



CITY OF FALLS CHURCH

*GEORGE MASON HIGH SCHOOL
COMMERCIAL DEVELOPMENT SITE*

HIGHEST & BEST USE VALUE ANALYSIS

PREPARED BY
ALVAREZ & MARSAL PUBLIC SECTOR SERVICES, LLC

In this matter A&M is acting as a consultant/advisor to our client. We are not acting in the capacity of an appraiser. Our analysis is not intended to be compliant with USPAP, FIRREA or any state licensing mandate.

July 10, 2017

Business Confidential and Procurement Sensitive



VALUE ANALYSIS CONCLUSION

- Analysis attempts to balance highest and best use of the land with the City goals of:
 - Up-front payment to offset new school construction cost
 - Maximizing commercial development
 - Create a transformative, destination-oriented development in the West End
- The 10 acre commercial site supports approximately \$43-45 million in value, assuming:
 - \$10 million up-front payment at ground lease execution (1st quarter 2020), balance of payment at site handover (4th quarter 2021)
 - \$3 million in proffers in 2020
- Value analysis meant to serve as a baseline development program to evaluate future proposals submitted in response to a competitive, two-step procurement process



SCOPE OF VALUE ANALYSIS

Approach

The scope of this value analysis included collecting general, specific and competitive supply and demand data that is relevant in assessing the highest and best use of the site and estimating its as-is value.

General Data

General data consists of information outside of the property and pertains to the social, economic, environmental and government forces that have an impact on value.



Specific Data

Specific data includes detailed information about the property being assessed, local market characteristics, as well as other pertinent information.



Competitive Data

Competitive supply and demand data include particular information regarding sale comparables (land and improved), and rent and expense comparables.



Analysis

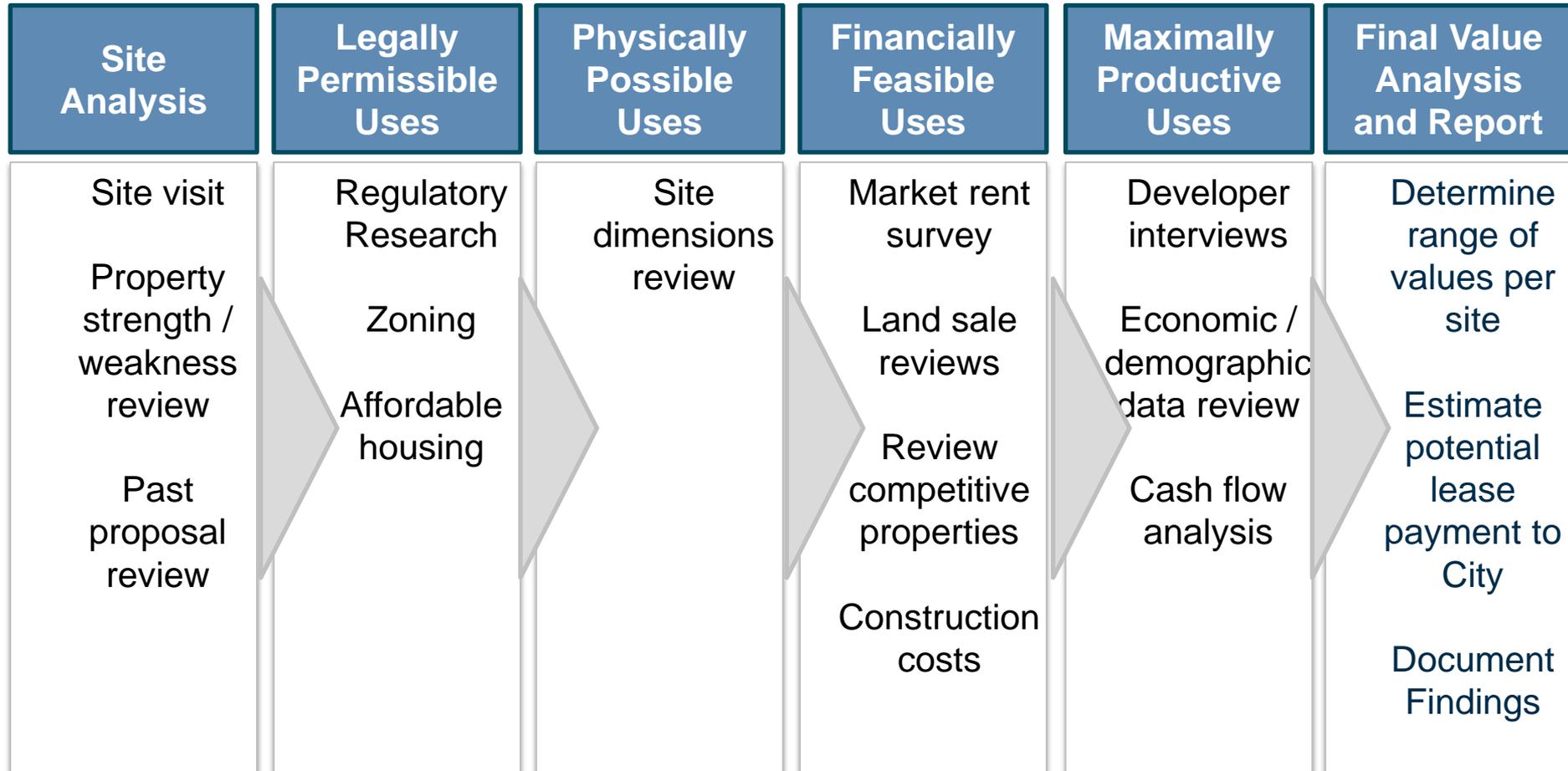
Analysis of comparable data, preparation of cash flow projections, sensitivity analysis of various assumptions, highest and best use conclusion and value estimate.



VALUE ANALYSIS PROCESS

Highest and best use is the reasonably probable use of land that is legally permissible, physically possible, market acceptable and financially feasible

Highest and Best Use Analysis



Development Scenarios

Initial analysis utilized the ULI TAP program (below). A&M analyzed multiple development scenarios and received feedback from the EWG and other City stakeholders to arrive at the base program for analysis. For all scenarios, A&M assumed that the City would retain ownership of its land.



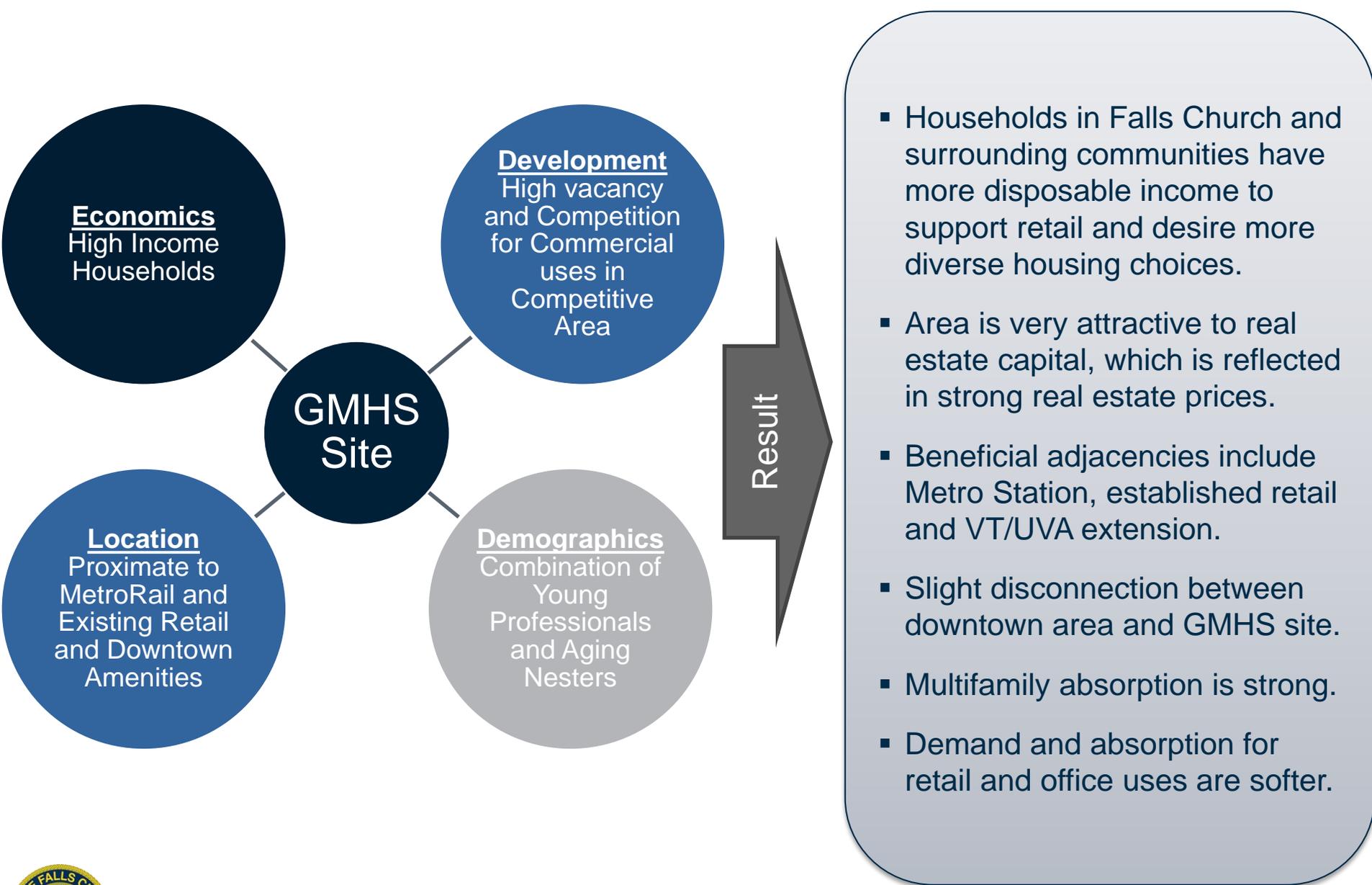
ULI TAP Program

Component	Units	GSF/Unit	GSF
Destination Retail			120,000
Ground Floor Retail			42,000
Medical Office			66,000
Office			72,000
Multifamily	500	1,000	500,000
Active Adult Apartments	140	1,200	168,000
Condominiums	80	1,400	112,000
Hotel ¹	150	473	71,000
Total Program GSF			1,151,000

¹Room count increased from original 110



MARKET FORCES IMPACTING GMHS SITE



FINAL BASELINE PROGRAM

**Falls Church
GMHS Redevelopment
Building Program
7/10/2017**



Component	GSF Units/Rooms	
Retail	128,000	
Office	120,000	
Multifamily	621,000	816
+55 Multifamily	140,000	148
Hotel	75,000	110
Totals	1,084,000	1,074

Parking	Stalls
Above-Grade Structured	1,604
Below-Grade Structured	-
Total	1,604



FINAL PROGRAM; HIGH DENSITY, STRUCTURE MIXED-USE DEVELOPMENT

MF (8 fl.) Parking	140 units 55+ MF (7 fl.) Parking	MF (7 fl.) Parking GF Retail	Office (6 fl.) Parking GF Retail	Parking Garage (6 fl. -2 lower grade) GF Retail
GF Retail Hotel 110 keys (5 fl.)	GF Retail Parking Garage (6 fl.)	GF Retail MF (8 fl.)		Destination retail (2 fl.) Parking (2 fl.)

1. Program assumes all concrete structure, no wooden or hybrid construction
2. Program assumes all parking can be accommodated above-grade



MAJOR ASSUMPTIONS

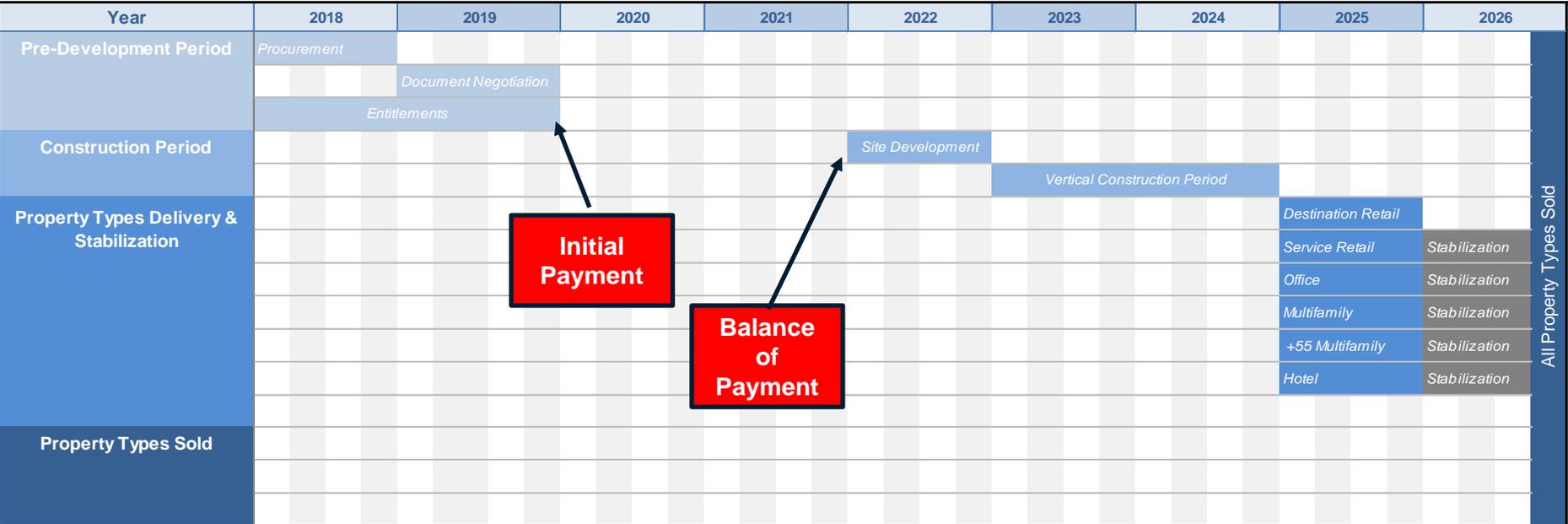
1. Developer to provide \$10 million up-front payment at lease execution and \$3 million in proffers
2. Site is ground leased long-term to developer for all uses
3. Commercial construction will begin following new GMHS occupancy in 2022
4. Multifamily includes 6% of residential GFA reserved for households making 60% of AMI
5. Moderated parking requirements to align with market
 - 0.91 spaces per apartment
 - 4 spaces per 1,000 sf destination retail feet (per code)
 - 2 spaces per 1,000 sf service retail
 - 2.2 spaces per 1,000 sf office feet (per code)
 - 0.75 spaces per hotel key



DEVELOPMENT TIMELINE

City of Falls Church - Mixed Use Development

Commencement Date: **Jan 1, 2018**



KEY TAKE AWAYS

- Development program and value analysis should be used as a tool to evaluate future proposals
- City must state their requirements and desired features, but also must allow for flexibility in submitting enhanced visions
- City may demand more commercial, but may have to trade-off some value due to higher risk
- Respondents who demonstrate serious commitments from retail or office tenants may be able to provide more value to City
- City must understand the trade-off between its policy goals and value, given the constraints of the new school bond issuance and future revenue requirements



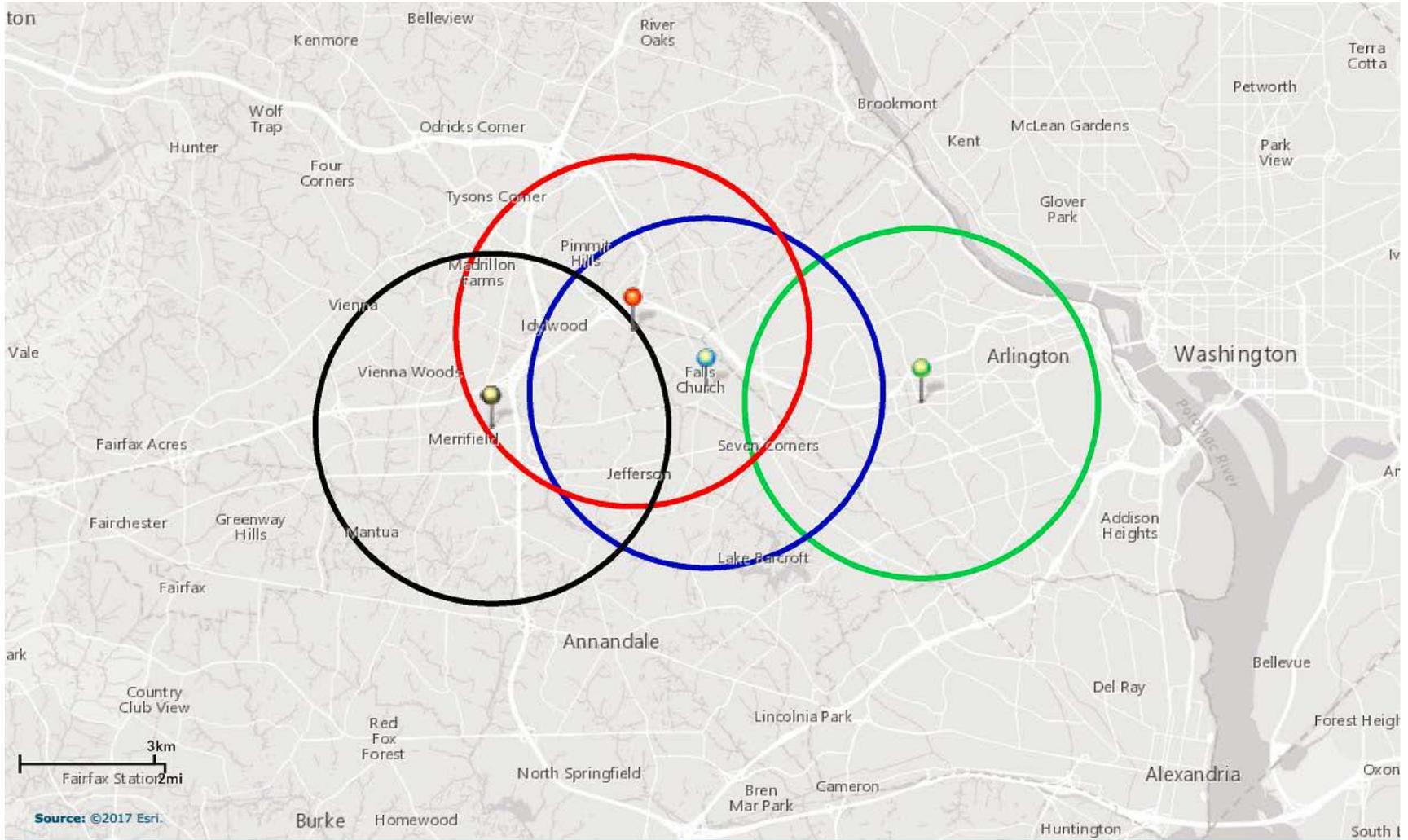
BACK-UP



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ALVAREZ & MARSAL
Bolan Smart Associates

SUBMARKETS OF INTEREST



ESRI and Bolan Smart Associates 6/2017



RETAIL SUBMARKET COMPARABLES

Key Take-Aways:

- GMHS's residential and daytime populations align with Merrifield's, but GMHS as twice the existing supply
- GMHS has the highest retail square footage per person of all areas considered

<i>Submarkets</i>	<i>Greater Falls Church</i>	<i>Merrifield / Dunn Loring</i>	<i>Ballston</i>	<i>GMHS</i>
<i>2.5 Mile Radius</i>				
Population	121,105	103,190	197,335	116,175
Households (HH)	44,855	39,690	89,700	44,685
Median HH Income	\$111,350	\$107,420	\$101,390	\$111,230
Daytime Employees	38,185	61,115	106,505	61,500
<i>2.5 Mile Radius Supply</i>				
Square Feet (RSF)	4,500,000	2,800,000	7,800,000	5,500,000
Vacancy	3.0%	3.0%	5.0%	3.0%
<i>Retail Ratios</i>				
Retail SF per person	37	27	40	47
Retail SF per employee	118	46	73	89
<i>Est. for GMHS site if market driven</i>				
<i>Avg Rents per RSF</i>	\$32.00 NNN	\$30.00 NNN	\$49.00 NNN	\$30.00 NNN

Sources: ESRI, CoStar and Bolan Smart Associates, 6/2017



OFFICE SUBMARKET COMPARABLES

Key Take-Aways:

- Northern Virginia remains challenged by 20%+ vacancy rates
- Falls Church is not traditionally an office market, and is surrounded by large office centers

Submarkets	Greater Falls Church	Merrifield / Dunn Loring	Ballston	GMHS
<i>2.5 Mile Radius</i>				
Population	121,105	103,190	197,335	116,175
Households (HH)	44,855	39,690	89,700	44,685
Median HH Income	\$111,350	\$107,420	\$101,390	\$111,230
Daytime Employees	38,185	61,115	106,505	61,500
<i>2.5 Mile Radius Supply</i>				
Square Feet (RSF)	1,900,000	6,700,000	16,600,000	8,800,000
Vacancy	23.0%	27.0%	20.0%	26.0%
<i>Employment Ratio</i>				
Employees per HH	0.85	1.54	1.19	1.38
<i>Est. for GMHS site if market driven</i>				
Avg Rents per RSF	\$18.00 NNN	\$24.00 NNN	\$33.00 NNN	\$30.00 NNN

Sources: ESRI, CoStar and Bolan Smart Associates, 6/2017



LIMITING CONDITIONS



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ALVAREZ & MARSAL
Bolan Smart Associates

VALUE ANALYSIS ASSUMPTIONS AND LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

1. No legal survey or engineering analysis of the properties has been made by us. We assume that the legal descriptions and area computations furnished are reasonably accurate. However, at the user's discretion, it is recommended that such an analysis be made for exact verifications through appropriate professionals before demising, hypothecating, purchasing or lending occurs, or any decision is made requiring an exact legal survey or engineering analysis. In the absence of a survey, neither is a conclusion made, nor is responsibility taken, for encroachments or undisclosed easements (if any).
2. Oil, gas, mineral rights, and subsurface rights were not considered in making this valuation unless otherwise stated and are not a part of the analyses, if any exist.
3. We assume no responsibility for any conditions, not readily observable from our customary inspection of the properties, which might affect the analyses. We reserve the right to change the analyses if so warranted, when supplied with further information, if that information dictates.
4. No conclusions are intended to be expressed regarding matters that require legal expertise or specialized investigations or knowledge beyond that customarily employed by real estate advisory professionals.
5. We have made no architectural or engineering study, property survey, soil study or environmental investigation, and we assume that no problems exist in connection with such matters on any of the properties. The described physical condition of any improvements is based on visual external inspection only, and it is assumed that there are no hidden or unapparent physical conditions. Dimensions and areas are as supplied by others and are subject to survey.
6. Maps, plats, and exhibits included herein are for illustration only, as an aid for the reader in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from this report.
7. Neither A&M nor any of its present or former personnel, including, without limitation, the signatories hereto, shall be required to give further consultation or testimony, or appear in court or at any public hearing with reference to the property valued, unless satisfactory prior arrangements have been made.
8. Except as hereinafter provided, the party for whom this report or valuation was prepared may not distribute copies of this report in whole or in part to a third party without our prior written consent (other than to the Company's accountants, financial advisors, attorneys and other advisors). Further, neither all nor any part of this report shall be disseminated to the general public by the user through advertising media, public relations media, news media, sales media or other media for public communication without the prior written consent, which will not be unreasonably withheld, of A&M, particularly as to conclusions. In addition, if our report or its contents are to be referred to or quoted in whole or in part, in any registration statement, prospectus, offering memorandum, loan agreement or other document, such use is subject to our approval, which shall not be unreasonably withheld. Our approval for the above use or uses may be conditioned upon timely completion of additional procedures appropriate to the nature of the intended use of our report, for which additional fees may be incurred.
9. The title to the property is assumed to be free and clear of all liens and encumbrances, except as noted.



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10. No liability is assumed for matters which are legal or environmental in nature. In addition, any reference to physical property characteristics in terms of quality, condition, cost, suitability, soil conditions, obsolescence, and the like are strictly related to their economic impact on the properties. No liability is assumed for any personal property or engineering-related issues, including inadequacies or defects in the structure, design, mechanical equipment or utility services associated with the improvements; air or water pollution; noise; flooding, storms or wind; traffic and other neighborhood hazards; radon gas; asbestos; natural or artificial radiation, or toxic substances of any description, whether on or off the premises.
11. Ownership and management are assumed to be in competent and responsible hands.
12. Improvements, if any, are assumed to be within lot lines and in accordance with local zoning and building ordinances as well as all applicable Federal, State, and local laws and regulations. Any plans, diagrams or drawings provided are intended solely to facilitate understanding and are not meant to be used as reference in matters of survey. The legal description furnished should be verified with the aid of competent legal counsel.
13. The report was prepared for the purpose stated and should not be used for any other purpose.
14. All direct and indirect written information supplied by the client, its agents and assigns, concerning the properties is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.
15. This report is intended to be read and used as a whole and not in parts.
16. Our analyses are based on currently available information and estimates and assumptions about future developments. We do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimated results.
17. Possession of this report or a copy thereof, or any part thereof, does not carry with it the right of publication, nor may it be used by anyone but the party for whom it has been prepared without the prior written consent and approval of A&M.
18. Where the properties being considered are part of a larger parcel or tract, any analyses reported are applicable only with the portion being considered and should not be construed as applying with equal validity to other portions of the larger parcel or tract.
19. It is assumed that all necessary licenses and agreements remain in full force and effect in order to continue the operations of the properties.
20. With respect to our analyses, our work did not include an analysis of the potential impact of any unexpected sharp rise or decline in local or general financial markets or economic conditions or technological changes.



VALUE ANALYSIS ASSUMPTIONS AND LIMITING CONDITIONS

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21. Our report will be dated as of a specific date. We cannot be held responsible for changes in the market conditions or properties which would have a material impact on the value(s) reported herein subsequent to our Report Date. It is further stated the terms of our engagement did not provide for reporting on events and transactions which occurred subsequent to the Report Date.
22. The Americans with Disabilities Act (“ADA”) became effective January 26, 1992. We have not made a compliance survey and analysis of the properties to determine whether or not they are in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the properties, together with a detailed analysis of the requirements of the ADA, could reveal that the properties are not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the properties. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of the ADA in analyzing the properties.
23. The United States of America and 80 other countries reached agreement in 1992 to halt production of Chlorofluorocarbons (“CFCs”) after 1995. International agreement on continued usage of recycled or stockpiled CFCs has not been reached. We are unaware of the properties’ production of CFCs. No estimate has been made related to the financial impact, if any, of retrofitting or replacing any in-place HVAC systems, if it is found to be non-conforming.
24. A&M’s liability regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warranties, failure of essential purpose or otherwise, under this Agreement or with respect to the services shall be limited to the amount actually paid to A&M for this scope of work. If A&M is working on a multi-phase engagement, A&M’s liability shall be limited to the amount paid to A&M for the particular phase that gives rise to the liability.
25. Support for conclusions contained in this report is retained within a corresponding workpaper file retained in our office



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