLS

The asking prices identified in the sample set above are in most cases well in excess of averages identified in the “heat map” above which illustrated average asking prices around $460,000 in Shepherd Park and Takoma. As illustrated in the heat map and again by the sample set above, Brightwood tends to lag Takoma and Shepherd Park in housing prices.

### SILVER SPRING

Silver Spring offers a wide range of for-sale products, with units ranging in value from the mid $100s (older one bedroom condominium units) to over $1,000,000 (large single family homes). While Silver Spring is a suburban location, it possesses a density of commercial and residential development that gives it a sense of place and supports the retail, eating and drinking establishments that attract a younger, higher income population.

| Residential For-Sale Listings in Silver Spring, Maryland – September, 2011 | | |
|---|---|---|
| **List Price** | **Bedrooms/ Bathrooms** | **Description** |
| $599,000 | 3/ 3 | Town House |
| $439,000 | 2/ 3 | Condo |
| $535,000 | 4/ 2 | Single Family |
| $230,000 | 2/ 1 | Condo |
| $410,000 | 4/ 1.5 | Single Family |
| $250,000 | 1/ 1 | Condo |
| $545,000 | 3/ 2.5 | Single Family |

**Source: MLS**

The Silver Spring for-sale market is reflects a true diversity of product types including condominium units, single family houses and townhomes.

### TAKOMA/ TAKOMA PARK

Historically, the area has had a small town feel where long-time residents know each other and change has occurred slowly. Takoma has been known for music festivals and a year-round farmers' market. New and proposed development has built on the Takoma Park reputation for environmental consciousness by promoting projects with a "green" edge. These new developments also offer more upscale amenities and higher prices. Ecco Park offers condos for sale starting the low $200s for studios to the low $500s for two bedroom units, up to the high $600s for three bedroom units.

| Residential For-Sale Listings in Takoma/ Takoma Park* – September, 2011 | | |
|---|---|---|
| **List Price** | **Bedrooms/ Bathrooms** | **Description** |
| $785,000 | 5/ 4 | Single family in Takoma Park (MD) |
| $140,000 | 2/ 1 | Condo in Takoma Park (MD) |
| $240,000 | 2/ 1 | Condo in Takoma Park (MD) |
| $750,000 | 4/ 2.5 | Single family in Takoma Park (MD) |
| $425,000 | 2/ 2.5 | Single family in Takoma Park (MD) |
| $420,000 | 2/ 2 | Single family in Takoma Park (MD) |
| $499,000 | 3/ 1 | Single family in Takoma (DC) |
| $399,000 | 3/ 2 | Single family in Takoma (DC) |
| $195,000 | 1/ 1 | Condo in Takoma (DC) |

Source: MLS

*Takoma listings are outside of one-half mile radius of Walter Reed as those are included previously in a table of listings within one-half mile of Walter Reed.

### FORECLOSURES

Foreclosures in a neighborhood with such strong home ownership rates serve to destabilize the for-sale housing market slightly. While the Walter Reed area's rate of foreclosures has been as high as 37 homes per 1,000, over the course of 2010 the rate of foreclosures slowed substantially as illustrated in the table below.

| Foreclosure Rate per 1,000 Existing Homes in Walter Reed Neighborhoods | | | |
|---|---|---|---|
| **Neighborhood** | **Rate per 1,000 Existing Single Family Homes/ Condo Units in Foreclosure January 1, 2010** | **Rate per 1,000 Existing Single Family Homes/ Condo Units in Foreclosure December, 2010** | **Rate of Reduction between the Beginning of 2010 and the end of 2010** |
| Shepherd Park | 22.6 | 8.8 | 61% |
| Takoma/ Brightwood | 27.6 | 22.9 | 17% |
| District of Columbia | 21.3 | 16.2 | 24% |

Compared to the District overall, the neighborhoods in the study area reflect both higher rates of foreclosure in the case of Takoma/ Brightwood and lower rates of foreclose in the case of Shepherd Park.

High foreclosure rates may lead to vacant housing units and increase the number of units on the market. These factors may result in a softening market and potentially a degradation of the neighborhood in terms of safety and sense of community. The slowing pace of foreclosures in the Walter Reed area reduces the risk of a softening housing market. The impact of foreclosures is not expected to have a long term influence on the for-sale housing market in the study area. The exception to this conclusion would be further economic declines or new stress in the capital markets.

### RESIDENTIAL FOR SALE MARKET CONCLUSIONS

The re-sale housing market in the study area is relatively healthy with average sales rates at the top of DC's market ranging from $360,000 to $460,000 in the neighborhoods surrounding Walter Reed. In addition, the area has benefitted from a slowing rate of foreclosures. However, for-sale real estate in general is still vulnerable to economic shocks and uncertainty. It continues to be difficult for first-time home buyers to obtain financing with less than a 20% down-payment and the most favorable mortgage rates are not available to the majority of buyers. On the development side, financing for new construction, for-sale housing is difficult to obtain. Many projects in the pipeline have been shelved or put on hold awaiting a more stable economy and more favorable financing.

In this weak market, WRAMC site developers will need to be cautious when moving forward with any for-sale product. However, there is also an opportunity to anticipate a stronger for-sale market within a five year timeframe and plan to have products positioned to take advantage of a future upswing. There may be an opportunity to introduce a for-sale product at the Walter Reed site which is not widely available in the market. Urban townhomes, for example, are consistent with the surrounding neighborhood character and can be complimentary to the single-family option available in the market place now. These townhomes do offer a new-construction, contemporary alternative to the typical single family product in the Walter Reed submarket. Low and mid-rise condominiums may be considered viable in the future if (i) the competing transit-oriented pipeline does not convert to condominiums; and (ii) lower-risk residential programs such as apartments and townhomes prove the appeal of the Walter Reed neighborhood by achieving premium rents and sales prices.

## Residential Market Assessment Findings

**Developer Focus Groups**
**Development Case Studies**
**Request for Ideas for Building 1**
**NOI Applicant Program**
**Development Pipeline**

### Developer Focus Groups

The Developer Focus Group provided insight on likely product formats, phasing and very basic rent information. A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[14]

Multifamily: Multifamily likely makes sense as an early-phase product, if it's a competitively priced (less than $3 per square foot), wood-framed product.

High Rise Residential: High-density housing is typically the last product to be built on a mixed-use site because of its cost and exposure to risky absorption dynamics. Developers expressed concern about the compatibility of a high-rise residential program with the surrounding neighborhoods of lower-density housing. However, there was interest expressed in a higher-rise residential building facing the park at the corner of 16$^{th}$ and Aspen.

Townhomes: Specifications as described further in the Product Type Section were garnered from discussions with townhome developers. These experts concluded that a critical mass of 125-180 units co-located on site would create a "new neighborhood" as is typically perceived in the District of Columbia.

Specialty Housing: Interest was expressed in senior housing opportunities and there was a specific mention of interest from Victory Housing.

[14] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

## Development Case Studies

An assessment of three local urban townhome projects further illustrates that townhomes work well in an early development phase for a mixed-use community such as that which is likely to take shape at Walter Reed. The assessed townhome projects are:

| **Development Case Study Summary** | | | | |
|---|---|---|---|---|
| **Townhome Development** | **Distance to Metrorail** | **Unit Count** | **Site Area** | **Anticipated Mixed-Use Project** |
| Chancellor's Row, Washington, DC | 0.5 Miles | 230 | 10 Acres | Arts Walk in Brookland neighborhood |
| Townhomes at Mosaic District, Fairfax, VA | 0.6 Miles | 100 | | Mosaic District |
| Capitol Quarter, Washington, DC | 0.3 Miles | 300+ | 10 Acres | Arthur Capper / Carrollsburg Redevelopment |

The cases are detailed in Appendix B.[15]

## Request for Ideas for Building 1

There were no responses to the RFI for Building 1 which suggested a residential adaptive reuse for that asset. The RFI responses are summarized in Appendix C.[16]

## NOI Applicant Program

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. The residential uses proposed by qualifying NOI Applicants as of the date of publication of this report include a combined 90 affordable housing units occupying 105,000SF of space. The qualifying NOI Applicants proposing this use are So Others Might Eat (SOME) and HELP USA. The proposed 90 units are included in the Demand-Supported Program for purposes of this study and report. A summary of the NOI process and qualifying applicants program as of the date of the publication of this report can be found in Appendix D.

[15] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

[16] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

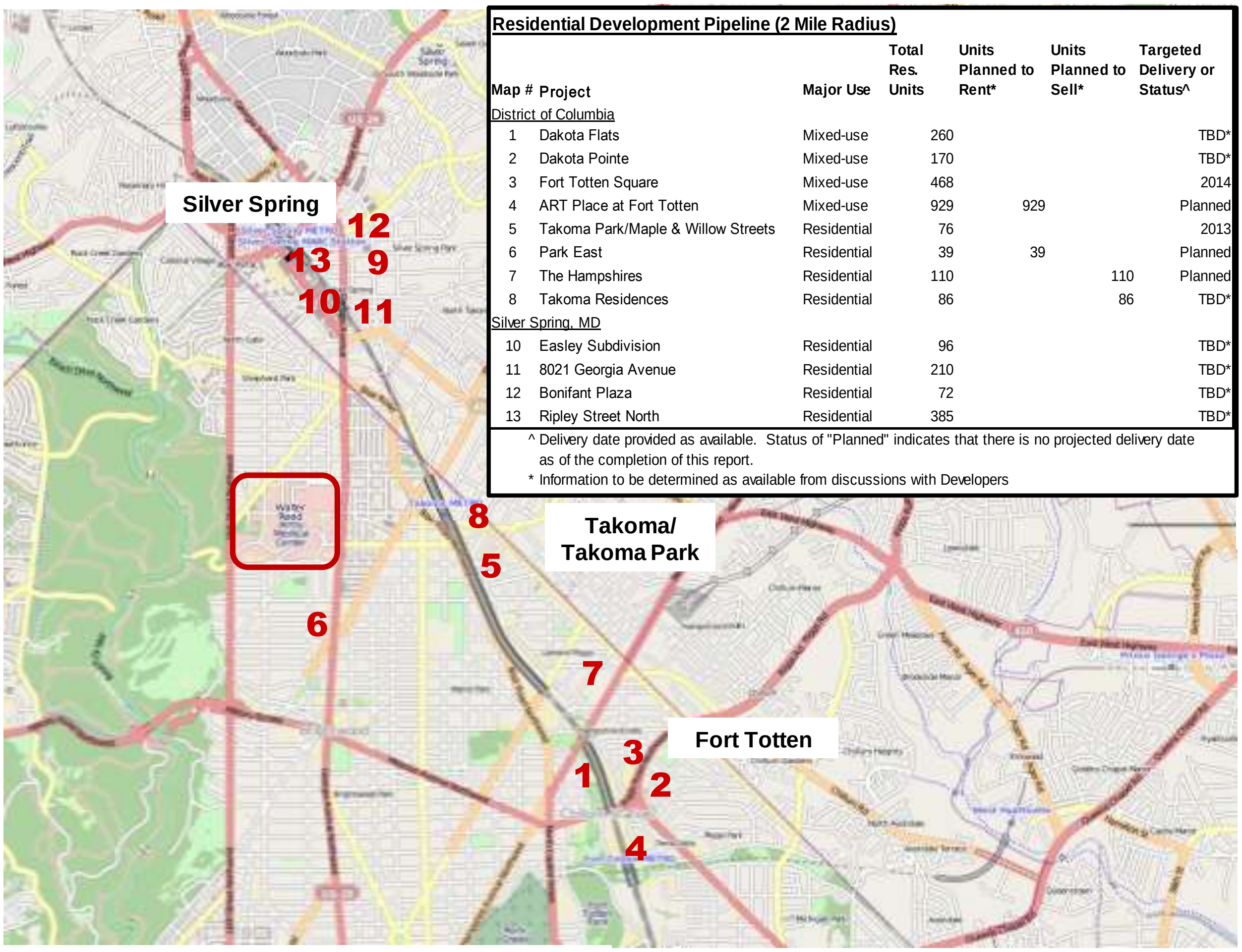
## Pipeline

The residential pipeline is driven by three key development locations. In addition to Silver Spring and Takoma/ Takoma Park, which have already been the topic of discussion as key *existing* residential nodes, Fort Totten is a node that will be created in the near future. Development surrounding the Fort Totten Metrorail Station will include substantial amounts of rental housing, possibly nearing 2,000 new units by 2020. Additional retail uses will follow these new rooftops. With three metro lines intersecting at the site, this is one relatively low-cost site that will absorb substantial amounts of residential and retail demand from the two-mile study area. One of the projects projected for delivery at Fort Totten Metro Station is ART Place. This mixed use project seeks to incorporate a new library, and administrative offices of the Washington National Opera and Shakespeare Theater Company. Given the arts businesses targeted for this site, should ART Place deliver ahead of Walter Reed, the project may attract artist residents first. Losing artist residents to ART Place may make it more challenging for the Walter Reed site to capitalize on their creative aesthetic.

Pipeline projects in the study area will deliver, on average, about 400 units per year from 2012 through 2020. Only about 50 of these units will be for sale each year. This proportion is likely to change if market conditions improve.

[Pipeline Section continues on the Next Page]

### Figure 6 Residential Pipeline Map




**Residential Development Pipeline (2 Mile Radius)**

| Map # | Project | Major Use | Total Res. Units | Units Planned to Rent* | Units Planned to Sell* | Targeted Delivery or Status^ |
|---|---|---|---|---|---|---|
| District of Columbia | | | | | | |
| 1 | Dakota Flats | Mixed-use | 260 | | | TBD* |
| 2 | Dakota Pointe | Mixed-use | 170 | | | TBD* |
| 3 | Fort Totten Square | Mixed-use | 468 | | | 2014 |
| 4 | ART Place at Fort Totten | Mixed-use | 929 | 929 | | Planned |
| 5 | Takoma Park/Maple & Willow Streets | Residential | 76 | | | 2013 |
| 6 | Park East | Residential | 39 | 39 | | Planned |
| 7 | The Hampshires | Residential | 110 | | 110 | Planned |
| 8 | Takoma Residences | Residential | 86 | | 86 | TBD* |
| Silver Spring, MD | | | | | | |
| 10 | Easley Subdivision | Residential | 96 | | | TBD* |
| 11 | 8021 Georgia Avenue | Residential | 210 | | | TBD* |
| 12 | Bonifant Plaza | Residential | 72 | | | TBD* |
| 13 | Ripley Street North | Residential | 385 | | | TBD* |

^ Delivery date provided as available. Status of "Planned" indicates that there is no projected delivery date as of the completion of this report.
* Information to be determined as available from discussions with Developers

Pipeline data reflects the details that are available for the planned projects. Most of the listed projects have not broken ground yet. Any data related to pro-forma rents, amenities and other operating factors is likely to change many times and owners may not be willing to share such data because of its fluid nature.

## Residential Market Assessment Conclusions

### Projected Annual Demand

To determine demand for residential units on the WRAMC site, we used our Metropolitan Average population projection and current household income distribution to determine the ability of new residents to pay for residential units (either renting or owning). An industry standard 30% of income maximum was used to determine ability to pay and income bracket midpoints were used to simplify this initial analysis. We used the home affordability calculator available at CNNmoney.com to calculate ability to purchase, assuming 10 percent down and a five percent APR. The results of this analysis are shown on the following page.

## Trade Area Demand for Residential in 2020 – One-Mile and Two-Mile Study Areas

| | 1-Mile Radius | | 3-Mile Radius | Max Rental Rate | Max Purchase Price | Percent Renter | Percent Buyer | 1-Mile Household Increase | 1- to 2- Mile Household Increase |
|---|---|---|---|---|---|---|---|---|---|
| Income Less than $15,000 | 1,322 | 11.51% | 10.04% | $375 | N/A | 100% | 0% | 127 | 420 |
| Income: $15,000 - $24,999 | 1,075 | 9.36% | 7.73% | $500 | N/A | 100% | 0% | 104 | 323 |
| Income: $25,000 - $34,999 | 1,231 | 10.72% | 9.31% | $750 | N/A | 95% | 5% | 119 | 390 |
| Income: $35,000 - $49,999 | 1,676 | 14.59% | 14.61% | $1,063 | $165,000 | 80% | 20% | 162 | 611 |
| Income: $50,000 - $74,999 | 2,039 | 17.75% | 18.75% | $1,563 | $250,000 | 50% | 50% | 197 | 785 |
| Income: $75,000 - $99,999 | 1,372 | 11.94% | 13.94% | $2,063 | $335,000 | 40% | 60% | 132 | 583 |
| Income: $100,000 - $149,999 | 1,728 | 15.04% | 13.26% | $3,125 | $500,000 | 30% | 70% | 167 | 555 |
| Income: $150,000 - $249,999 | 820 | 7.14% | 8.92% | $5,000 | $815,000 | 20% | 80% | 79 | 373 |
| Income: $250,000 - $499,999* | 165 | 1.44% | 2.65% | $5,000 | $815,000 | 5% | 95% | 16 | 111 |
| Income: $500,000 or more* | 59 | 0.51% | 0.79% | $5,000 | $815,000 | 5% | 95% | 6 | 33 |

Source: ESRI, Mosaic

*Demand at for incomes above $250,000 was capped at the $150,000 - $249,000 price points given a lack of precedent for higher rates

The assumption in each income bracket for the ratio of renters versus buyers is based on the ability and anticipated desire of new residents to purchase rather than rent. In the lower income brackets, the ability to purchase will be hampered by a lack of income and savings, while in the upper income brackets the tax benefits and investment potential will result in very high ability and desire to purchase. Those with household incomes below $35,000 would not be able to afford market rate housing in the study area. An affordable housing analysis is not within the scope of work of this Market Study, but it is worth noting that a significant demand for affordable housing does exist in the study area surrounding the WRAMC site.

FINAL

## Residential Demand - 50% Capture at One Mile and 20% Capture at Two Miles

| | Max Rental Rate | Max Purchase Price | Total New Renter 1-Mile | Total New Buyer 1-Mile | Total New Renter 1-2 Mile | Total New Buyer 1-2 Mile | Renter Capture 1-Mile | Buyer Capture 1-Mile | Renter Capture 1-2 Mile | Buyer Capture 1-2 Mile |
|---|---|---|---|---|---|---|---|---|---|---|
| Income Less than $15,000 | $375 | N/A | 127 | 0 | 420 | 0 | 64 | 0 | 84 | 0 |
| Income: $15,000 - $24,999 | $500 | N/A | 104 | 0 | 323 | 0 | 52 | 0 | 65 | 0 |
| Income: $25,000 - $34,999 | $750 | N/A | 113 | 6 | 370 | 19 | 56 | 3 | 74 | 4 |
| Income: $35,000 - $49,999 | $1,063 | $165,000 | 129 | 32 | 489 | 122 | 65 | 16 | 98 | 24 |
| Income: $50,000 - $74,999 | $1,563 | $250,000 | 98 | 98 | 392 | 392 | 49 | 49 | 78 | 78 |
| Income: $75,000 - $99,999 | $2,063 | $335,000 | 53 | 79 | 233 | 350 | 26 | 40 | 47 | 70 |
| Income: $100,000 - $149,999 | $3,125 | $500,000 | 50 | 117 | 166 | 388 | 25 | 58 | 33 | 78 |
| Income: $150,000 - $249,999 | $5,000 | $815,000 | 16 | 63 | 75 | 299 | 8 | 32 | 15 | 60 |
| Income: $250,000 - $499,999 | $5,000 | $1,500,000 | 1 | 15 | 6 | 105 | 0 | 8 | 1 | 21 |
| Income: $500,000 or more | $5,000 | $2,000,000 | 0 | 5 | 2 | 31 | 0 | 3 | 0 | 6 |
| **Total** | | | **691** | **416** | **2477** | **1708** | **346** | **208** | **495** | **342** |

A capture rate of 50 percent for a one-mile radius is defensible given the relative lack of pipeline projects competing in that radius of the site. For the two-mile study area, a 20 percent capture rate reflects the wider diversity of residential and community options in that radius like the opportunity to choose a higher density, more urban location like Silver Spring, MD.

There is significant demand for residential units at the WRAMC location. As shown below, as many as 450 rental and 540 for-sale market rate units could be supported at this site by 2020. In addition to those projections, there is also substantial demand for affordable units – over 250. Within the one-mile study area, approximately 205 homes were sold in the twelve months from November 2010 through October 2011, according to Trulia.com. If we assume the first units are delivered in 2015, the demand shown in the chart below represents approximately a 50 percent capture of one-mile annual sales. It is important to note that current sales in the area are generally a single family product inconsistent with the development program envisioned for WRAMC. However, this statistic helps to confirm the population-growth-based demand calculation.

**Total Market Rate Residential - Potential Capture at WRAMC Site**

| Rental | | | | - | For Sale | | | |
|---|---|---|---|---|---|---|---|---|
| **Type** | **Rate** | **Total Capture** | **Cumulative %** | | **Sale** | **Rate** | **Total Capture** | **Cumulative %** |
| Rental | $1,063 | 162 | 36% | | Sale | $165,000 | 41 | 7% |
| Rental | $1,563 | 128 | 65% | | Sale | $250,000 | 128 | 31% |
| Rental | $2,063 | 73 | 81% | | Sale | $335,000 | 110 | 51% |
| Rental | $3,125 | 58 | 94% | | Sale | $500,000 | 136 | 76% |
| Rental | $5,000 | 25 | 100% | | Sale | $815,000 | 129 | 100% |
| **Total Rental Demand** | | **446** | | | **Total For Sale Demand** | | **543** | |

## Potential Product Types

We have identified six potential residential product types that may be considered for the site given the goals of the project, the site's opportunities and constraints and market conditions: high density townhouse, mid-rise apartments, mid-rise condominiums, affordable housing, senior housing and artist housing.

### High Density Townhouse and Traditional Row House

*Product Type Description*

The high density townhouse product would likely be four stories with a garage on the first floor, with three or four bedrooms and two or more baths. According to knowledgeable developers, up to 30 units per acre are possible, depending on land constraints and developer familiarity with dense townhome development.

*Basis for Recommendation*

The high density townhouse product is a good fit for the Walter Reed site because it continues the approximate density of the surrounding neighborhoods and takes advantage of the Walter Reed site's primary competitive market advantage, available land. Also, this residential use does not necessarily require substantial investment in retail development to provide amenities to attract initial buyers. The Walter Reed site, whether it is considered a part of Brightwood, Shepherd Park, Takoma, or its own, new neighborhood, has momentum as a single family neighborhood. As the strength of the real estate market returns many people, especially young professionals, may look to the area to provide high-value-per-dollar, lower-density housing options.

There is already a significant stock of single family homes in the area. The Walter Reed site is an opportunity to create new product that provides the same value as existing, single family homes, but with modern touches, amenities such as attached garages and upscale kitchens, and the urban style of living that draws younger people (e.g. a roof deck instead of a yard that requires maintenance). The study area has seen limited new construction of single family homes as suggested by the US Census statistics that indicate fewer than 200 homes in the one-mile study area have been built since 2000. Also based on US Census data, the study area has a larger average household size then the District as a whole, suggesting a higher concentration of families in the vicinity of Walter Reed than the broader city. Families are an important consumer segment to which townhomes may appeal.

*Summary of Competitive Advantages and Weaknesses*

**Advantages:** Builds on the competitive advantages of the site; can be phased in early; doesn't require a lot of retail space to support; fills a unique niche in the market, with limited competition

**Weaknesses:** Lower density, thus taking up more space for a single use and possibly not capturing the full potential for residential development

### MID-RISE APARTMENTS

*Product Type Description*

While mid-rise apartments will likely be stick built, a popular solution for provision of retail space involves building retail on the first floor and the residential use on top of the concrete deck provided by the retail space. There is no recommended size for the number of units in a building, but there are economies of scale with larger buildings and many of the pipeline projects have approximately 200 to 250 units per building. However, the Walter Reed site itself and the final development plan will identify the ideal building sizes. A smaller building will reduce lease-up risk, and the Walter Reed site is riskier than many of the pipeline comparables that are driven by metro-accessible housing demand.

*Basis for Recommendation*

Mid-rise, three to five story apartment buildings on the site would provide rental housing in a format that is widely accepted by both tenants and financers. Given constraints imposed by the market, financial realities and appropriateness for the site, a newly built apartment building on this site would likely be four or five stories and be of stick-built construction. Using wood framing or “stick-built” construction is the most cost effective way to deliver a traditional mid-rise multifamily project. The Georgia Avenue corridor is the site most industry experts quickly identify as the ideal location for this use. While retail is concomitant with medium density rental housing, it is not necessary to locate retail uses in a mixed-use building to create value for residential components. Retail helps to create interest in the site and provide appropriate amenities to compete with numerous similar projects currently in the pipeline and yet to be proposed.

*Summary of Competitive Advantages and Weaknesses*

**Advantages:** Provides rental housing in a logical, tested and highly feasible format

**Disadvantages:** Significant competition in the market; difficult to create a project that stands out from the crowd

#### MID-RISE CONDOMINIUMS

*Product Type Description*

A mid-rise, moderately sized condominium building at Walter Reed is not likely to be an early phase project. In general, condominium projects are currently perceived as risky by developers and the financing market. It is likely that in order to minimize risk, developers would prefer to build new condominiums that do not contain retail on the ground floor. Condominium projects at Walter Reed are likely to range from 20-40 units in earlier phases of the project. This size creates efficiencies in construction but limits sales risk. The size of condominium projects in terms of units may increase to 60-80 units in the very long run, as the market is proven by first-movers and the program of retail and amenities at the redeveloped Walter Reed campus is established. These buildings are likely to offer limited amenities and instead take advantage of the programming of the larger site, which may allow for lower operating costs and thus lower condominium fees. Lower condominium fees may be a competitive advantage in the market compared to locations in Silver Spring and closer to the Metro.

*Basis for Recommendation*

A mid-rise, three to five-story condominium building on the site would provide a relatively unique urban housing option in the market place. Condominium development in the later phases of development provide a high-density residential format and will likely fit with the character of the built-out Walter Reed program. However, mid-rise condominiums are not easy to deliver anywhere in the market area or the District today, given constraints in financing on developers and buyers. As an example, Donatelli Development recently chose to market for-sale the 49-unit “Griffin” across from the Petworth Metro Station as a multi-family building. This approach could be considered to be a desire to avoid the risk of attempting single-unit condominium sales in this market.

*Summary of Competitive Advantages and Weaknesses*

**Advantages:** Provides a new, urban housing format in the market place and a smaller format home-ownership option than what is currently available. This product type also provides a flexible format that can potentially respond to changing demand at Walter Reed as the full site development program is realized.

**Disadvantages:** The condominium market at Walter Reed is unproven. Give that condominium financing in more established markets is difficult to obtain, it will likely be even more challenging to finance condominiums at Walter Reed.

#### HIGH-RISE RESIDENTIAL

*Product Type Description*

High-rise residential buildings at Walter Reed may be an element of the real estate program in the latest stages of the project's build out but are not likely to be an early phase project. High-rise residential could be a rental or condominium, for-sale product built six-stories or higher using more expensive concrete or steel construction methods and materials. Market rents in the study area today do not support this product type, but should the market shift with the build-out of a unique program that builds market demand over time, there may be an opportunity to deliver high-rise residential. The feasibility and timing of this product type will be further vetted through conversations with developers and possibly the case study work planned for the next phase of the project.

*Basis for Recommendation*

High-rise residential construction on the site would provide a unique urban housing option in this part of the market. Development in the later phases of the project should respond to current market conditions. If the vision for Walter Reed is executed successfully, a high-density residential format may be the most effective response to market demand in later project phases. However planning for this product type must be flexible to allow for residential pricing to support the product-type.

*Summary of Competitive Advantages and Weaknesses*

**Advantages:** Provides a new, urban housing format in the market place and a smaller format home-ownership option than what is currently available. This product type also provides a flexible format that can potentially respond to changing demand at Walter Reed as the full site development program is realized.

**Disadvantages:** The market doesn't currently support this product type based on market rents. In order to realize a high-rise residential format in the plan, early stages of development will have to influence demand and pricing for renters and homeowners on the site.

#### AFFORDABLE HOUSING

In the District of Columbia 45 percent of renters pay more than 30 percent of their monthly income on monthly housing expenses including rent and utilities. Similarly, 37 percent of homeowners in the District of Columbia spend more than 30 percent of their monthly income on expenses related to homeownership including mortgage payments, taxes and insurance. The US Department of Housing and Urban Development defines housing as affordable when residents spend 30 percent of their income or less on housing expenses. Nearly 50 percent of District of Columbia renters are not living in housing that is considered affordable. There is an opportunity to meet some of this need at Walter Reed.

Market rents for existing multifamily stock in the Walter Reed area mirrors affordable housing standard pricing for the Washington, DC metropolitan area. This makes the site an attractive location for affordable housing developers because the market for housing aligns with the requirements for the financing and incentive programs those developers use to deliver projects. As demonstrated in the table below, the District's Housing Choice Voucher Program rents, as well as rents affordable to one and two person households earning 60% of Area Median Income both exceed the rents charged at the sample apartment complex, Aspen Court.[17]

| Affordable Rents Comparison to Walter Reed Submarket Rents | | | | |
|---|---|---|---|---|
| **Unit Format** | **Sample Apartments in Walter Reed Submarket: Aspen Court** | **Washington, DC Housing Choice Voucher Program** | **Affordable Rents 60% Area Median Income** | **Affordable Rents 50% Area Median Income** |
| Efficiency/ Studio | $942 | $1,272 | $1,087 | $906 |
| 1 Bedroom | $1,004 | $1,450 | $1,242 | $1,035 |
| 2 Bedroom | $1,203 | $1,643 | $1,320 | $1,100 |

Walter Reed could serve to provide traditional affordable rental housing oriented to either small households or to families. Developers will look to leverage federal Low Income Housing Tax Credits (LIHTC) to finance affordable housing built at the site, as either new construction or adaptive reuse. Because of the financing costs and compliance requirements of LIHTC, affordable housing projects will be most efficient when programmed to deliver over 100 units. As with market rate residential products, affordable housing programs will benefit from improved connections to transit, onsite neighborhood-serving retail, and the open space amenities offered by Walter Reed. There are opportunities to provide niche affordable housing on site as well -- in particular for seniors and artists.

### Affordable Senior Housing

*Product Type Description*

There is a range of service levels reflected in the broad characterization "senior housing." Three primary models came up in discussions for the Walter Reed site: (i) independent living;

[17] The Housing Choice Voucher Program is administered by the District of Columbia Housing Authority to help low and moderate income families compete for privately owned rental housing in the District. Housing is considered "affordable" by the Federal Low Income Housing Tax Credit program and other affordable housing programs when a household pays no more than 30% of their income on housing expenses including rent and utilities.

(ii) assisted living; and (iii) skilled nursing facilities. In the order presented, these categories reflect a progression of increasingly higher levels of medical care integrated into the residential setting. The senior housing contemplated in this analysis is independent living; however the other two models would be attractive market opportunities should the Walter Reed site ultimately host a significant medical service provider or a cluster of medical uses.

*Basis for Recommendation*

Both affordable housing and senior housing developers interviewed in researching the Walter Reed submarket noted an opportunity to provide affordable housing for senior citizens. In addition to LIHTC, senior affordable housing can be financed using the HUD Section 202 program. Again, to maximize the efficiency of management and financing program compliance, a senior housing project will likely take the form of a multifamily project of over 65 units. The success of a project will depend on delivering a product which appeals to the targeted residents. For example, Retirement Housing Foundation, a large California-based senior and supportive housing non-profit had unexpected trouble leasing up a project they completed in Arlington recently. The units they delivered were 100 SF smaller on average than the older, pre-World War II era units that many seniors were contemplating vacating for the new project. There is likely an opportunity to deliver a mixed-income senior project which will again rely on the skill of the developers in delivering units which appeal to their target tenants. The developer must also be proficient in navigating the financing sources for mixed-income projects.

Senior housing also offers an opportunity for adaptive re-use. As an example, CPDC, a non-profit affordable housing developer, completed the renovation of Wiley H. Bates High School in Annapolis, MD into affordable senior residences. The 84,000 square foot project suited the needs of seniors with the school's existing wide hallways. The pre-existing classrooms were sized such that each could be converted to a residential unit. Given the number of buildings targeted for adaptive reuse at Walter Reed, senior affordable housing should be a product type considered for those buildings.

*Summary of Competitive Advantages and Weaknesses*

***Advantages:*** Creates an opportunity for adaptive re-use; affordable rents reflect current market rate rents; opportunity for mixed-income development

***Weaknesses:*** Leverages complex financing tools; Projects have to conform to requirements of incentive and financing programs which may limit the mix of units or unique program options

### Affordable Artist Housing

*Product Type Description*

Artist housing functions primarily as a living space, but has an important secondary role as a work space. Artist residents require either (i) larger format units; or (ii) a unique shared work space to accommodate the secondary role of their homes as work space. Artists are unlikely to lease a 550 square foot studio and prefer a 1,100 square foot 1 bedroom as an example of their unique space needs.

*Basis for Recommendation*

There is significant unmet demand for affordable artist housing between 30% and 50% of AMI according to local arts non-profit, Cultural Development Corporation (CuDC). CuDC has recently delivered affordable units for artists in northeast Washington and is struggling to lease up units reserved for 60% to 80% of AMI. However, a concentration of artist residents may begin to anchor a cultural identity for the new Walter Reed. Identifying creative solutions to the housing needs of artists on the site may offer peripheral and long term benefits from this potential outcome. The key to attracting artist to the site will be providing housing at price points which meet the greatest demand – between 30% and 50% AMI. Improved connections to metro and possible complimentary uses such as academics may be other factors which can further improve the attractiveness of Walter Reed to the arts community.

*Summary of Competitive Advantages and Weaknesses*

***Advantages:*** May create the foundation for an arts cluster or anchor use on site; high unmet demand; market rate rents align with affordable rents

***Weaknesses:*** Unique work space or unit demands of artists may not align with program parameters for financing sources; additional subsidy will likely be required to serve residents between 30% and 50% of AMI.

## Residential Conclusions

There is significant projected demand for both rental and for-sale housing in the study areas over the next 10 years. This opportunity to attract new residents as part of a development program will help to support any retail programmed for the site and can help to anchor and stabilize any community or neighborhood center development concepts. Residential use at WRAMC also provides a natural extension and connection to the neighborhoods already surrounding the site. The surrounding neighborhoods represent a diversity of home values and any residential development at the WRAMC site should be reflective of that diversity.

**Demand-Supported Program Summary**

| | |
|---|---|
| **Demand-Supported Development Program** | Approximately 1,080 new residential units – 450 Rental + 540 Home-Ownership + 90 NOI units |

**Rental Housing**

There exists a continued demand for quality rental housing, despite the economic downturn. The current pipeline supports this statement, with hundreds of units in some phase of the development process slated for delivery in the study area. As identified in the demand analysis, the site should support approximately 450 new rental units over the next 10 years. In order to attract new residents, rents at Walter Reed will have to trail those garnered at competitive locations closer to Metro Stations such as Fort Totten, Takoma/ Takoma Park, and Silver Spring – at least initially. As the site emerges as a new neighborhood, its unique programming and identity may serve to attract residents independent of price incentives and alleviate the rental rate constraints of Walter Reed projects. If rental housing on the site can garner rents equal to or in excess of competing markets over time, there may be an opportunity to deliver adaptive reuse rental projects in the later phases of redevelopment of the site. Identifying creative parking solutions will be another factor in the success of rental housing at the Walter Reed site. Parking is a large cost for multifamily developers, and keeping that cost contained will allow them to deliver projects which can succeed at lower price points than surrounding submarkets.

Given the pressures on rent from nearby competition, and the lower density character of the surrounding neighborhoods, new rental product developed at Walter Reed will likely be a mid-rise, stick-built building, up to five floors. Wood frame or "stick-built" construction is the lowest cost method for delivering mid-rise multifamily. Containing construction costs responds to the need to keep rents suppressed at Walter Reed compared to surrounding neighborhoods. It is possible for retail to be developed on the first floor, forming a concrete deck for the residential product, if an alternative parking solution is identified such as utilizing the existing 1,200 parking spaces on the northeast corner of the site.

In addition to traditional market rate midrise multifamily products, there is also evidence of unmet demand for affordable housing at the site. There is a potential opportunity to serve unique affordable housing tenants on site by designing units for seniors and artists.

**For Sale Housing**

The demand analysis of for-sale housing predicts absorption of over 540 home ownership units over the next 10 years. Given the strength of the housing market in the study area, there is an opportunity for the Walter Reed site to overcome uncertainty in the housing market today. Urban density townhomes have a strong potential to be successful at Walter Reed. Condominium products in Silver Spring and Takoma/ Takoma Park are selling in the $300k to $500k range. Developers at Walter Reed will have the option to deliver products priced below these areas using a lower-density, for-sale product. The townhome concept also offers a unique housing option that is not widely available in the surrounding single family neighborhoods and which integrates nicely with the character of the surrounding communities.

While there is demand for over 900 new housing units on the site, the success of housing options at Walter Reed will be influenced by the success of additional programming on site. The residential communities surrounding Walter Reed can be knit together at the site with a mix of uses that serve as a new neighborhood anchor. The strength of this anchor will bolster the appeal of residential projects at Walter Reed over other competing nodes within the study area, such as Silver Spring and Takoma/ Takoma Park, and just outside the study area at the Fort Totten Metro Station.

# Retail Market Assessment

Section Contents:

# Retail Market Assessment Overview

## Retail Market

### Existing Conditions

Retail in the one-mile study area is predominantly small-scale, neighborhood oriented and independently operated. This retail is largely oriented along Georgia Avenue. The retail offerings of these small-scale stores include nail and hair salons, dry cleaners, and convenience and liquor stores. To the north and south of WRAMC, retail lines both sides of Georgia Avenue and mostly includes a mix of low density clusters and some small scale strip centers. A few larger pad sites are occupied by a mix of regional and national operators. Some of the larger operators in this mix include Ledo Pizza and McDonald's to the north of the site and Safeway and CVS to the south of the site.


Planners and developers in the District have recently tried to identify strategies for attracting box-format retailers to the Georgia Avenue corridor. A primary obstacle to retail development suited to large format stores has been land assemblage issues. The parcels fronting Georgia Avenue, especially to the north of WRAMC, are narrow, small, and directly abut residential neighborhoods. Aggregating ownership of these parcels is difficult and the lots would not yield an ideal shape and area when consolidated. A large, contiguous redevelopment site with Georgia Avenue frontage may be able to accommodate retail in a big box format. Similarly, there is not enough site capacity in the small parcels to the north of the site on Georgia Avenue to justify redevelopment of those sites with modern retail formats. Again, the scale of the WRAMC site offers a preferable alternative for development of small scale retail over competing parcels to the north on Georgia Avenue. Such retail formats may be appropriate to capturing existing retail leakage. Notably, Walmart is projected to build a store scheduled to open in 2012 at roughly the intersection of Georgia Avenue and Missouri Avenue, three-quarters of a mile south of the Walter Reed site. There are also some larger scale sites at the border between the District and Maryland where Georgia Avenue intersects Alaska Avenue and Eastern Avenue.

In a survey conducted by America Speaks at the July 10, 2010 WRAMC Re-Use Plan community meeting, local residents provided additional insight into their consumer habits and the role of retail on Georgia Avenue. In a participant group of approximately 70 individuals:

61% infrequently or never shop at local retailers along Georgia Avenue

40% purchase groceries in Silver Spring and an additional 21% purchase groceries elsewhere in Maryland

49% purchase apparel in Maryland versus 24% in the District.

Although the surveyed group was not large, we do believe the group is generally representative of the demographics of the immediately surrounding neighborhoods. Accordingly, these findings indicate that there is an opportunity to better serve nearby residents' retail needs.

## Retail Market Assessment Findings

**Developer Focus Groups**
**Development Case Studies**
**Request for Ideas for Building 1**
**NOI Applicant Program**
**Development Pipeline**

### Developer Focus Groups

The Developer Focus Group provided insight on retail design, location and organization opportunities, parking, product formats, and phasing. A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[18]

**<u>Retail Design and Place Making:</u>**

Retail can be used as a place-making element, even if it is not the dominant product in the program. Design and infrastructure are paramount to the success of a retail place and must be planned for early in implementation, not as an afterthought in the design of the project.
Well-designed, small-scale open spaces which are programmed to attract and generate activity and energy compliment a retail program surround such a space.
Surrounding population density is lower than is desirable for a retail destination, but programming and designing retail with place-making goals can overcome this challenge and draw people from outside the area to the site.
Retail does not have to front onto Georgia Avenue exclusively. Georgia Avenue should not be designed as the back of something, but it doesn't need to be the front of the primary anchor or attraction. Orienting retail along Georgia Avenue may attract shoppers who can be encouraged to enter deeper into the site for the majority of the retail program.
Georgia Avenue traffic is too fast for certain types of retail.

**<u>Format Implications:</u>**

[18] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

The site presents a unique opportunity along George Avenue to fit a big-box format retailer. Surrounding population density is not high enough to support a significant neighborhood center without drawing people from a broader area by attracting a major retailer that draws from a larger area.

**Program Implications:**

Phased development may support up to 200,000 SF based on the attraction of a significant anchor tenant.

Big-box is likely to act as a catalyst for other retail. A grocery anchor is desirable. Shops and restaurants are a natural fit for the retail program in and are likely to occur on some scale with or without an anchor tenant.

**Implementation Implications:**

Parking associated with retail needs to be modern and mimic a surface parking lot experience with high ceilings, bright lights and clean paint.

Big box tenants do not provide significant rent income.

## Development Case Studies

Two neighborhood center retail programs were analyzed to identify performance outcomes which may inform the development program at Walter Reed. A local example was the City Vista project in downtown Washington, DC and a non-local example was the Uptown District in San Diego, California. The development programs and population demographics of the projects are summarized below:

| Development Case Study Summary | | | | | | |
|---|---|---|---|---|---|---|
| **Project** | **Retail SF** | **Anchor Retailers** | **Anchor Retail SF** | **No. of Resid. Units** | **Site Area** | **Residential Population (1-mile radius)** |
| City Vista, Washington, DC | 116,700 | Grocer | 55,000 | 685 | 3 Acres | 43,700 |
| Uptown District, San Diego, CA | 145,000 | Grocer + Specialty Grocer | 42,000+ | 318 | 14 Acres | 32,300 |

The case study examples illustrate important points about the reasonable size and program for a neighborhood retail center and underscore the important of population density in supporting a successful neighborhood retail format. Key lessons from the case studies include:

A supportable retail program is based surrounding population density and daytime users. The one-mile population density at Walter Reed is 26,100 roughly 20% less than the one-mile population density in the Uptown District case and 40% less than the one-mile population density in the City Vista case.

A grocery-anchored retail program can support a mix of service retailers and restaurants.

A grocery store anchor can be successful in an interior location if there is strong demand. Ralph's grocery store (42,000 sf) anchors the Uptown District development in San Diego, California and has been extremely successful even with underground parking and limited signage.

In-line street retail will benefit from being part of a larger retail corridor. In the San Diego, California example, the retail oriented along University Avenue, which is part of a larger neighborhood retail corridor is successful.

The cases are detailed in Appendix B.[19]

## Request for Ideas for Building 1 Findings

There were no responses to the RFI for Building 1 which suggested a viable retail adaptive reuse for that asset. The RFI responses are summarized in Appendix C.[20]

## NOI Applicant Findings

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. The qualifying NOI applicant uses as summarized in Appendix D are reflected in the demand analysis. However, no qualifying applicants proposed introducing retail uses on the site, so there is not additional impact on the retail program from the NOI findings.

## Retail Development Pipeline

The retail development pipeline yields important findings for understanding the retail potential of the Walter Reed site. First, more retail development is slated for delivery in the District than in nearby downtown Silver Spring. Second, there are grocery stores planned at competing locations, including grocery service at a nearby Walmart. Third, the retail planned for Silver Spring is predominantly small scale. Each of these findings is discussed in more detail below.

### RETAIL DEVELOPMENT PLANNED FOR DC EXCEEDS PIPELINE IN SILVER SPRING

The total retail development currently approved in Silver Spring is 90,000 square feet. This number is not insignificant, but it also indicates that there will not be additional competition in Silver Spring from major new shopping centers or retail clusters coming online. The DC pipeline compared to Silver Spring does reflect the potential delivery of a new shopping district to compete with Walter Reed with over 500,000 square feet planned for the Fort Totten Metrorail Station. This amount of retail would create a new retail destination at the edge of the study area. The impact of that retail on a program at Walter Reed would depend on the format of the retailers planned for the site.

[19] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

[20] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

### COMPETING GROCERY STORE DEVELOPMENT

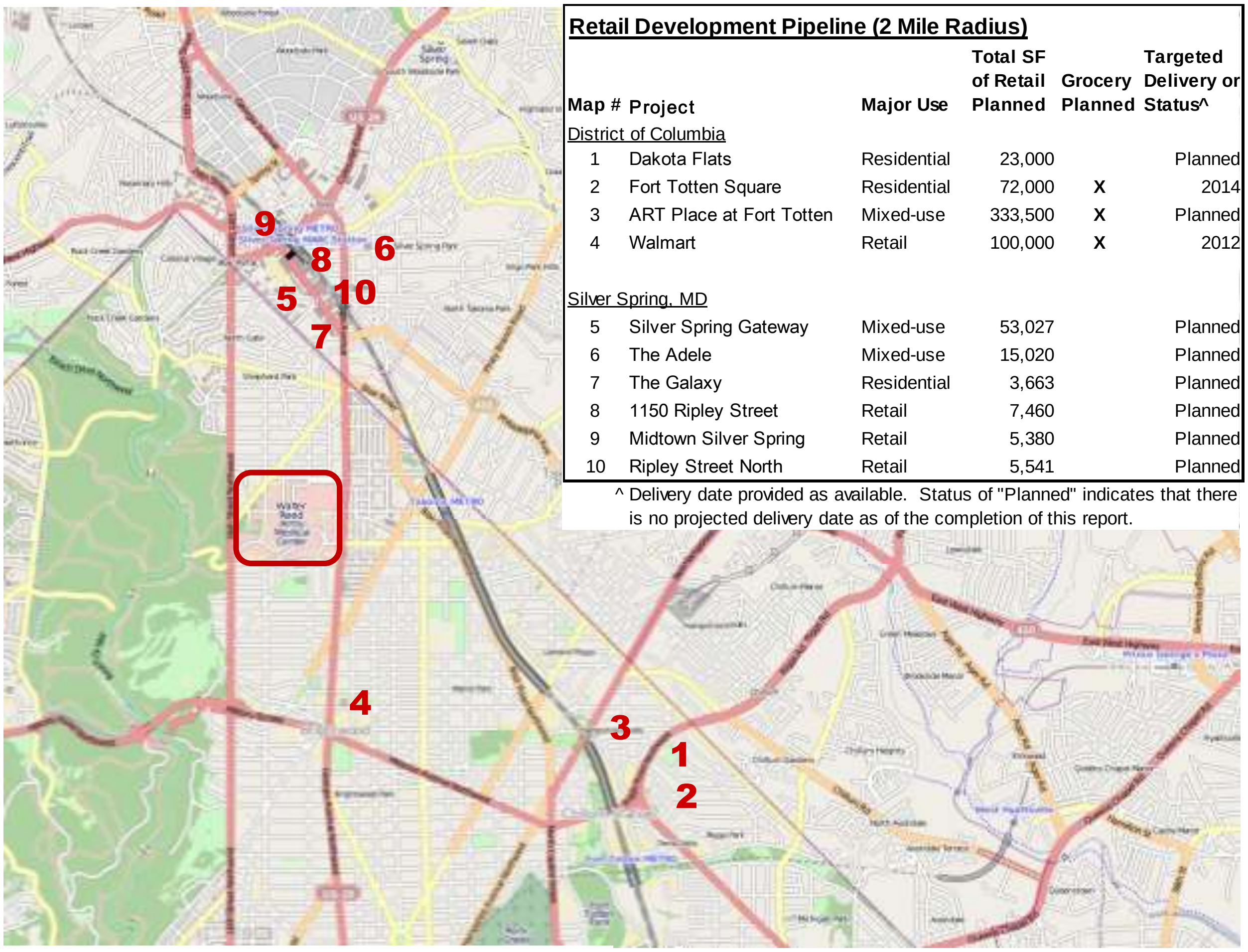
There are two important implications for grocery-retail within the pipeline. The pipeline for Fort Totten includes two possible grocery stores and a new Walmart is being built 12 blocks from the Walter Reed site which will include some fresh grocery service. Walmart is projected to open in late 2012, well ahead of any new grocery operation at Walter Reed. It may be more difficult to attract a traditional grocery operator to the Walter Reed site given the presence of a Safeway on Georgia Avenue, the impending delivery of a Walmart with 40,000 square feet of grocery service and the possible delivery of an additional grocery store at the Fort Totten Metro Station. However, grocery stores planned in the pipeline may not fully service the demand for grocery stores identified by this report for the study area. There may be an opportunity to attract a highly sought after or alternative grocery store operator. Such operators may be either larger or smaller than a traditional 40,000 square foot urban operator like Safeway or Harris Teeter. Alternatives may include a cooperative, a small local organic operator, a specialty or ethnic grocer or perhaps a much larger and higher end operator that specializes in prepared foods such as Wegman's or Whole Foods may also be a viable alternative. Wegman's or Whole Food would represent grocery operators that have a larger trade area from which they draw customers and a brand that draws customers despite nearby competition from traditional operators. Wegman's or Whole Foods might have interest in the site irrespective of the current competition and projected grocery pipeline.

### SMALL SCALE RETAIL DEVELOPMENT IN SILVER SPRING

While 90,000 square feet of retail have been approved for development in Silver Spring, six projects make up the entire pipeline. There is one larger scale retail project planned at 53,000 square feet, but the remaining sites will deliver 15,000 square feet or less. Those small scale projects reflect small infill retail developments or first floor retail space in infill mixed-use buildings. Given the size of projects approved in Silver Spring, it is unlikely that a new retail node will emerge there to compete with new Walter Reed retail.

[Pipeline Section continues on the Next Page]

## Figure 7 Retail Pipeline Map




**Retail Development Pipeline (2 Mile Radius)**

| Map # | Project | Major Use | Total SF of Retail Planned | Grocery Planned | Targeted Delivery or Status^ |
|---|---|---|---|---|---|
| District of Columbia | | | | | |
| 1 | Dakota Flats | Residential | 23,000 | | Planned |
| 2 | Fort Totten Square | Residential | 72,000 | X | 2014 |
| 3 | ART Place at Fort Totten | Mixed-use | 333,500 | X | Planned |
| 4 | Walmart | Retail | 100,000 | X | 2012 |
| Silver Spring, MD | | | | | |
| 5 | Silver Spring Gateway | Mixed-use | 53,027 | | Planned |
| 6 | The Adele | Mixed-use | 15,020 | | Planned |
| 7 | The Galaxy | Residential | 3,663 | | Planned |
| 8 | 1150 Ripley Street | Retail | 7,460 | | Planned |
| 9 | Midtown Silver Spring | Retail | 5,380 | | Planned |
| 10 | Ripley Street North | Retail | 5,541 | | Planned |

^ Delivery date provided as available. Status of "Planned" indicates that there is no projected delivery date as of the completion of this report.

Pipeline data reflects the details that are available for the planned projects. Most of the listed projects have not broken ground yet. Any data related to pro-forma rents, tenants and other operating factors is likely to change many times and owners may not be willing to share such data because of its fluid nature.

# Retail Market Assessment Conclusions

## Demand Analysis

Existing demand, modest increases in population over the next 10 years and a small contribution from commuter populations passing by the WRAMC site will help to support a modest retail development at the WRAMC site which could potentially exceed 100,000 square feet. This analysis assumes minimal impact on existing retailers from the loss of the employment base of WRAMC. This presumption is based on anecdotal evidence that Walter Reed employees have not tended to purchase goods and services on Georgia Avenue.

Mosaic used three primary means of identifying basic retail demand for the WRAMC site:

A retail leakage analysis that identifies retail categories that are currently underrepresented in the study areas of one- and two-mile radii. The chosen categories represent a retail opportunity in both the one-mile radius and two-mile radius study areas and we developed capture rate estimates to determine supportable square feet of new development.

Identification of population-growth driven demand based on estimated expenditures by retail category and population projections

An assessment of commuter spending potential at the study site

### TRADE AREA DEMAND BASED ON LEAKAGE

Mosaic completed a basic retail leakage analysis using data available from ESRI Business Analyst. Retail leakage is typically defined as retail demand within a study area that is not being captured by the current retail supply. The un-captured demand is therefore being captured by retail supply in other areas (i.e. the demand is "leaking out" to other areas). In more simple terms, there is "retail leakage" when there are buyers of goods and services in the study area who buy in places other than in the study area. The retail leakage analysis, shown below, separates retail in four categories: 1) neighborhood retail; 2) destination retail; 3) retail for which either little or no demand exists; and 4) retail uses which may be incompatible with the site concept.

The total retail leakage by category, also known as a retail gap, is shown in the following table. A complete listing of considered retail categories is shown on the following page. It is important to note that Mosaic grouped automotive dealerships, service centers and gas stations into the incompatible uses category because of likely site restrictions and an incompatibility with community visions and development concepts proposed thus far in the planning process. However, we did not rule out those uses and it is possible to revisit demand for a use not specifically targeted by this Market Study if necessary.

It should also be noted that full service restaurant and beer, wine and liquor stores will be considered for this site, but we did not identify a sufficient retail gap for these categories to justify including these uses based on leakage alone. Thus, these uses are relegated to the limited demand group for this section of the analysis. Restaurants in particular face significant competition within the one- to two-mile radii, with a surplus supply despite a modest leakage from the area immediately surrounding the study site.

## Retail Leakage Analysis

| Retail Category | 1-Mile Demand (Retail Potential) | 1-Mile Supply (Retail Sales) | 1-Mile Radius Retail Gap | 2-Mile Demand (Retail Potential) | 2-Mile Supply (Retail Sales) | 2-Mile Radius Retail Gap |
|---|---|---|---|---|---|---|
| **Neighborhood Retail** | | | | | | |
| Grocery Stores | $50,298,440 | $43,421,113 | **$6,877,327** | $227,571,723 | $215,146,097 | **$12,425,626** |
| Specialty Food Stores | $6,429,387 | $6,685 | **$6,422,702** | $18,531,605 | $1,299,174 | **$17,232,431** |
| Health & Personal Care Stores | $15,298,133 | $5,339,707 | **$9,958,426** | $59,594,367 | $30,287,872 | **$29,306,495** |
| General Merchandise Stores | $11,471,705 | $4,977,988 | **$6,493,717** | $68,658,945 | $21,812,779 | **$46,846,166** |
| Limited-Service Eating Places & Full Service Restaurants | $40,175,473 | $24,210,776 | **$15,964,697** | $174,873,318 | $129,189,303 | **$45,684,015** |
| Special Food Services | $4,674,052 | $2,622,741 | **$2,051,311** | $20,283,978 | $6,909,385 | **$13,374,593** |
| Drinking Places - Alcoholic Beverages | $1,426,982 | $365,357 | **$1,061,625** | $4,321,569 | $577,542 | **$3,744,027** |
| **Destination Retail** | | | | | | |
| Furniture & Home Furnishings Stores | $10,501,102 | $669,929 | **$9,831,173** | $43,588,706 | $8,653,850 | **$34,934,856** |
| Electronics & Appliance Stores | $9,403,194 | $2,718,718 | **$6,684,476** | $43,021,027 | $26,664,048 | **$16,356,979** |
| Clothing and Clothing Accessories Stores | $16,711,864 | $4,393,714 | **$12,318,150** | $68,358,226 | $23,855,803 | **$44,502,423** |
| Sporting Goods, Hobby, Book, and Music Stores | $5,681,490 | $1,633,741 | **$4,047,749** | $23,521,646 | $8,800,771 | **$14,720,875** |
| Miscellaneous Store Retailers (florists, gifts, office supplies etc.) | $8,863,538 | $1,878,496 | **$6,985,042** | $33,795,661 | $7,718,073 | **$26,077,588** |
| **Retail w/ Limited Demand or Likely Incompatible w/ Site** | | | | | | |
| Motor Vehicle & Parts Dealers | $52,420,148 | $5,083,700 | **$47,336,448** | $239,609,123 | $13,607,515 | **$226,001,608** |
| Bldg Materials, Garden Equip. & Supply Stores | $9,402,748 | $681,164 | **$8,721,584** | $41,106,645 | $11,736,855 | **$29,369,790** |
| Gasoline Stations | $36,801,228 | $12,054,864 | **$24,746,364** | $163,611,414 | $56,948,248 | **$106,663,166** |

Source: ESRI, Mosaic Urban Partners

With regard to the estimated retail gaps in the table above, the first retail gap identified with green numbers reflects the retail leakage in spending within a one-mile radius of the Walter Reed site. The second retail gap identified in the table above reflects the retail leakage in spending within a two-mile radius of the Walter Reed site. The two-mile radius gap is the total retail leakage in the study area and includes the projected one-mile radius gap. The first and second retail gap values should not be added together to find the total study area leakage. Instead, the one-mile retail gap may be subtracted from the two-mile retail gap to identify the retail gap associated only with the consumers located between the one-mile and two-mile radii.

Once a retail gap is identified it can be converted into supportable square feet of new development by first identifying likely average sales per square feet, as shown in the following table. The dollar amount of demand is divided by the average sales per square foot for the appropriate retail category to arrive at the supportable square feet of retail for a given amount of demand.

**Total Retail Leakage and Trade Area Supportable Development**

| | Total Leakage | Average Sales Per Square Foot | Square Feet of Supportable Development |
|---|---|---|---|
| **Total Grocery Leakage*** | $29,658,057 | $650 | 45,628 |
| **Total Food Service Leakage*** | $62,802,635 | $500 | 125,605 |
| **Total Other Neighborhood Retail Leakage*** | $76,152,661 | $450 | 169,228 |
| **Total Destination Retail Leakage*** | $136,592,721 | $450 | 303,539 |

Source: ESRI, Census, Mosaic

***"Total Grocery Leakage" in the table above reflects the total leakage identified in the Retail Leakage Analysis Table (in the two-mile radius gap) for the categories Grocery Stores and Specialty Food Stores. "Total Food Service Leakage" in the table above reflects the total leakage identified in the Retail Leakage Analysis Table (in the two-mile radius gap) for the categories Limited-Service Eating Places and Full-Service Restaurants, Special Food Service, and Drinking Places. "Total Other Neighborhood Retail Leakage" in the table above reflects the total leakage identified on page 55 (in the two-mile radius gap) for the categories Health and Personal Care Stores and General Merchandise Stores. The "Total Destination Retail Leakage" category in the table above reflects the total leakage identified on page 55 (in the two-mile radius gap) for each category listed in the "Destination Retail" section of the chart.**

The next step is to decide how much of this demand can likely be captured at the study site. For the grocery demand within one mile we chose to use a 50 percent capture rate. This capture rate assumption is informed by the following factors: (i) A new Walmart featuring 40,000 square feet of grocery space is anticipated to be opened in 2012. The new Walmart will be three-quarters of a mile from the Walter Reed site; and (ii) Up to two additional grocery stores are planned at the Fort Totten Metro Station near the southern edge of the study area. Despite this competition for grocery spending within the study area, the Walter Reed site and any grocer it hosts should capture shoppers from the communities immediately surrounding the site.

Further, according to ESRI estimates, retail leakage for specialty grocery, a subset of the grocery store category, makes up approximately 58 percent of the total grocery store leakage in the study areas, with a gap of $17 million. Walmart's grocery offerings are not likely to compete with a specialty offering at the Walter Reed site and any specialty offering may capture a higher rate of shoppers from the two-mile trade area. While a 10% capture rate in the two-mile trade area is assumed in this analysis for traditional grocery, a 40% capture rate in the two-mile trade area is assumed for specialty grocery due to the significant gap in this retail category. These assumptions yield supportable grocery square footage of 25,600 based on retail leakage.

About 40 percent of the retail gap for neighborhood retail within the one-mile study area is expected to be captured. Again, we would expect this to be received well by the community, but also expect residents to do some of their shopping at competing sites. Additionally, we expect that new neighborhood-serving retail would be built to the design and size specifications of modern successful small-scale retail, thereby strengthening the capture rates for the new retail spaces.

The capture of destination retail within the one-mile radius is less than for neighborhood retail because we expect other destination retail sites within the region to compete with the Walter Reed site. Within the one- to two-mile radius, the opposite is true. The destination nature of the retail draws people from the outer edges of this trade area resulting in a similar capture rate as neighborhood retail for this area. Overall approximately 113,200 square feet of retail can likely be supported by existing retail gaps. The success of this retail will depend on a variety of factors including the retail being carefully designed, built and marketed to meet specific study area resident needs, and overall economic market dynamics.

**Retail Leakage Capture: Square Feet by Use**

| | One-Mile | | Two-Mile | |
|---|---|---|---|---|
| **Retail Type** | **Capture Rate** | **Square Feet** | **Capture Rate** | **Square Feet** |
| **Grocery Leakage Capture** | 50% | 5,290 | 10% | 854 |
| **Specialty Grocery Leakage** | 100% | 12,845 | 40% | 6,652 |
| **Food Service Leakage Capture** | 40% | 11,740 | 10% | 8,745 |
| **Other Neighborhood Retail Capture** | 40% | 14,624 | 10% | 13,267 |
| **Destination Retail Capture** | 20% | 17,718 | 10% | 21,495 |
| **Total Square Feet in a Two-Mile Radius** | | | | **113,231** |

Source: ESRI, Mosaic

### TRADE AREA DEMAND BASED ON POPULATION GROWTH

The second component to our basic space-needs assessment is an exploration of future demand increases based solely on population increases. According to ESRI, the median income for Washington, DC is anticipated to grow at approximately the same rate as the Country as a whole. Therefore, the purchasing power of Washington DC residents will likely not outpace the US as a whole, so we did not adjust the value of household spending for inflation in our projections. Instead we used 2010 constant dollars. The following per capita spending estimates were derived from ESRI total expenditure data for the two-mile study area and current population estimates for the same area.

| Per Capita Spending Estimates | |
|---|---|
| **Retail Category** | **Annual Spending** |
| Food and beverage stores | $2,447 |
| Food service | $1,893 |
| Other neighborhood retail | $1,250 |
| Other destination retail | $1,973 |
| **Total spending for relevant uses** | **$7,563** |

Source: ESRI, Mosaic

The table on the following page shows the future spending increases analysis for each of the population projection scenarios introduced in the demographic section of this report: (1) past trend based growth, (2) metropolitan average growth and (3) projections based on the highest growth county in the metropolitan area. The population increases listed in the following table were multiplied by anticipated retail spending by retail category.

| Total Projected Population Increase | | |
|---|---|---|
| | **1-Mile Pop. Increase** | **1-2- Mile Pop. Increase** |
| **Past Trend Based Growth** | | |
| 2015 | 679 | 2,180 |
| 2020 | 1,376 | 4,417 |
| **Metropolitan Average Growth** | | |
| 2015 | 1,256 | 4,031 |
| 2020 | 2,569 | 8,247 |
| **High Growth for a County** | | |
| 2015 | 1,572 | 5,045 |
| 2020 | 3,232 | 10,375 |

| Future Consumer Spending Increases | | | |
|---|---|---|---|
| **2015 Increase 1-Mile** | **Past Trend Based Growth** | **Metropolitan Average Growth** | **Highest Growth for a County** |
| Food and beverage stores | $1,662,046 | $3,072,711 | $3,845,997 |
| Food service | $1,285,759 | $2,377,050 | $2,975,264 |
| Other neighborhood retail | $849,022 | $1,569,632 | $1,964,649 |
| Other destination retail | $1,340,097 | $2,477,507 | $3,101,002 |
| **2015 Increase 1-2- Mile** | **Past Trend Based Growth** | **Metropolitan Average Growth** | **Highest Growth for a County** |
| Food and beverage stores | $5,335,421 | $9,863,871 | $12,346,236 |
| Food service | $4,127,484 | $7,630,694 | $9,551,052 |
| Other neighborhood retail | $2,725,491 | $5,038,757 | $6,306,822 |
| Other destination retail | $4,301,915 | $7,953,175 | $9,954,689 |

| Future Consumer Spending Increases | | | |
|---|---|---|---|
| **2020 Increase 1-Mile** | **Past Trend Based Growth** | **Metropolitan Average Growth** | **Highest Growth for a County** |
| Food and beverage stores | $3,366,909 | $6,286,206 | $7,908,228 |
| Food service | $2,604,642 | $4,863,011 | $6,117,808 |
| Other neighborhood retail | $1,719,917 | $3,211,180 | $4,039,757 |
| Other destination retail | $2,714,717 | $5,068,526 | $6,376,352 |
| **2020 Increase 1-2- Mile** | **Past Trend Based Growth** | **Metropolitan Average Growth** | **Highest Growth for a County** |
| Food and beverage stores | $10,808,291 | $20,179,679 | $25,386,619 |
| Food service | $8,361,297 | $15,611,006 | $19,639,096 |
| Other neighborhood retail | $5,521,195 | $10,308,377 | $12,968,236 |
| Other destination retail | $8,714,654 | $16,270,742 | $20,469,064 |

For simplicity of analysis, within a one-mile radius a capture rate of 40 percent was applied to all neighborhood uses and a rate of 20 percent was applied to all destination uses. Within the one- to two-mile radius a 10 percent capture rate was utilized for all uses. A single sales per square foot figure of $500 was applied to all scenarios. Using the Metropolitan Average growth rate projections, approximately 13,000 square feet of retail space demand is generated in 2015. By 2020, an additional 13,000 square feet or about 26,000 total square feet are supportable.

| New Space Demand at Study Site From Population Increase | | |
|---|---|---|
| **Past Trend Based Growth** | | |
| 2015 | 6,872 | SF |
| 2020 | 13,920 | SF |
| **Metropolitan Average** | | |
| 2015 | 12,704 | SF |
| 2020 | 25,990 | SF |
| **Highest Growth County** | | |
| 2015 | 15,901 | SF |
| 2020 | 32,696 | SF |

### TRADE AREA DEMAND BASED ON COMMUTER SPENDING

The final component to our retail space needs analysis for the Market Study is the commuter spending potential analysis. Georgia Avenue and 16$^{th}$ Street both have significant weekday traffic volumes (approximately 27,500 and 32,000 respectively). Additionally, about 26,000 people pass by the site on a public bus each weekday.[21] In order to not double count commuters who are also residents in the study area or overstate the likelihood of capturing commuters passing the site, we used a relatively conservative rate of commuter site use of five percent. Furthermore, commuters stopping at the site are not expected to use a majority of their

[21] Roughly 25,000 people also pass near the site on Metrorail daily. However, given the walking distance (a half a mile) to the edge of the WRAMC site, the capture from this commuter population is likely to be negligible. In addition, the site is not visible from the Metrorail station and the pedestrian routes from the station to the site are not well marked.

spending potential at the site. For purposes of these calculations we estimated that only 15 percent of the total spending potential for commuters visiting the site will be spent onsite.

| Commuter Spending Potential | | | |
|---|---|---|---|
| Commuter Type | Count | % of Commuters Captured | % of Per Capita Spending Captured |
| Drivers | 62,800 | 5% | 15% |
| Bus Transit | 25,769 | 5% | 15% |
| Takoma Metro | 26,450 | N/A | N/A |
| Virtual consumers from commuter population | | | 664 |
| Total relevant spending per consumer | | | $7,563 |
| Total commuter spending | | | $5,023,855 |
| Square foot demand at $500 per SF | | | 10,048 |

Source: WMATA, DC DOT, Mosaic

### TOTAL PROJECTED TRADE AREA DEMAND

Using all three methods of analysis (retail leakage, population-growth driven demand, and commuter spending potential) the WRAMC site has an aggregate potential demand for 130,000 to 139,000 square feet in 2015, depending on the actual growth in population. For 2020, estimates range from 137,000 to 159,000 total square feet of potential demand. The 2020 estimates reflect a total supportable retail program, and are not in addition to the space needs identified for 2015.

| Total Projected Retail Demand at the WRAMC Site | Past Trend-Based Growth | Metropolitan Average Growth | Highest Growth for a County |
|---|---|---|---|
| Demand from Leakage | 113,231 | 113,231 | 113,231 |
| Demand from Commuters | 10,048 | 10,048 | 10,048 |
| 2015 Demand from Population Growth | 6,872 | 12,704 | 15,901 |
| **Total Demand in 2015** | **130,151** | **135,983** | **139,180** |
| 2020 Demand from Population Growth | 7,049 | 13,286 | 16,795 |
| **Total Demand in 2020** | **137,200** | **149,269** | **158,753** |

Source: Mosaic Urban Partners

### TRADE AREA DEMAND BASED ON DAYTIME WORKERS

Workforce expenditure potential was not included in our Market Study retail calculations for two reasons: 1) We made the assumption that new uses would (at best) approximately replace existing uses, resulting in no demand change and 2) There isn't a set development program estimate (only individual component demand estimates) on which to base workforce expenditure potential.

A generic analysis of demand from daytime workers may provide a helpful metric for the feasibility team to use to evaluate the potential impact of new office development on retail programming at the WRAMC site. Our team utilized standard industry metrics for square feet of office space per worker and typical worker spending along with a speculative capture rate to estimate the supportable retail square footage potentially generated from worker retail demand. The chart below makes the following assumptions:

Office workers on average occupy 200 square feet of space in an office building

WRAMC retail would capture 50% of daytime worker demand

DC area workers average $2,500 annual spending within a half mile radius of their office

Spending averages $500 per square foot for the consumer good and food outlets frequented by workers

| Retail Demand from Potential Workers at WRAMC for Office Developments of Varying Size | | | | |
|---|---|---|---|---|
| Office Building Size (SF) | Potential Workers (200 SF/ Worker) | Total Demand from Workers ($2,500 per Worker) | Captured Demand (50% Capture Rate) | Supportable SF ($500 spending per SF) |
| 50,000 | 250 | $ 625,000 | $ 312,500 | 625 |
| 150,000 | 750 | $ 1,875,000 | $ 937,500 | 1,875 |
| 500,000 | 2,500 | $ 6,250,000 | $ 3,125,000 | 6,250 |
| 750,000 | 3,750 | $ 9,375,000 | $ 4,687,000 | 9,375 |
| 1,000,000 | 5,000 | $ 12,500,000 | $ 6,250,000 | 12,500 |

As the table indicates, only a substantial amount of new office space would yield a significant increase in the supportable retail square footage. For example, as shown in the third row of the table, the equivalent of two new modern-sized office buildings (500,000 square feet of office space) would have to be built or redeveloped to generate new supportable retail the size of a small restaurant.

## Retail Program Formats

### CREATING A RETAIL PLACE

The demand analysis identified an opportunity to deliver at least 130,000 square feet of retail to the Walter Reed site in the next five years. Based on conversations with retail developers, a minimum of 50,000 square feet can define a retail place. Given that Walter Reed can support three times that amount over the next 10 years, retail is an excellent place-making tool for the Walter Reed site.

In addition to raw demand for goods and services, retail was identified as an important amenity for new residential development on the site by the residential developers we interviewed. There may be a symbiotic relationship in developing a mix of residential and retail uses. The residential may perform better over time if the retail is oriented and programmed in a way that creates a neighborhood anchor or center.

As discussed below, there will be challenges to attracting commercial office to the Walter Reed site without using creative strategies. However, retail development may be helpful in changing the market demand for office, even non-traditional office, because workers want activity, goods and services around them during the day.

#### ADAPTIVE REUSE

Specialized retail can fit into adaptive reuse projects. Food and beverage retail is best suited to adaptive reuse projects. There are numerous examples around the Washington Metropolitan area of historic buildings becoming host to restaurants, bars, and boutiques. Other retailers which have leased space in adaptive reuse programs include fitness centers and hardware stores. These uses are not likely to absorb the total volume of adaptive reuse space available at Walter Reed, but they may become pieces in the overall re-use of the buildings.

#### PARKING

Walter Reed will be perceived by retailers as a somewhat suburban location due to the site's distance from Metrorail and current low-density development pattern. They are likely to require 3-4 parking spaces per 1,000 square feet of retail. This requirement would likely change to fewer spaces if a street car line were to service the site directly. There is also an opportunity to change the suburban perception of the site by improving connections to Metrorail, integrating bus service into the new development program, and providing a site plan that feels more urban than suburban. Retailers may be convinced to use shared parking or other non-traditional parking programs to meet their needs.

## Program Conclusions

Based on current retail leakage in the study area, projected growth in residents, and consumer spending potential, the Walter Reed site should support at least 130,000 square feet of new retail development over the next five to 10 years. Demand for retail may support between 130,000 and 139,000 square feet in 2015 and a total program of between 135,000 and 159,000 by 2020.

| | |
|---|---|
| **Demand-Supported Development Program** | 75,000 – 100,000 SF phased over 10 years |

The Demand-Supported Development Program reflects a neighborhood-serving retail program. This program is somewhat smaller than the total suggested supportable retail program, because a neighborhood center is unlikely to exceed 100,000 SF including a grocery anchor. This program is anticipated to be built around a unique or specialty grocery store. The demand for grocery use is strong, but the timing of a new grocery store at Walter Reed lags both a Walmart (three-quarters of a mile from the site on Georgia Avenue) and other grocery uses planned in the pipeline at Fort Totten (including the recent announcement of a second Walmart at that location). However, even with new grocery stores coming online ahead of new grocery at Walter Reed, there will likely still be an opportunity for specialty or small format grocery uses in the Walter Reed retail program.

With the existence of a specialty grocery anchor, the site is likely to also attract neighborhood serving retailers such as coffee shops, dry cleaners, and quick service restaurants. While demand for restaurants may not be overwhelming based on leakage, the addition of new residents and the programming of a new neighborhood center are likely to naturally attract food and beverage retailers. These retailers do not consume or support large square footage formats. Accordingly, the Demand-Supported Program reflects a smaller square footage range to account for a high number of smaller format retailers.

# Hospitality Market Assessment

Section Contents:

# Hotel Market Assessment Overview

## Existing Conditions

Walter Reed was served by an onsite hotel named the 200-room Mologne House beginning in the 1990's. In addition there a number of hotels located within two-miles of the site located almost exclusively in Silver Spring, Maryland. The hotels range from family friendly options such as a Days Inn and Travelodge flag to hotels oriented to serve business travelers such as Courtyard by Marriot, Hilton, and Crown Plaza flags. The rates for these hotels start at between approximately $70 and $100 per night.

## Hotel Market

The DC market enjoyed an overall occupancy rate of 68 percent in the first quarter of 2011 (compared to the national average of 66 percent) and an ADR of $144.68. The ADR for higher priced hotels locally was $168 and for lower priced hotels it was $103 in the first quarter of 2011.

# Hotel Market Assessment Findings

**Developer Focus Groups**
**Development Case Studies**
**NOI Applicant Program**
**Request for Ideas for Building 1**
**Development Pipeline**

## Developer Focus Groups

The Developer Focus Group findings indicate that it may be difficult to attract a traditional hotel operator to the site, but that a conference center-type use may be compatible with the campus setting of the site. A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[22]

According to developers actively working with hotel operators, the first questions potential operators will ask will be about the size of the surrounding commercial office space, the office tenants and the number of workers employed by those tenants.
Given the security restriction assumed to apply to the Department of State International Chancery Center, it is not clear how convenient or attractive a hotel outside of the compound may be to visitors.
A conference center can take advantage of the campus aesthetic of the site, but it is not clear what the key success factors for such a center are. There are a number of conference centers in surrounding suburbs which seem to fall short of expectations.

[22] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

## Findings from Development Case Studies

An existing cluster of embassies adjacent to the Van Ness Metrorail Station on Connecticut Avenue, NW in Washington, DC was assessed to understand the potential program impacts of the proposed Department of State International Chancery Center on the Walter Reed site. There is a 155-room Days Inn located on Connecticut Avenue, NW approximately a half-mile from the Van Ness chancery center. However, the context of the Van Ness cluster differs significantly from that of Walter Reed and there is no evidence that the chancery anchors, supports or is the sole attraction for the hotel operator at Van Ness. Walter Reed compares unfavorably to Van Ness for attracting a hospitality use in the following ways:

| Development Case Study Summary | | | |
|---|---|---|---|
| | **Walter Reed International Chancery Center** | **Van Ness Chancery Cluster** | **Findings** |
| **Distance to Metrorail** | 0.75 miles to Takoma Metro Station | 0.3 miles to Van Ness Metro Station | Walter Reed is over twice as far from a Metrorail Station as the Van Ness chancery cluster is |
| **Distance to Downtown** | 5.2 Miles | 3.2 Miles | Walter Reed is 2 miles further from downtown |
| **Adjacent Daytime Population** | Approximately 3,000 conceptual daytime workers based on office and institutional development program | Approximately 4,000 daytime workers and students based on adjacent university campus and corporate headquarters site | Walter Reed is likely to have a lower density of offices workers than Van Ness. |

The site does not enjoy the same proximity to transit and downtown as the comparable case location at Van Ness. Walter Reed is unlikely to attract a hotel operator on the basis of the ICC alone. Case studies are detailed in Appendix B.[23]

## NOI Applicant Findings

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. No qualifying applicants proposed introducing hospitality uses on the site and the proposed NOI uses including an ambulatory care center, homeless services and elementary education uses do not support a hospitality use by themselves or in

[23] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

conjunction with the larger site program. A complete summary of qualifying NOI Applicant uses as of the date of publication of this report is included in Appendix D.

### Request for Ideas for Building 1 Findings

One proposal, submitted by the 14th Street Uptown Business Association, suggested adaptive reuse of Building 1 as a five-star banquet/conference/meeting center that would host "red carpet" special events, weddings, private parties, seminars, book signings, art exhibits, symposiums, lectures, recitals, private receptions, product launches, various recitals, small theatrical presentations and an assortment of like-kind events. However, a detailed program by square foot was not included in the RFI response. More importantly, the 14th Street Uptown Business Association is not an established conference center or hotel operator. Therefore their concept for a conference center may or may not be market supportable. A complete summary responses to the RFI is included in Appendix C.[24]

## Hotel Market Conclusions

### Demand Analysis

Hotel demand is generated from three primary groups of users: (1) Tourists; (2) Business Travelers; and (3) Convention Attendees. The WRAMC site is not situated to effectively compete for these customers based on its location in the northern and central portion of the District.

#### Tourists

Washington's tourist attractions are heavily concentrated in the southern portion of the District along the National Mall and across the Potomac in Arlington. The downtown core of the District boasts the bulk of the museum, monument, cultural and recreational tourism attractions of the city. Downtown and close-in suburbs, particularly those close to the Mall in Arlington, offer tourists access to transit and additional dining and entertainment amenities that the WRAMC does not.

#### Business Travelers

Business travelers are also not likely to select a lodging option at the WRAMC over other more favorably located hotel options in the District or the region. Business travelers are not typically budget-constrained and will seek to be in close proximity to their business destination or their means of commuting into the area. Both the central business district in downtown DC and the Silver Spring commercial core are served by hotels located within their footprints. WRAMC does not offer convenient access to the region's airports or to Union Station.

#### Convention Attendees

The Walter E. Washington Convention Center is located 5.5 miles south of the WRAMC site. It is served by downtown hotels today and is expected to be served by a Marriot

[24] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

Convention Center Hotel of approximately 1,200 rooms in the next two years. The lack of a hotel directly adjacent to the Convention Center has been a challenge to the District since the Convention Center opened. It is unlikely that a hotel 5.5 miles away will meet the demands of the meeting planning and convention industry.

## Hotel Market Conclusions

| | |
|---|---|
| **Demand-Supported Development Program** | The location of the site and current demand are unlikely to support a hotel use within the Demand-Supported Program. |

The hotel market has suffered in the downturn, but it has started to trend positively as the broader economy has stabilized. The Washington, DC hotel market has fared better than the nation as a whole and draws on the strength of continued demand from tourists, business travelers and convention attendees. However, despite the strength of the local market, there is no apparent draw at the WRAMC site to attract any of the three primary customer groups for hotels.

There may be an opportunity to support hotel use at the site by pursuing an alternative strategy or by creating a draw for one of the three primary user groups. Two possibilities include:

<u>Demand from Unique Niche Customer</u> If other WRAMC site uses attract a unique niche of hotel customers not considered in the primary customer base of tourists, business travelers, or convention attendees, then WRAMC may support a hotel use tailored to that unique group.

> Such an opportunity may be created by the US Department of State Chancery Center adjacent to the District's Walter Reed parcels. A clearer understanding of the Department of State's plans for their parcels at Walter Reed must be established to draw more definitive conclusions, but there is some precedent in the market to indicate that the international users may generate business for a hospitality use. In a 2002 study completed for the National Capital Planning Commission, Dr. Stephen Fuller of George Mason University linked 900,000 hotel-room nights annually to visitors whose District stay is a direct result of business with foreign missions. In 2002 these stays resulted in spending of $183.4M on lodging, food and retail purchases by visitors to foreign missions.
>
> <u>Example of Chancery Supporting Hospitality Use:</u> Another supporting example of the ability of a chancery adjacent to the site to support an onsite hospitality use is the Concordia on New Hampshire Avenue, NW, near Dupont Circle. The Concordia is a small-scale conference center providing 1,500 square feet of meeting space and lodging exclusively to the World Bank, International Monetary Fund and affiliated non-profits. Additional information about the size of the consumer base and annual booking activity from the Concordia may better inform our understanding of the potential for a hotel use supported by the International Chancery Center on-site. Additional research will be conducted to identify any other helpful information. However, the Concordia cannot necessarily be considered a corollary to the ICC at Walter Reed. The Concordia is located in Dupont Circle, a much different location in terms of amenities and proximity to

DC's commercial office corridors. It is also supported by the World Bank and IMF, organizations which may not parallel ICC tenants in terms of conference and visitor activity.

Demand Generated by New Office Use On Site If a selected redevelopment program generates an attraction for one of the three primary customer groups, then hotel use may be supported on the site. For example, one industry study "The HVS Employment-Hotel Growth Index: A New Tool for Projecting Hotel Room Night Demand," by David Fuller of HVS cites a correlation between the growth of the office market and the demand for hotel rooms. If the WRAMC redevelopment program successfully achieves an office use, this may generate demand for on-site hotel services. Any site program which attracts one of the targeted user groups may still not generate the critical mass needed to organically sustain a hotel without support of the other targeted users. Subsidy or other tools which expand the market for an on-site hotel or create alternative revenue streams may be required even with on-site generated demand.

# Office Market Assessment

Section Contents:

**Overview**
Existing Conditions
Office Market
**Findings**
Developer Focus Groups
Findings From Development Case Studies
Request for Ideas for Building 1
NOI Applicant Program
Development Pipeline
**Conclusions**
Projected Demand
Unique Trends
Program Conclusions

# Office Market Assessment Overview

## Existing Conditions

The office stock in the Walter Reed area is almost exclusively Class B or C properties. It is important to note for the Walter Reed submarket that Class B/C properties in the District have lower vacancy rates than Class A properties. Walter Reed may be better positioned to serve demand in this office niche than competing with Class A "trophy" properties in the central business district.

## Office Market

The following section discusses rent, vacancy, construction and absorption metrics for the Walter Reed submarket. The study area is compared to both the District as well as a submarket defined by REIS as the "uptown market" in DC. The uptown market is illustrated in the map to the right. REIS does not collect office data within the District of Columbia for the area located east of the uptown submarket. All other District office submarkets tracked by REIS are located south of the Uptown submarket. Comparisons below show more correlation between the Walter Reed study area and the uptown submarket than between the Walter Reed study area and the District office market overall, so the uptown submarket may be a good indicator of future office performance Walter Reed.


Uptown Submarket as Defined by REIS – Includes Walter Reed Submarket

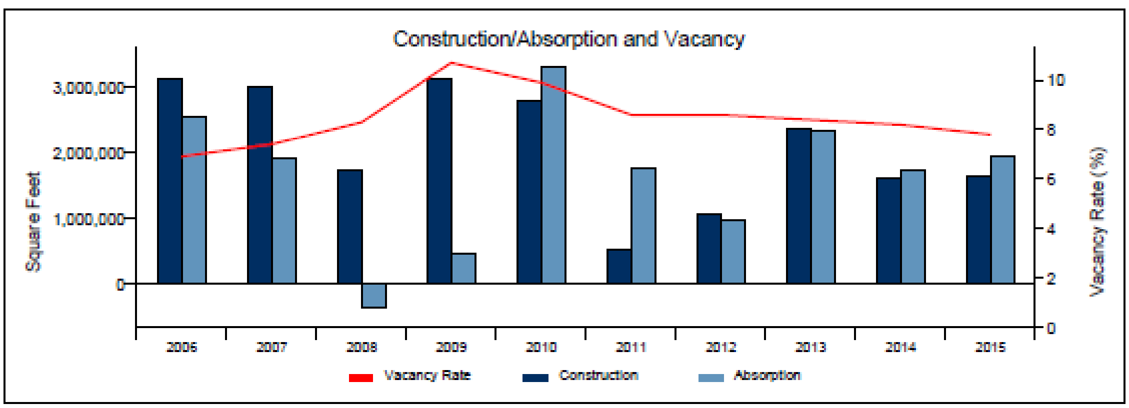
| Rent and Vacancy Comparison of Walter Reed Study Area to Uptown Submarket and the District of Columbia | | | | |
|---|---|---|---|---|
| | **One-Mile Radius of the Study Area** | **Two-Mile Radius of the Study Area** | **Uptown Submarket** | **District of Columbia** |
| **Average Rent Per Square Foot** | $23.05 | $33.59 | $36.91 | $49.05 |
| **Average Vacancy** | 10.2% | 8.9% | 6.7% | 9% |
| **Market Size** | 943K SF | 7.8 M SF | 5.4M SF | |

The above table illustrates two key data points that help anticipate and predict future office performance at Walter Reed. First, while rent performance in the two-mile study area closely approximates that of the larger uptown submarket, its vacancy rate resembles the District average. Second, comparable office uses within one-mile of Walter Reed significantly underperform the District and the uptown submarket. The one-mile radius illustrate the weakness of the office submarket in proximity to Walter Reed as average rents are 40% below the closest comparable submarket (the uptown submarket) and 55% below the District's average rents.

This lack of a definable office market means that in order to anticipate future office performance, we need to look to alternative, but comparable markets for performance indicators. Given that the two-mile radius rent metrics align with the uptown submarket, the uptown submarket may be a good indicator of the rents new office space at Walter Reed can garner. It is also true that the uptown submarket will compare closely with Walter Reed in terms of density and amenities as a mixed-use development program is implemented for Walter Reed. However, Walter Reed's vacancy rates are likely to underperform the uptown submarket in the near term since Walter Reed will be a new office market. Walter Reed's new office market will not enjoy the same stability of the uptown market in the early years of its operations. Therefore, initial assumptions about vacancy rates for new office on the redeveloped Walter Reed site should be made based on District-wide office vacancy, not based on the uptown submarket since the uptown submarket is essentially in equilibrium, as discussed below.

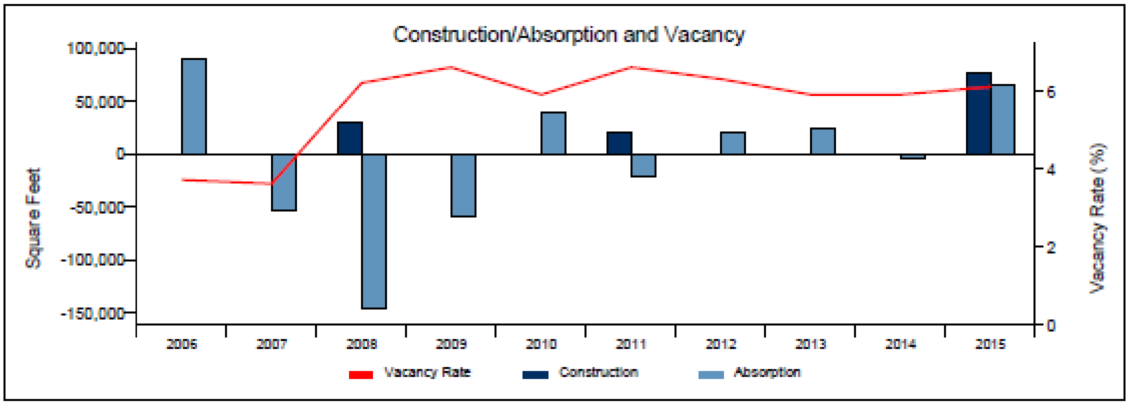
This equilibrium is further illustrated by comparing the District's construction and absorption forecasts to the forecasts for the uptown submarket using the graphs below.

**District of Columbia Construction/ Absorption and Vacancy Trends: 2015 Forecast**




Period ending 12/31/15

**Uptown Submarket (as defined by REIS) Construction/ Absorption and Vacancy Trends: 2015 Forecast**




Period ending 12/31/15

The first graph above shows District-wide construction and absorption and the second shows local construction and absorption. Since 2006, over 12M square feet of office space have been built in the District. Comparatively, within the Uptown submarket, which encompasses nearly all of northwest except the central business district, less <u>than 50,000 square feet of office have been built since 2006.</u> Despite a minuscule pipeline of new supply delivered in the last five years, absorption in the Uptown submarket has been modestly negative, but vacancy hasn't exceeded 7%. This relatively flat supply combined with small negative absorption yielding an overall low and stable vacancy rate indicates a mature market nearly in equilibrium. It also indicates that the uptown submarket's stability may be driven by the destruction or conversion of older office space rather than strong demand and absorption of new office space.

### Study Area Comparable Properties

There are a few small scale office uses in the District of Columbia portions of the study area, but they are not comparable to the scale of a traditional office project or the type of office project that would garner developer interest at Walter Reed. The list below shows both properties in the immediate vicinity of Walter Reed (two-mile radius) and those which are in the "uptown submarket" discussed above.

[Comparable Properties Table is shown on the Next Page]

## Two-Mile Radius Office Comparables – Second Quarter 2011

| Property Name | Address | Building SF | Lease Rate | Vacancy | Year Built | Class |
|---|---|---|---|---|---|---|
| **District Properties – 2 Mile Radius** | | | | | | |
| **Shepherd Park Office Building** | 7603 Georgia Ave., NW | 15,000 | $22.00 | 24.1% | 1962 | B/C |
| **7600 Georgia** | 7600 Georgia Ave., NW | 30,000 | $22.16 | 0.0% | 1961 | B/C |
| **Terra Nova Building** | 7826 Eastern Ave., NW | 43,000 | $25.00 | 6.4% | 1964 | B/C |
| **Uptown Market Properties** | | | | | | |
| **1230 Taylor St. WN** | 1230 Taylor St., NW | 36,700 | $34.14 | 0.0% | 1936 | B/C |
| **Van Ness Square** | 4455 Connecticut Ave., NW | 131,200 | $36.41 | 3.3% | 1970 | B/C |
| **4401 Connecticut** | 4401 Connecticut Ave., NW | 75,000 | $42.85 | 21.5% | 1987 | B/C |
| **Van Ness Ctr** | 4301 Connecticut Ave., NW | 182,800 | $32.50 | 10.3% | 1985 | B/C |

The above table illustrates on a property-by-property basis the disparity between rents and vacancy rates within one-mile of the Walter Reed site compared to properties in the comparable “uptown submarket.”

# Office Market Assessment Findings

**Developer Focus Groups**
**Development Case Studies**
**Request for Ideas for Building 1**
**NOI Applicant Program**
**Development Pipeline**

## Findings from Developer Focus Groups

The Developer Focus Group provided insight on office opportunities and phasing. A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[25]

Building 1 is best suited to an office or other institutional reuse rather than residential or retail.

There is no obvious office tenant for the site. Walter Reed may attract users through special programming/ theme (academic) and/ or incentives (research and bio-tech).

[25] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

Walter Reed is a less competitive office site than Silver Spring due to its less favorable metrorail accessibility.

An academic reuse seems suited to the site such as an international school or cluster of satellite university campuses.

An ambulatory care center may attract additional medical office uses between 50,000 and 75,000 SF.

## Findings from Development Case Studies

Mosaic assessed a series of corporate and institutional developments from around the country to identify any key success factors that Walter Reed by the nature of the site or the District through a coordinated effort can duplicate. The case examples and program summaries are summarized below:

| Case | Location | Development Timeline | First Phase | Total Program |
|---|---|---|---|---|
| **University Park** | Cambridge, MA | 20 Years | 348,000SF of Office | 27 Acres; 1.3M SF Lab/ Office; 674 Apartments; 93,000SF Retail |
| **Salesforce.com Headquarters** | San Francisco, CA | 10 Years | Likely 200,000+ SF | 14 Acres; 2M SF Office; design incorporates retail and open space |
| **University of Maryland BioPark** | Baltimore, MD | Ongoing | 358,000SF of Office (2003-2007) | 10 Acres; 1.8M SF Lab/ Office; incorporates open space and parking garages |
| **Science + Technology Park at Johns Hopkins** | Baltimore, MD | Ongoing | 277,000SF of Office (2004-2011) | 31 Acres; 1.9M SF Lab/ Office; 170,000 SF retail; 1,200 residential units; open space |

The cases are detailed in Appendix B.[26]

Key findings from the case analysis are:

Large-scale industry clustering projects have ambitious completion programs in terms of size, but start with much more moderate first phase program.

Industry cluster projects require strong leadership for planning and implementation and typically leverage a close relationship with an anchor academic anchor institution.

[26] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

## Request for Ideas for Building 1 Findings

A series of medical-based uses, academic ideas, and arts and cultural uses were proposed in the RFI process.

Overall Finding: All seven responses were from non-profit entities that are unlikely to support market rate rents which suggest that without a large, stable anchor tenant, there is limited opportunity for market rate office reuse of Building 1 or at the Walter Reed Site.

Medical Uses: A range of operators including cancer treatment and medical outpatient providers proposed programs for Building 1. This aligns with the findings from the developer focus groups that Building 1 lends itself to an institutional reuse. However, the programs proposed are unlikely to absorb the 200,000 SF available in Building 1. There may be an operator or owner who can support the renovation of Building 1 through a multi-lease strategy to medical users.

Academic Uses: The RFI process solicited the suggestion of relocating or expanding District academic institutions to Walter Reed. However, this suggestion was not provided by any actual academic institution and therefore is not a market-based indicator of the suitability or Walter Reed for this use.

Arts and Culture Uses: Cultural Development Corporation proposed a commercial arts building reuse for Building 1 in response to the RFI. An arts use is likely to help activate and brand the site but may face challenges in paying for reuse costs, maintenance and operations.

A summary of the RFI findings can be found in Appendix C.[27]

## NOI Applicant Findings

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. The qualifying NOI applicant uses as summarized in Appendix D are reflected in the demand analysis. As of the date of the publication of this report, the following proposed office and institutional uses have been deemed qualified applications:

| Proposed Office/ Institutional Use | Proposed Square Footage |
|---|---|
| **Fire Station** | 25,000 |
| **Ambulatory Care Center** | 112,000 |
| **Charter Schools** | 155,000 |
| **Non-Profit Office Space** | 4,000 |
| **Total Qualifying NOI Uses** | 296,000 |

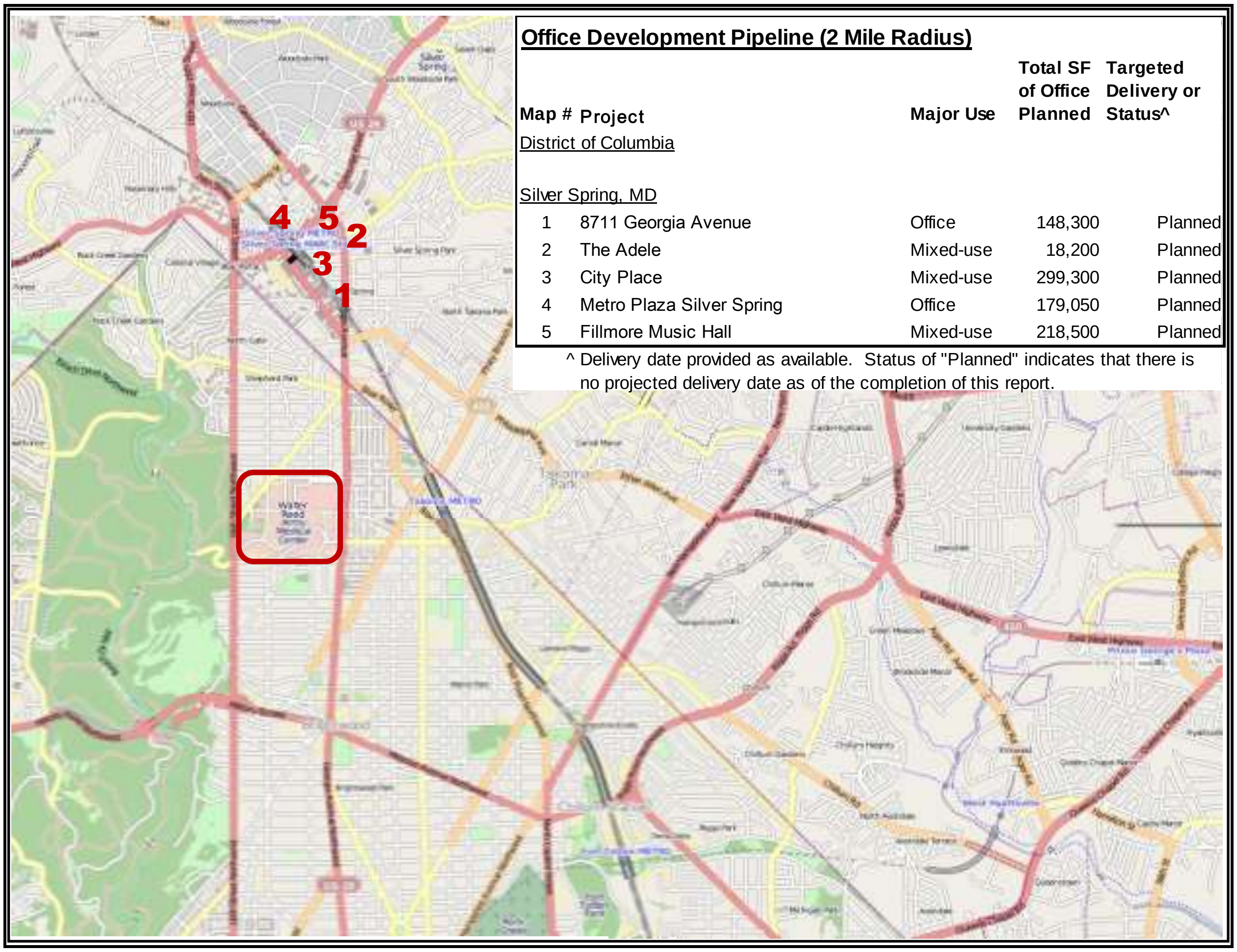
## Office Market Pipeline

Silver Spring continues to enjoy a robust commercial office market. Over 850,000 square feet of office space has been approved for Silver Spring since 2006. This total includes nearly

[27] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

400,000 square feet approved in 2010. The approvals issued in 2010 are an indicator that developers anticipate healthy demand coming out of the recession. Roughly half of the office space approved in 2010 is included in the Fillmore Music Hall project. This project enjoys an extended approval period that will not expire for 15 years. This 15-year period is approximately 10 years longer than the standard approvals issued by Montgomery County. <u>Notably, none of the study area office pipeline is located in the District or within one mile of the WRAMC site.</u> The development pattern evidenced by the pipeline map is indicative of the weakness of the commercial office market in the study area.

### Figure 8 Office Pipeline Map




**Office Development Pipeline (2 Mile Radius)**

| Map # | Project | Major Use | Total SF of Office Planned | Targeted Delivery or Status^ |
|---|---|---|---|---|
| District of Columbia | | | | |
| Silver Spring, MD | | | | |
| 1 | 8711 Georgia Avenue | Office | 148,300 | Planned |
| 2 | The Adele | Mixed-use | 18,200 | Planned |
| 3 | City Place | Mixed-use | 299,300 | Planned |
| 4 | Metro Plaza Silver Spring | Office | 179,050 | Planned |
| 5 | Fillmore Music Hall | Mixed-use | 218,500 | Planned |

^ Delivery date provided as available. Status of "Planned" indicates that there is no projected delivery date as of the completion of this report.

Pipeline data reflects the details that are available for the planned projects. Most of the listed projects have not broken ground yet. Any data related to pro-forma rents, tenants, amenities and other operating factors is likely to change many times and owners may not be willing to share such data because of its fluid nature. Most importantly, there is not current pipeline for office in the District of Columbia or the one-mile study area. Also planned office projects are in Silver Spring and within the two-mile study area.

# Office Market Conclusions

## Demand Analysis

Three potential opportunities exist to establish new office demand at the Site:

Identify a large, single user with significant space or other unique preferences that would be difficult to meet in a typical DC office building. This user would ideally absorb the majority of the available space at WRAMC. The Request for Ideas being issued by the Development Advisory team is intended to gauge opportunities of this nature for leveraging Building 1, the historic Walter Reed Hospital.

Create an identity for the site by defining a theme to tie together commercial uses at the site and offer incentives to generate a cluster of office users to anchor the site. Further analysis is needed to determine, for example, if a sustainability or education theme could be a catalyst for securing a tenant that would not otherwise locate at the site.

Lower developer costs with a subsidy, such that developers can profitably charge rents low enough to attract tenants from more prestigious or transit-friendly office market locations.

In addition, there are other amenities that may benefit the site and accordingly help attract new office users to the Walter Reed site. None of the following additional amenities would create demand by themselves, but they might increase the overall attractiveness of the site to potential users. These amenities include:

<u>Well-Located Streetcar Stop</u> Streetcar has the potential to increase the connection of the Walter Reed site to other business centers in the District and the region, in particular Silver Spring, Maryland, the "NoMa" neighborhood of Washington, DC and the District's central business district. The addition of this amenity could make the Walter Reed site more attractive to potential office tenants. An accelerated schedule for the location of a streetcar stop and an adjacent line near Walter Reed will increase the near-term attractiveness of the site for potential users.

<u>Improving Access to Takoma Park Metro Station with Capital Bikeshare</u> Capital Bikeshare has been well received in the more central parts of the District, including the central business district. Capital Bikeshare may present an opportunity different from streetcar to connect the Walter Reed site to the rest of the City, particularly for workers who may be commuting to and from the site for work.

<u>Uniquely Mature and Interesting Green Space</u> Walter Reed may differentiate itself as an office location based on the existing, mature green space that will be preserved on the site. Additional green-space features such as urban farming and attractive sustainable infrastructure such as bioswales can be leveraged to create a unique environment and sense of place at Walter Reed that some office tenants may find desirable. For traditional office development this amenity may provide a slight competitive advantage over comparable sites but is not likely to provide a strong enough draw to overcome the Walter Reed's shortcomings in transit accessibility or proximity to business corridors.

#### Arts and Creative Businesses

Artists and creative businesses may be targeted to anchor a theme for a commercial building on site. An arts-anchored commercial building leverages two of the above opportunities to create new office demand: (i) use a theme to attract interest; and (ii) to subsidize commercial uses.

This strategy may serve to create an arts identity for the site in the long run, but the more immediate purpose of evaluating an arts theme is to anchor commercial use on the site. It should be noted in considering a creative business theme that many potential tenants that support this theme may not be well funded or able to pay significant rents. The tenants may need rent subsidies to sustain their leases. Any consideration of locating an arts institution on the site to attract adjacent development should also evaluate the financial stability of the organization and its ability to attract patrons to the Walter Reed site which does not have an established arts brand.

A commercial arts building project utilizes a tenanting strategy similar to that of a shopping center. In the case of an art building the subsidized “anchor” to the building is a core of 20K to 25K square feet of arts tenants leasing at discounted rates. These artists or creative businesses create a unique identity for the building and serve to attract businesses that will pay market rate rents to be co-tenanted with creative industry professionals. The subsidized rents are not likely to exceed $15 per square foot on an annual triple net basis. Class B office rents in the District average approximately $46 per square foot, and in the comparable uptown submarket close to $37 per square foot so the required subsidy would be sizable. Subsidized tenants will demand a variety of space configurations, as small as 500 square feet. These tenants will also benefit from having access to shared office resources like data lines, printers and phones.

Creative industry commercial tenants will still seek out and in the case of market rate tenants, pay a premium for, access to urban amenities like convenience retail and restaurants. Reliable public transportation is also an important amenity for creative industry tenants. In order for an arts-anchored or creative industry building to be successful at Walter Reed, a new development program will have to deliver retail amenities and provide connectivity with public transportation.

There is no indication that a single use arts anchor like a major gallery or theater can be attracted to the site today. Instead, attracting creative professionals to the site can begin to build a brand for the site as an arts community. There may also be an opportunity to engage the public in non-traditional ways. Providing community arts services and developing flexible space that can serve multiple art forms may attract performances and art shows at the local-community level rather than as a City-wide destination. In an electronic survey conducted by America Speaks at the July 10, 2010 WRAMC Re-use Plan community meeting, 79% of the approximately 70 meeting participants indicated that they attend a performance or cultural event at least once a month or more frequently. Given this potential level of interest in creative programming at Walter Reed, single use and major arts uses may be attracted to the site if an arts community begins to emerge there.

An important consideration in evaluating the potential of an arts-anchored commercial building on site, is the potential competition and more immediate delivery of the ART Place project by the Cafritz Foundation at Fort Totten Metrorail Station. This project is slated to host over 100,000 square feet of rehearsal and administrative office space for the Washington National Opera and the Shakespeare Theater. Combined with a retail program exceeding 300,000 square feet, a residential program including approximately 170 affordable units, and direct Metro access, this project may attract artists and creative businesses more easily than Walter Reed.

## Unique Office Market Trends

In addition, the following three trends may permanently reduce the demand for additional office space and accordingly reduce future general office market demand:

Recent economic hardships and the desire to be more efficient (and more energy efficient) have forced tenants to look for ways to operate with less space, including sharing space, cutting staff, and offering telecommuting options. The federal government and President Obama's June, 2010 memorandum ordering federal agencies to cut $8B of building costs by the end of 2012 is indicative of this general trend toward working with less space.

There has been a steady increase in the number of contract, temporary and telecommuting workers who do not require permanent work stations. Major office tenants are decreasing their space needs by scheduling time for these types of workers in the office such that they do not overlap with one another.

We may be nearing the end of consistent increases in service sector employment as automation and outsourcing begin to reduce the need for white collar jobs. This trend is reminiscent of the manufacturing revolution of several decades ago. Over the last fifty years, America's outsourcing of manufacturing jobs overseas and use of modern automated plants increased the amount of vacant industrial space. In a similar trend, we may see a decrease in the utilization of office space due to the shifting of service sector jobs overseas and to automated systems that reduces the need for as many workers to perform white collar service jobs as in the past.

## Office Market Conclusions

| | |
|---|---|
| **Demand-Supported Development Program** | Approximately 550,000 – 575,000 SF to include:<br>200,000 SF in Building 1 (based on identifying and attracting an appropriate tenant)<br>50,000 to 75,000 SF of Medical Office (based on implementation of an ambulatory care center by a NOI public benefits respondent)<br>296,000 SF of NOI Uses (including school uses) |

The office market in the study area is almost entirely anchored in Silver Spring, MD with a strong comparative market on the west-side of Rock Creek Park along Connecticut Avenue. The market in Silver Spring boasts a healthy development pipeline and a strong identity as a commercial center. The "uptown" submarket across Rock Creek Park is mature and nearly in a state of equilibrium. It will be challenging for the Walter Reed site to attract any speculative or traditional office development in the near-term given that its closest competitors are well established and in Silver Spring there is a healthy pipeline. There are potential opportunities for the site to attract commercial development, but those opportunities require a unique approach. These opportunities include:

Attract a single user to absorb the majority of the available space at WRAMC.

Attract a series of tenants by defining a theme for the site which appeals to a specific industry or commercial niche.

Attract traditional office tenants with below market rents by subsidizing development of conventional office buildings.

Implement amenities that may make the site unique and more attractive to new office users including improved connections to Metro and preserving and building unique green space.

One example of a non-traditional strategy to attract commercial office users to the site is to target arts and creative businesses. By subsidizing some of these users, a specialized office environment can be created which may appeal to market rate tenants. The attractiveness of the site to office tenants may also improve as amenities such as retail, entertainment, and additional transit access (such as a new street car line) are added within or around the site.

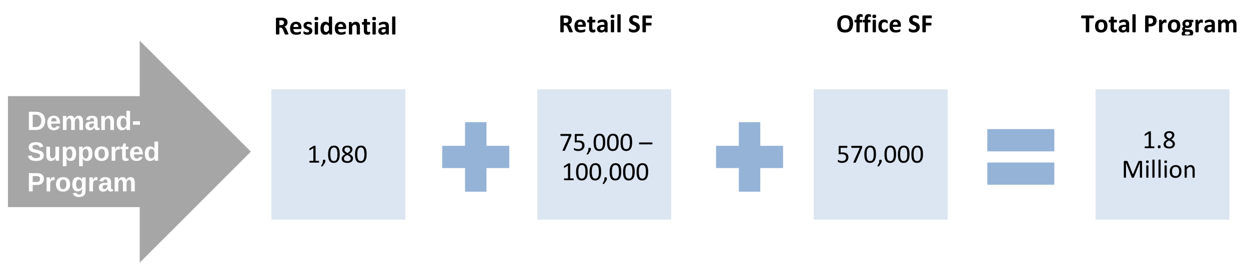
# Contingent Development Program

Section Contents:

# Program Analysis and Findings

## Demand-Supported Program Summary

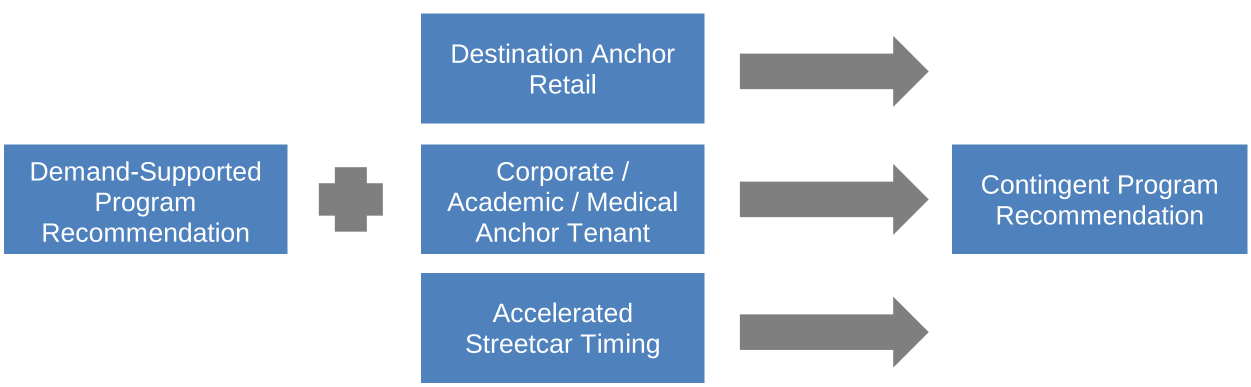
The preceding product analyses have synthesized market study findings for residential, retail, hospitality and office submarkets in the study area. Those findings are leveraged to suggest a Demand-Supported Program for the reuse of the site. The findings for a Demand-Supported Development Program are summarized in the following table:




As indicated in the Approach Section of the report, this study seeks to identify a range of supportable uses for the site. The Demand-Supported Program represents the lower-end of the range of supportable uses. To assess the upper-end potential of the site, the study synthesizes findings for a Contingent Development Program which is *contingent* on the realization of three demand drivers. The demand drivers and Contingent Program are detailed in the following section of the report.

## Contingent Program Analysis

A more robust development program may be built if certain “demand drivers” are realized as a result of coordinated community and government efforts. This section assesses the market-based program implications of the three potential demand drivers as they may impact the magnitude and mix of uses in the Demand-Supported Program. The methodology to assess the Contingent Program that may result if the three Potential Demand Drivers are realized is illustrated in the graphic below.



## Three Potential Demand Drivers

**Destination Retail Anchor:** A retailer that draws customers from beyond a two-mile radius and therefore increases capture rates of retail demand. Destination retailers may include department stores (e.g. Kohl's), wholesalers (e.g. Costco) and large-format specialty stores (e.g. Harris Teeter). The retailers presented in the previous sentence are for illustrative purposes only.

**Corporate/ Academic/ Medical Anchor Tenant:** A single user or a cluster of cooperative users that have an immediate or planned need for more than the 200,000 SF offered in Building 1, requiring the construction of at least an additional 50,000 - 200,000 SF of new office space.

**Accelerated Streetcar Timing:** Streetcar is defined as an operational streetcar line that connects Walter Reed to the Metrorail system or to employment centers in Silver Spring, Maryland or downtown Washington, DC. The Demand-Supported Program assumes streetcar service to Walter Reed is operational in 2020; the Contingent Program assumes that operational date is at least five years sooner.

## Contingent Program Summary

The following graphic illustrates the additional demand for residential, retail and office space potentially created by realization of the three demand drivers. The Contingent Program therefore reflects the upper-range of the supportable uses on the site.

| | Residential | | Retail SF | | Office SF | | Total Program |
|---|---|---|---|---|---|---|---|
| Demand-Supported Program | 1,080 | + | 75,000 – 100,000 | + | 570,000 | = | 1.8 Million |
| Demand Driver Impacts | +1,130 | + | +75,000 – 100,000 | + | +50,000 – 200,000 | = | +1.4 Million |
| Contingent Program | 2,110 | + | 150,000 – 200,000 | + | 620,000 – 770,000 | = | 3.2 Million |

## Demand Driver Impact: Destination Retail Anchor

**Demand Analysis**

A destination retail anchor is likely to range between 80,000 – 120,000 SF.

The addition of a destination retail anchor is likely to increase the Demand-Supported Program by some portion of the square footage of the retail anchor. The destination anchor will not likely be 100% additive to the Demand-Supported Program as it may replace one of the contemplated neighborhood center retailers. However, it is likely to increase the Demand-Supported Program by 60,000 to 80,000 SF.

**Findings from Developer Focus Groups**

The Developer Focus Group indicated that there is a unique opportunity at Walter Reed to attract a large format retailer and that such a retailer will likely have a positive impact on the retail program.

The northeast corner of the site is large enough and in a shape compatible with a big-box retail store. There are very limited opportunities along Georgia Avenue to deliver big-box format retailers because there are few large lots which can accommodate their layout.

A big-box retailer acts as a catalyst in attracting other retailers. In the case of a destination retail anchor, the big-box tenant would expand the draw area for customers by attracting shoppers from beyond a two-mile radius for the store's unique offerings. This increase in draw area increases the number of shoppers on site which will benefit adjacent retailers as well. This is the mechanism that draws additional retailers to co-locate with big-box retailers

A major retailer will benefit the site by drawing from an area larger than the surrounding neighborhoods and in this manner overcome the retail challenge of low population density in the area surrounding the site.

A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[28]

**Findings from Development Case Studies**

A destination retail anchor may diversify the mix of in-line retailers. In looking at an example of an urban retail center with a destination anchor, and comparing it to an urban neighborhood center, the program with the destination anchor exhibits a greater diversity of restaurant types and more shopping goods stores. The example assessed was Harbor East in Baltimore, Maryland. This project is located in a downtown core and the 350,000 SF retail program associated with this project is not anticipated to evolve at Walter Reed even as a result of attracting a retail anchor. However, compared to a neighborhood retail center at City Vista in Washington, DC the Harbor East program exhibits a greater diversity of goods retailers

[28] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

including clothing, jewelry, specialty foods and home goods retailers than the neighborhood center.

The cases are detailed in Appendix B.[29]

**RFI Findings**

The Request for Ideas was focused solely on the adaptive reuse of Building 1. Building 1 does not lend itself to reuse as a big box retailer. The RFI responses are summarized in Appendix C.[30]

**NOI Findings**

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. No qualifying applicants proposed introducing a destination anchor retailer on the site, so there is no additional impact on the retail program from the NOI findings.

A summary of the NOI process and qualifying applicants program as of the date of the publication of this report can be found in Appendix D.

## Demand Driver Impact: Corporate/ Academic/ Medical Anchor Tenant

**Demand Analysis**

*Corporate Anchor* – May require significant space to house headquarters operations (in excess of 200,000 SF) and/ or generate demand for office space from support firms which want to co-locate with a new corporate anchor.

*Industry Clustering Program* – A strategy to attract multiple tenants in a single industry, such as a research-heavy industry like biotech, might generate demand for new office space.

*Academic Anchor* – A satellite campus of a local, national or international academic institution might generate new demand for office space.

**Findings from Developer Focus Groups**

The Developer Focus Group indicated that an a coordinated economic development effort is likely to be required to attract an anchor office tenant and that there may be local competition for some thematic uses such as a technology cluster.

A targeted and coordinated economic development effort is likely necessary to attract a significant office-user to the site.

The campus format and aesthetic of the site lend themselves to an academic reuse.

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[29] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

[30] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

Surrounding suburban corridors such as Dulles and I-270 have established themselves as technology and biotechnology clusters and will create competition with any program planned at Walter Reed to attract similar tenants.

A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[31]

**Findings from Development Case Studies**

Walter Reed will likely have to provide specialized conditions to attract an industry cluster.

Industry cluster projects require strong leadership for planning and implementation an typically leverage a close relationship with an academic institution.

Flexibility in site planning and zoning allows for program implementation over a long (10-20 year) development period.

The cases are detailed in Appendix B.[32]

**RFI Findings**

The Request for Ideas was focused on the adaptive reuse of Building 1. Ideally, Building1 would be incorporated into any of the anchor tenant concepts in addition to associated new construction. Accordingly, the RFI findings provide valuable insight about the viability of the tenant anchor concepts. The RFI responses are summarized in Appendix C.[33]

All seven responses were from non-profit entities that are unlikely to support market rate rents which suggest that without a large, stable anchor tenant, there is limited opportunity for market rate office reuse of Building 1 or at the Walter Reed Site.

Three of seven responses indicated a healthcare-related reuse for Building 1 suggesting that the site's history as a center for healthcare innovation may support the attraction of a medical anchor tenant.

Within the technology and medical research fields there is competition from established clusters regionally and nationally, and risks of reduced federal research funding may limit expansion in these industries.

An academic medical research facility backed by a highly regarded academic institution such as George Washington or Georgetown Universities committed to development and transferring new technologies may attract adjacent users.

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[31] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

[32] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.

[33] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

Significant public financial incentives may create interest from possible cluster tenants.

**NOI Findings**

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee.

At least one qualifying NOI applicant proposed a significant medical re-use for the site in the form of a 112,000 SF ambulatory care center. That use and its ancillary impact is accounted for in the Demand-Supported Program. However, this interest in combination with the legacy of Walter Reed as a medical facility indicate that pursuing a medical anchor tenant may be feasible for the site.

A summary of the NOI process and qualifying applicants program as of the date of the publication of this report can be found in Appendix D.

## Demand Driver Impact: Accelerated Streetcar Timing

**Demand Analysis**

The Demand-Supported Program assumes that streetcar will begin to service Walter Reed by 2020. The acceleration of the timing of streetcar service to Walter Reed may increase the supportable residential program on the site significantly. This impact is driven by factors of development phasing and pipeline competition.

Residential development is anticipated to be an early-phase land use in the redevelopment of the site. Much of the planning, design and marketing of early-phase residential units is expected to be executed prior to any market impact from a streetcar service operating beginning in 2020. Moving the streetcar timing forward allows the housing at Walter Reed to be marketed as a transit-oriented product. This is likely to increase the draw of the site and the residential capture rate of the site.

In addition, there is significant new transit-oriented development planned at the edge of the two-mile study area at the Fort Totten Metrorail Station. However, the competing developments have a lengthy time horizon. To the extent that streetcar is operational at Walter Reed before development at this competing location is complete, Walter Reed may establish an identity as a transit-oriented location. Accordingly, Walter Reed can compete for and secure tenants prior to facing competition from a nearby Metrorail site. This context would also positively influence the capture rate of the site within the 10-year development horizon.

analysis resulted in the identification of 1,650 supportable housing units. This total includes 470 affordable units for households earning less than $35,000 annually.

The Demand-Supported Program assumes the Walter Reed redevelopment will capture 50% of the demand for new residential units in the one-mile study area and 20% of the demand for new residential units in the study area between the one-mile and two-mile radii of the site. These capture rates may increase if streetcar service to the site is delivered by or before 2015. In this analysis new capture rates of 55% within a one-mile radius and 30% within a two-mile radius were applied to the demand identified in the Residential Section above. The**Accelerated Streetcar Timing Alternative:**

**Market Rate Residential Potential Capture at WRAMC Site**

| **Rental** | | | | | **For Sale** | | | |
|---|---|---|---|---|---|---|---|---|
| **Type** | **Rate** | **Total Capture** | **Cumulative %** | | **Sale** | **Rate** | **Total Capture** | **Cumulative %** |
| Rental | $375 | 175 | 18% | | Sale | N/A | 0 | 0% |
| Rental | $500 | 138 | 31% | | Sale | N/A | 0 | 0% |
| Rental | $750 | 155 | 47% | | Sale | N/A | 8 | 1% |
| Rental | $1,063 | 193 | 66% | | Sale | $165,000 | 48 | 9% |
| Rental | $1,563 | 152 | 81% | | Sale | $250,000 | 152 | 32% |
| Rental | $2,063 | 87 | 90% | | Sale | $335,000 | 131 | 52% |
| Rental | $3,125 | 69 | 97% | | Sale | $500,000 | 161 | 76% |
| Rental | $5,000 | 30 | 100% | | Sale | $815,000 | 155 | 100% |
| **Total Rental Demand** | | **999** | | | **Total For Sale Demand** | | **656** | |

## Findings from Developer Focus Groups

The Developer Focus Group indicated that streetcar is likely to positively impact residential demand, and the performance of restaurants and small-bag purchase retailers.

Street car is likely to positively benefit demand for residential development because it connects commuters to their jobs. Residents are likely to prefer to be located 1-block away from streetcar, rather than directly on the line.

Streetcar may positively impact the performance of some retailers on site including restaurants and small-bag purchase retailers by increasing commuter spending on site. Streetcar

Streetcar may reduce parking requirements over time if use of the streetcar system proves to be similar to use patterns for Metrorail.

A detailed memorandum summarizing all findings from the Developer Focus Groups can be found in Appendix A.[34]

[34] The Developer Focus Group exercise was jointly led by Mosaic Urban Partners and HR&A Advisors. The findings of the Developer Focus Groups is summarized in Appendix A in a memorandum dated October 6, 2011 from both HR&A Advisors and Mosaic Urban Partners.

## Findings from Development Case Studies

Developers prefer streetcar over bus service because it is considered "fixed" and routes are unlikely to be changed.

Value premiums have been realized in other cities with streetcar for residential (within a ½ mile of the line); office (within ¼ mile of the line); and retail (within 200' of the line).

The cases are detailed in Appendix B.[35]

## RFI Findings

The Request for Ideas was focused on the adaptive reuse of Building 1. The responses to the RFI were heavily oriented to institutional and medical uses and were not contingent on streetcar. The RFI responses are summarized in Appendix C.[36]

## NOI Findings

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. Streetcar timing is not a factor in the process. A summary of the NOI process and qualifying applicants program as of the date of the publication of this report can be found in Appendix D.

[35] Case Study research and analysis was led by Mosaic Urban Partners with support from HR&A Advisors.
[36] The Request for Ideas process was led by HR&A Advisors with support from Mosaic Urban Partners. Appendix C is a memorandum drafted by HR&A Advisors dated November 23, 2011.

# Appendices

Section Contents:

# Appendix A: Developer Focus Group Findings

Developer Focus Group Findings continues on the following page.

# Appendix B: Development Case Studies

Developer Case Studies continues on the following page.

# Appendix C: Request for Ideas Summary

Request for Ideas Summary continues on the following page.

# Appendix D: Notice of Interest Qualifying Applicant Program Uses

The BRAC process requires that surplus federal land be offered to qualifying users via a Notice of Interest (NOI) process. These users are selected for placement on the site via review by a formal LRA evaluation committee. The qualifying NOI applicant uses summarized below are reflected in the demand analysis.

As of the date of the publication of this report, the following proposed office and institutional uses have been deemed qualified applications:

| Proposed Office/ Institutional Use | Proposed Square Footage |
|---|---|
| **Fire Station** | 25,000 |
| **Ambulatory Care Center** | 112,000 |
| **Charter Schools** | 155,000 |
| **Non-Profit Office Space** | 4,000 |
| **Total Qualifying NOI Uses** | 296,000 |

Changes to the above anticipated qualifying NOI applicant program will impact the Demand-Supported Development Program both directly and indirectly. First, the qualifying NOI applicant uses are included in the demand-supported development program. Changing these uses directly alters the demand-supported program. Indirectly, some NOI uses may positively or negatively influence the market-based program. For example, the ambulatory care center is anticipated to attract additional medical office space. If the ambulatory care center is not realized, the demand-supported office program is likely to decrease by a projected 50,000 - 75,000 SF of medical office programming.

# Appendix E: Demand Analysis Findings and Recommendations

**Demographics**

**Finding:** The residents of the neighborhoods of Shepherd Park, Takoma and Brightwood make up the population of the one-mile study area surrounding the site. This population has remained stable over the last decade. In addition, the population growth trajectory of the study areas is low. The low growth rate of the population in the study areas constrains the supportable residential and retail development at the site because demand for these uses is driven in part by new residents.

**Finding:** The population within the one-mile study area reflects a slightly higher median age than the District as a whole. The success of redevelopment projects closer to the District's downtown core has been attributed to the attraction and retention of new young professionals ranging in age from 22 to 35. The slightly older demographic of the study area does not reflect the sought after demographic for transformative redevelopment projects.

**Opportunity:** There is an opportunity to create a development program that drives higher population growth in the area than is projected based on current demographics alone. The approach that may seize this opportunity is to anchor a new development with products and programming that appeal to a younger demographic of professionals and families. Providing reasonably priced townhomes, modern format multifamily rental housing, and a new neighborhood center anchored by convenience-oriented retail may attract a younger demographic and therefore accelerate population growth. As the development program stabilizes, there may be opportunities to add additional uses such as market rate condominiums or higher-rise residential options which further broaden the site's appeal.

**Retail**

**Opportunity:** The addition of the northeast corner of the Walter Reed site has created a relatively unencumbered parcel large enough to host a large-format or "big-box" retailer. The attraction of such a retailer could increase the supportable retail program by expanding the draw area for all retailers at the site.

**Finding:** The one-mile study area is underserved and will support additional neighborhood oriented retail and services like coffee shops, dry cleaners, general merchandise and limited service restaurants. There is also unmet demand for specialty grocery store service. The format and size of a potential grocery store at the site will depend on the timing of new development at Walter Reed and on the timing of delivery of other grocery options in the current development pipeline at competing locations. A critical factor influencing the grocery store outcomes at Walter Reed is the anticipated delivery of a new Walmart, which is planned to be constructed three-quarters of a mile from the site in 2012, and will contain 40,000 square feet of grocery uses. Based on retail leakage from the study area, projected population growth, and minimal additional commuter demand, the WRAMC can absorb between 75,000 and 200,000 square feet of new retail uses over the next 10 years. The higher end of this broad range is heavily dependent on the attraction of a big box tenant.

**Finding:** As discussed primarily in the residential section of the Market Report, the Silver Spring, Maryland and the Takoma/ Takoma Park portions of the study area act as neighborhood centers with different characters. However, these centers do not serve as amenities to the neighborhoods immediately surrounding the Walter Reed site.

**Opportunity:** The above finding indicates an opportunity to program retail at Walter Reed to serve as a new neighborhood amenity and center for the residential neighborhoods surrounding the site. Silver Spring is a high-density urban center, and the Takoma/ Takoma Park area offers more of a small scale, village experience. There is an opportunity to provide a retail experience unique in scale and aesthetic for the neighborhoods surrounding Walter Reed.

**Residential**

**Finding:** The study areas enjoy a diverse range of incomes and housing pricing that support additional demand for housing at the WRAMC site over the next 10 years. As many as 450 rental units and 540 home ownership units may be absorbed by 2020.

**Opportunity:** The addition of a stronger connection to Metrorail for prospective residents may further expand the supportable residential program. A well-located streetcar stop on the Walter Reed site that occurs earlier in the phasing of the development (by 2015) may increase the demand for a variety of residential product types. An investment in improved bicycle infrastructure to connect the site to the Metrorail system may also expand the appeal of the Walter Reed site for prospective residents. Improved bicycle infrastructure may include Capital Bikeshare facilities on the Walter Reed site and at the Takoma Metro Station and the addition of bike lanes throughout the site and on-route to the Metro Station.

**Finding:** Rates of homeownership in the one-mile study area exceed those of the District. 50 percent of units within one mile of WRAMC are owner-occupied versus 42 percent in the District as a whole.

**Opportunity:** There is an opportunity to continue the study area's strong homeownership tradition by providing townhomes at more affordable price points. These townhomes should offer a product that is low maintenance, compact and appeals to younger home buyers and local neighborhood empty-nesters. The townhomes can also serve to integrate the site with the surrounding low-density single family neighborhoods.

**Finding:** Rental offerings within the one-mile study area are overwhelmingly older and obsolete products. There is limited new construction multifamily housing available near the Walter Reed site. There is a substantial pipeline of new and recently delivered multifamily housing in Silver Spring, Maryland. Takoma/ Takoma Park also have some newly construction multifamily projects.

**Opportunity:** There is an opportunity to capitalize on the demand demonstrated in the Silver Spring and Takoma/ Takoma Park communities by offering new construction multifamily rental at the site. Walter Reed multifamily rental products will have to initially be priced below apartments in Silver Spring and Takoma/ Takoma Park to overcome the site's distance from Metro and the lack of an established neighborhood center and identity.

**Finding:** Rental rates within the one-mile study area align with the maximum rental rate standards for affordable housing in the District.

**Opportunity:** There is an opportunity to capitalize on the alignment of current market rents and affordable rental rates to include a unique affordable housing program. Both senior and artist housing may lend themselves to the adaptive re-use opportunities on site. Senior housing provides an opportunity for long time residents to remain in the community as they age. Artist housing may influence the new identity of Walter Reed and ultimately attract additional arts uses.

**Hotel**

**Finding:** While the hotel market has softened substantially in the economic downturn, the DC market has fared better than the nation on average and industry experts are optimistic about achieving double digit growth rates by 2012. Despite general industry optimism, WRAMC is not well located to attract the three primary hotel customer groups -- tourists, business travelers and convention attendees. Ultimately, the site is not convenient to any of those group's targeted destinations when they visit the District of Columbia.

**Opportunity:** A new hotel project may be feasible if redevelopment of the site creates a draw for one of the primary hotel customer groups. For example, the attraction of office uses to the site may create some new demand for hotel options on-site from business travelers.

**Opportunity:** If other WRAMC site uses attract a unique niche of hotel customers not considered in the primary customer base of tourists, business travelers, or convention attendees, than WRAMC may support a hotel use tailored to that unique group. For example, the Department of State has plans for an International Chancery Center (ICC) adjacent to the District's portion of the Walter Reed site. In a 2002 study completed for the National Capital Planning Commission, Dr. Stephen Fuller of George Mason University linked 900,000 hotel-room nights annually to visitors whose District of Columbia stay is a direct result of business with foreign missions such as those visiting an ICC.

**Office**

**Finding:** The site's distance from the Takoma Metrorail station, lack of a pedestrian orientation, and distance from the DC downtown core makes it unlikely to favorably compete with the District's core office markets and downtown Silver Spring, Maryland. Due to the economic downturn, downtown office rental pricing is comparably low and therefore pricing will not offer the WRAMC site a competitive advantage in the office market. There is no traditional market-driven opportunity to support office development at the WRAMC site.

**Opportunity:** Office use may become an anchor at the WRAMC site if a large, single user with significant space or security requirements is identified to absorb the majority of the available space.

**Opportunity:** Office users may be attracted to the site if a defining theme is identified to tie together commercial uses and incentives are offered to generate a critical mass of tenants. For example, an innovation and research or academic theme, if feasible, may enhance the attractiveness of the site to commercial tenants.

**Opportunity:** An office development may be feasible if developer costs can be lowered through a subsidy received from a public source. This subsidization might allow developers to profitably charge rents low enough to attract tenants who would otherwise choose more prestigious or transit-friendly office market locations.

**Opportunity:** There is an opportunity to invest in place-making in order to help establish the office market at Walter Reed. There may be amenities that do not create new demand for space but instead increase interest in the Walter Reed site from tenants who would already consider locating there. Green space may serve as a place-making tool that differentiates the site and creates appeal for prospective tenants. The uniquely mature green spaces at Walter Reed may be complimented by features such as urban farming and attractive sustainable infrastructure features like bioswales. For traditional office development the green space at Walter Reed is likely to provide a slight competitive advantage over comparable sites. However, the green space is not likely to provide a strong enough draw to overcome Walter Reed's shortcomings in transit accessibility or proximity to business destinations.

# Appendix F: Industry Experts Interviewed for Qualitative Development Insights

| Field | Expert |
| --- | --- |
| **Retail** | Jay Klug, JBG Rosenfeld; Steven Boyle, Edens & Avant |
| **Housing** | Aakash Thakkar, EYA |
| **Housing** | Joe Carrol, Lowe Enterprises |
| **Mixed-Use** | Dick Knapp, Foulger-Pratt |
| **Office** | Michael Abrams, Rockledge Realty |
| **Cultural Uses** | Anne Corbett and Ilana Branda, Cultural Development Corporation |