

Project Audit Findings for Clark'sburg
Town Center in Montgomery County,
Maryland

NEWLAND COMMUNITIES
MARCH 16, 2007

MCPB 11/06/08 - Item #5
Appendix G (RCLCO Project Audit CTC)

RCLCO

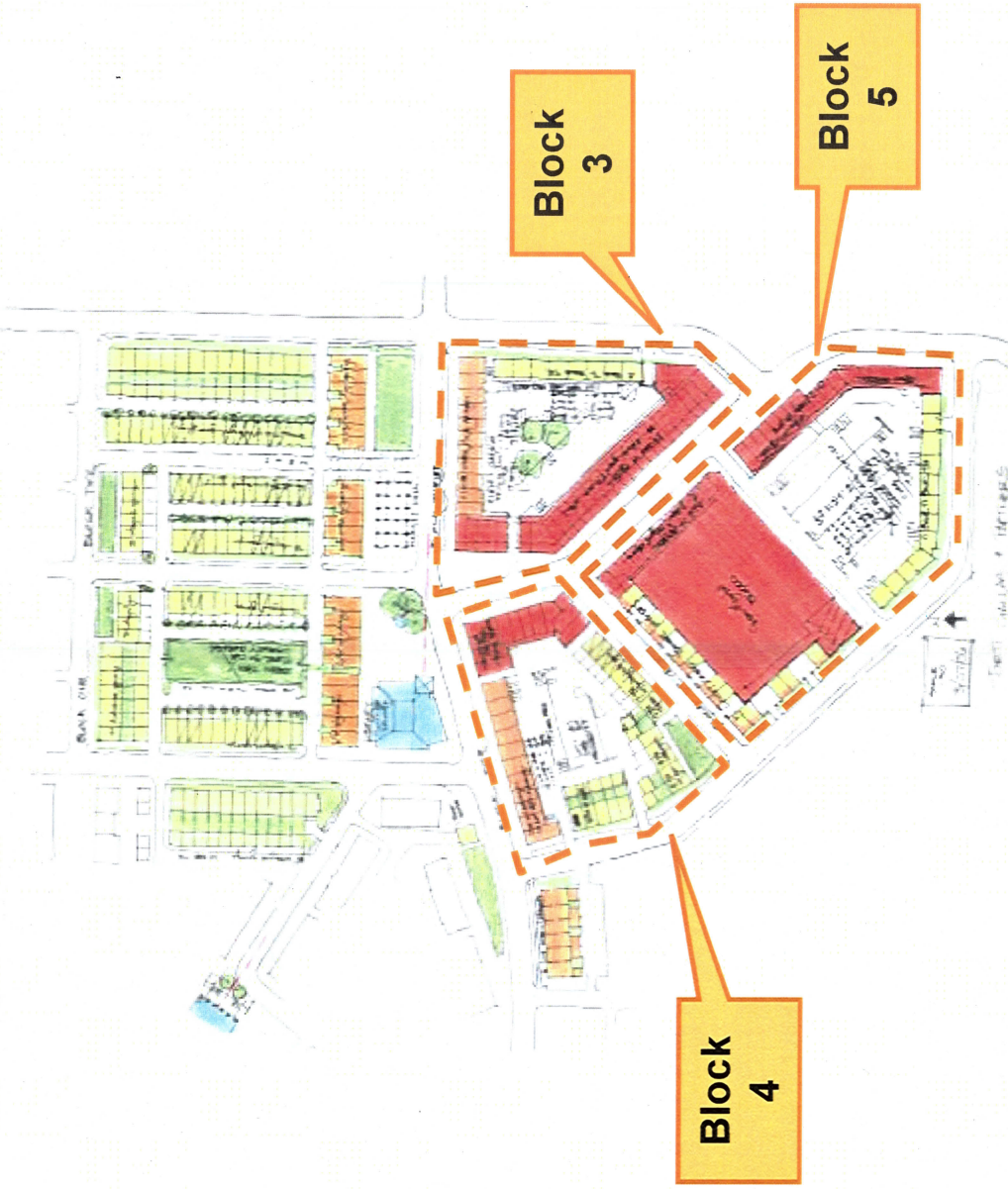


SITUATION ANALYSIS, OBJECTIVES, AND CONCLUSIONS

- ▶ Clarksburg Town Center, located in Montgomery County, Maryland, is a planned, 286-acre master-planned community, the majority of which is complete except for the retail and residential uses on the west side of the community.
- ▶ Newland is working through the final pieces of the legal challenges that have halted the development on the west side, referred to as the “town center.”
- ▶ The program for the town center is now set including 133,000 square feet of retail and a mix of attached residential product, some above retail development, on Blocks 3, 4, and 5. Development activity will begin in early 2008.
- ▶ RCLCO was asked to evaluate the economic and competitive market context in Montgomery County, and to help define a strategy for implementation as well as an underlying land value supported by the development entity, as well as developers capable of executing it.
- ▶ We have concluded that the regional economy is stable and the housing market will rebound as this project is being taken to market, that the commercial opportunity is particularly strong, and that there is a positive land value associated with a straight sale of all three blocks to a sole mixed-use developer.

CURRENT PROGRAM IS MARKET SUPPORTABLE

- ▶ Residential program includes townhomes, live-work units, and multifamily units, some integrated into the retail development
- ▶ The retail program includes a 56,000 square-foot grocery store and supporting in-line retail



OBJECTIVE: “PACKAGE” AND VALUE TOWN CENTER FOR A SINGLE DEVELOPER RESPONSE

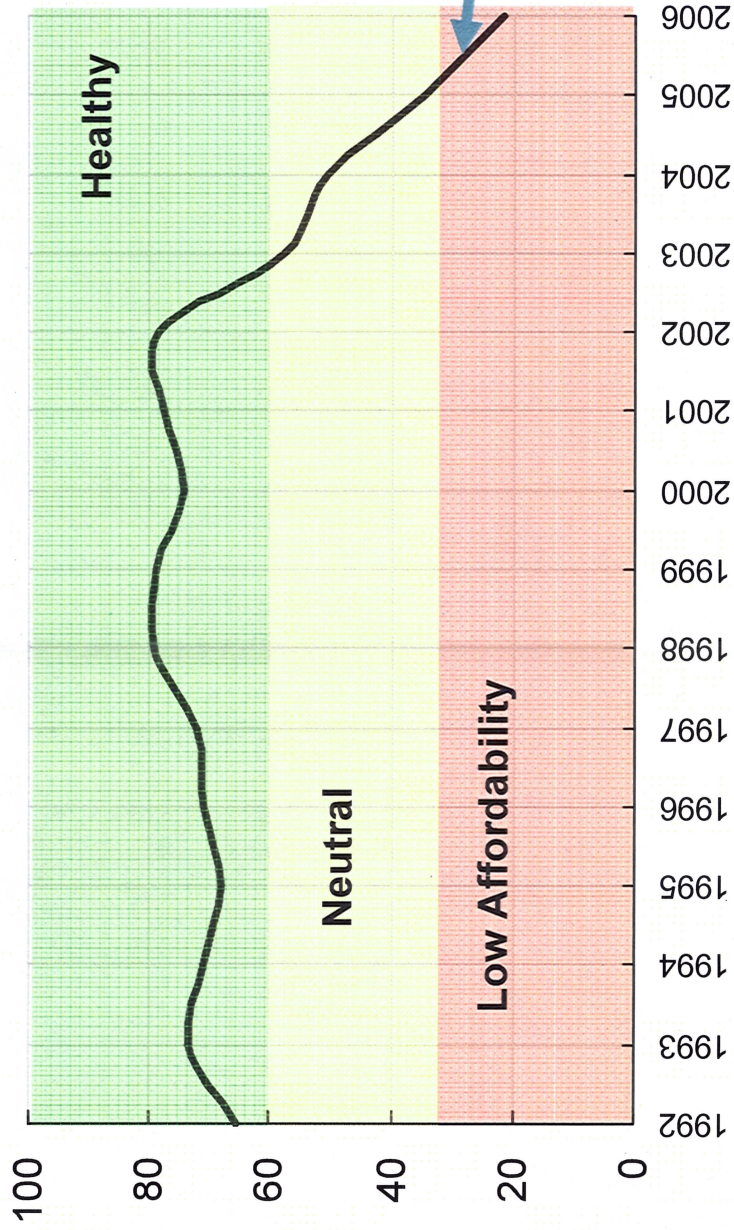
▶ **PRODUCT POSITIONING & ABSORPTION**

- Question 1: Where is the broader Washington area housing market and what are the prospects for a strong recovery?
- Answer: The Washington metro area suffered an affordability and buyer confidence crisis. The housing market may be bottoming out and should rebound later this year. Montgomery County is perhaps the strongest submarkets in the MSA. Clarksburg represents a value opportunity relative to the I-270 Corridor
- Rationale:
 - It does not appear that the MSA has overbuilt housing product, rather, new product was increasingly unattainable for a growing share of buyers.
 - 9,000 new jobs per year projected through 2010 in Montgomery County, largely in high-paying sectors.
 - Limited land availability close-in and restrictive entitlement process limits competitive supply.

DIP IN HOUSING MARKET DUE TO LACK OF AFFORDABILITY

NAHB-Wells Fargo Housing Opportunity Index

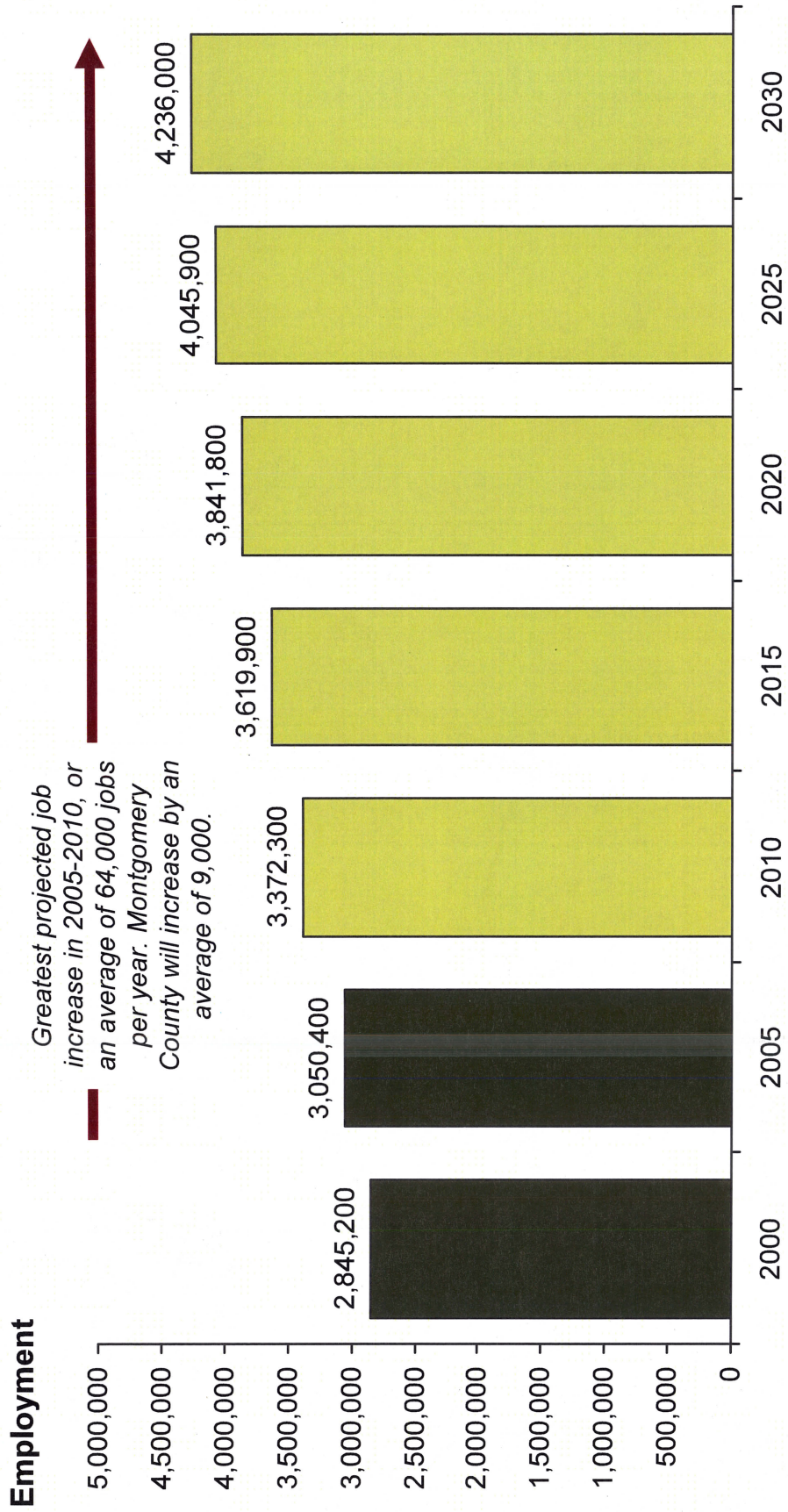
Share of homes sold in the area that would have been affordable to a family earning the local median income



— Washington, D.C. MSA

SOURCE: NAHB (Nov 2006); RCLCO

REGIONAL EMPLOYMENT IS PROJECTED TO INCREASE NEARLY 39% FROM 2005 TO 2030



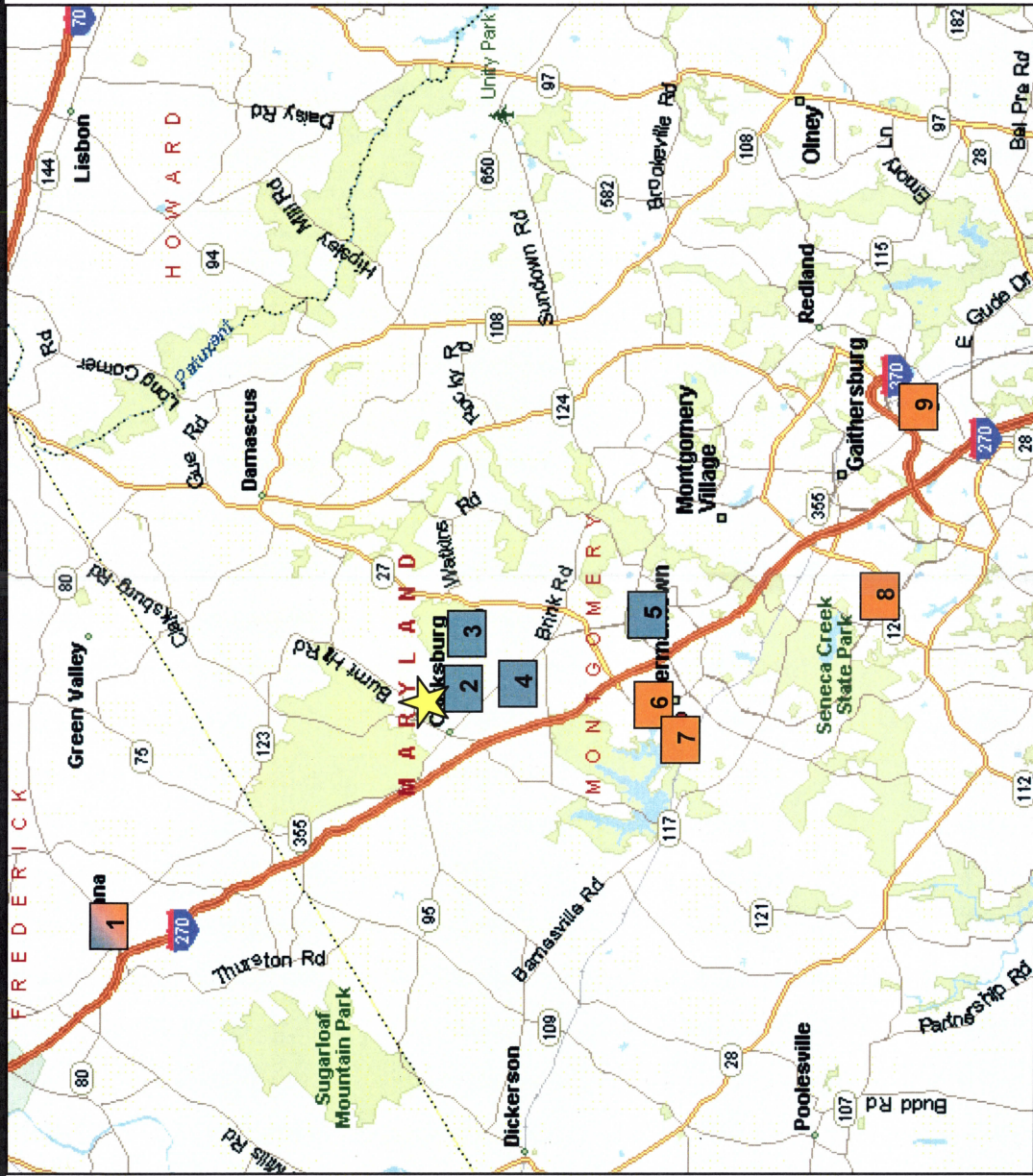
SOURCE: Metropolitan Washington Council of Governments Round 7.0. MWCOG region, which does not include all of the Washington, D.C., MSA as defined by OMB in 2003.

OBJECTIVE: “PACKAGE” AND VALUE TOWN CENTER FOR A SINGLE DEVELOPER RESPONSE

▶ **PRODUCT POSITIONING & ABSORPTION**

- Question 2: What are the appropriate revenue assumptions for the residential uses at the town center?
- Answer: Recommended price positioning of \$235-\$370 per square foot for Blocks 3, 4, and 5 represent a value relative to closer-in established locations and a premium for town center environment.
- Rationale:
 - Recommended prices for condominiums over retail are 13% above the currently selling Bozzuto condominiums due to location within the town center and assigned parking.
 - The condominiums are 25% below the King Farm (Rockville) based on a 31% discount for location offset by a 6.5% premium for having additional parking.
 - Opportunity, albeit less compelling, for apartments over retail of with rents of \$1.50 per square foot.

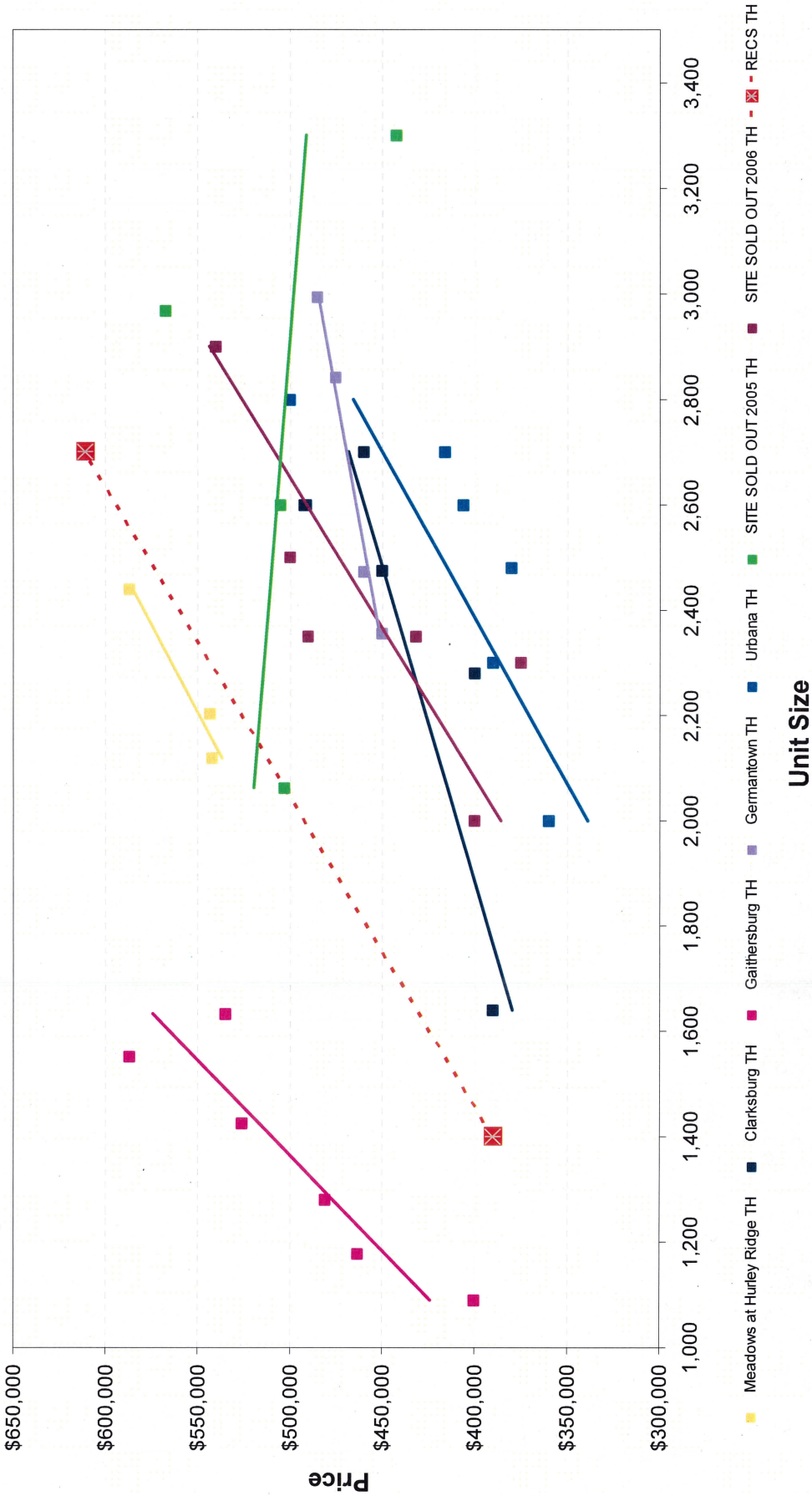
MAJORITY OF HIGHER-DENSITY RESIDENTIAL PRODUCT IS SELLING IN CLOSER-IN LOCATIONS



Key	Community
1	Villages of Urbana
2	Clarksburg Village
3	Arora Hills
4	Meadows at Hurley Ridge
5	Orchard Run
6	Buckingham Station
7	Ashmore at Germantown
8	Colonnade at Kentlands
9	Royalton at King Farm

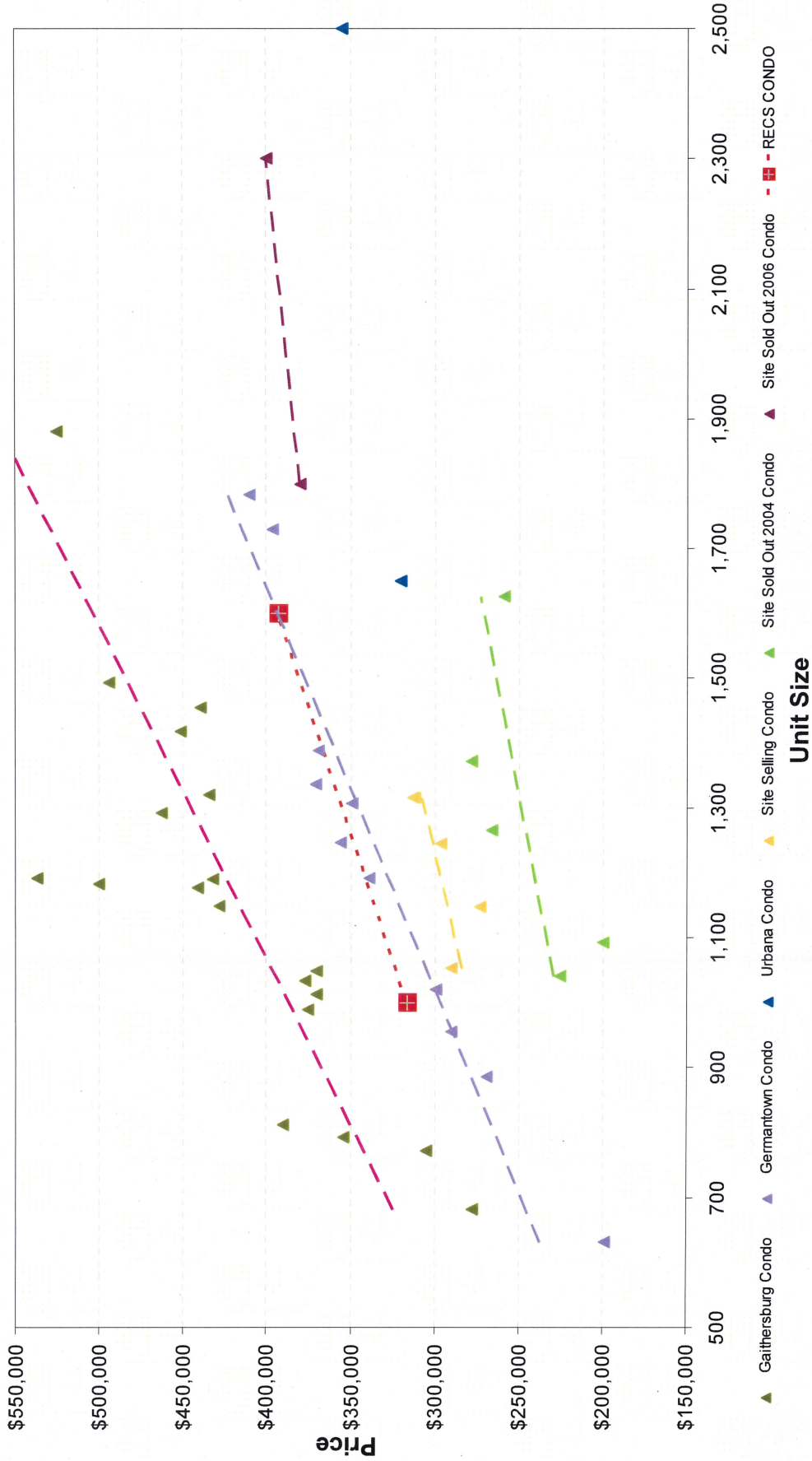
CLEAR PRICE SEGMENTATION IN MARKET: REC'D TOWNHOME PRICES OF \$422K TO \$563K

Relationship of Prices and Sizes of Townhome Communities and RCLCO Recommendations

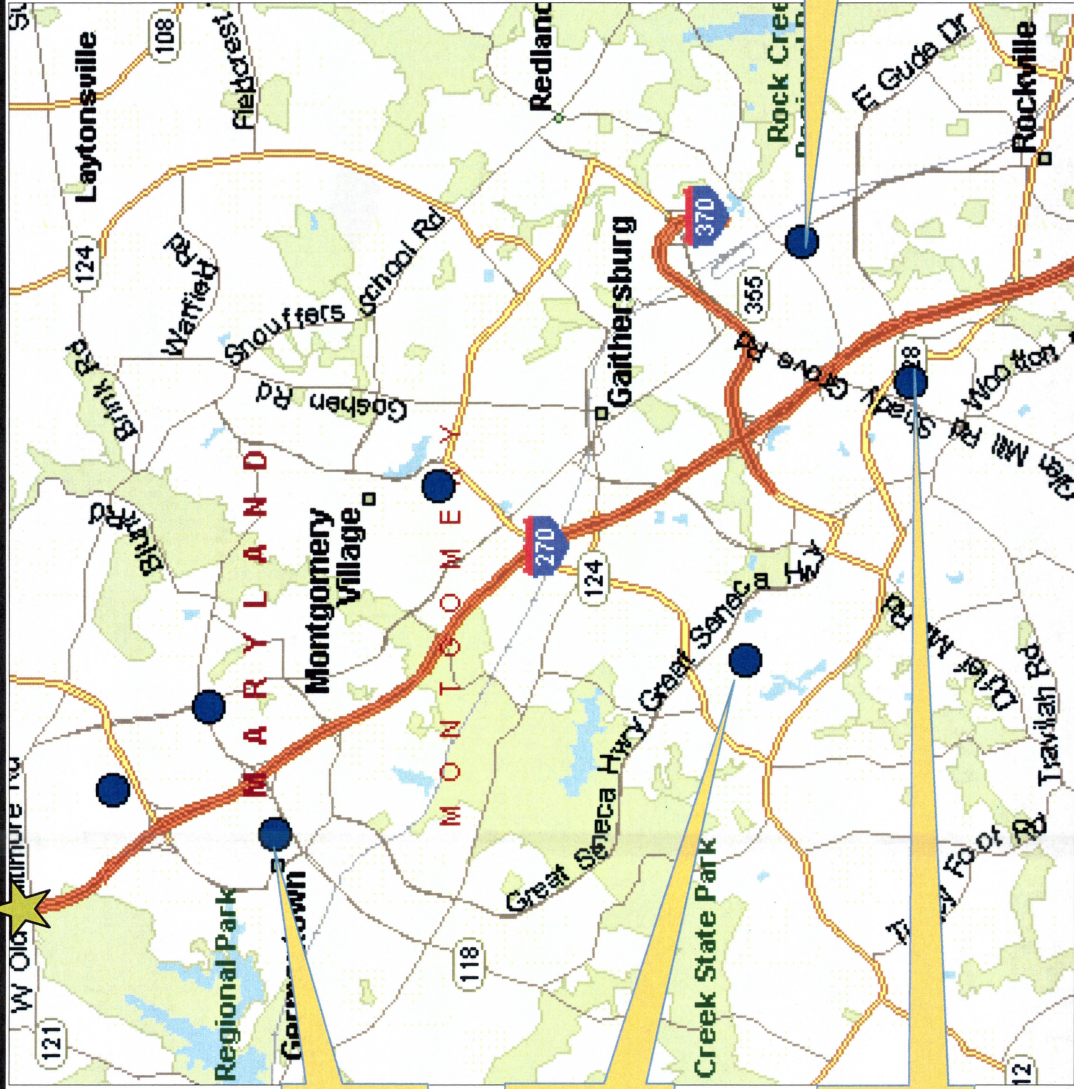


CLEAR PRICE SEGMENTATION IN MARKET: REC'D CONDO PRICES OF \$316K TO \$393K

Relationship of Prices and Sizes of Condominium Communities and RCLCO Recommendations



PUSH RENTS OF \$1.50 PER SQUARE FOOT TO CAPITALIZE ON TOWN CENTER PREMIUM



Pinnacle at Town Center
 Size Range: 700 - 1,355 SF
 \$/SF Range: \$1.28 - \$1.70
 Wt. Avg. Rent/SF: \$1.48

Courts of Devon (Kentlands)
 Size Range: 761 - 1,498 SF
 \$/SF Range: \$1.37 - \$1.79
 Wt. Avg. Rent/SF: \$1.61

Camden Falls Grove
 Size Range: 659 - 1,386 SF
 \$/SF Range: \$1.31 - \$2.39
 Wt. Avg. Rent/SF: \$1.67

Huntington at King Farm II
 Size Range: 792 - 1,633 SF
 \$/SF Range: \$1.39 - \$1.77
 Wt. Avg. Rent/SF: \$1.57

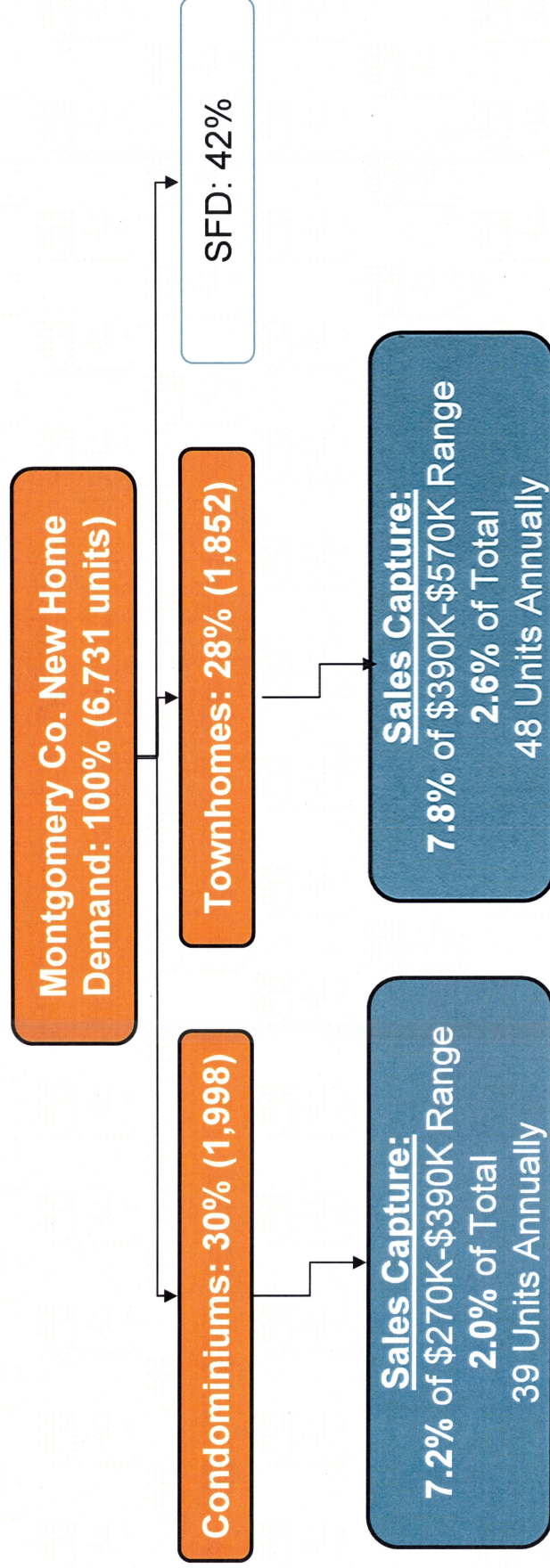
OBJECTIVE: “PACKAGE” AND VALUE TOWN CENTER FOR A SINGLE DEVELOPER RESPONSE

▶ **PRODUCT POSITIONING & ABSORPTION**

- Question 3: What is the likely absorption schedule of the residential units?
- Answer: Two years of sales on the townhomes, live-work, and condominiums over retail
- Rationale:
 - Strong market acceptance of higher-density product types, particularly in town center environments.
 - Unmet demand for new “workforce” housing in Montgomery County due to limited land availability and difficult entitlement process.
 - Limited supply of actively selling townhome and condominium communities throughout the county, particularly in closer-in locations.
 - Rental apartments could likely lease up within a year, but limited number of units are expensive to manage and operate.

ACHIEVE 24-MONTH SELL OUT WITH 2-3% CAPTURE OF DEMAND

Subject Site Capture of Montgomery County Demand, 2006-2011



175 Units Represents 24-Month Sell-Out

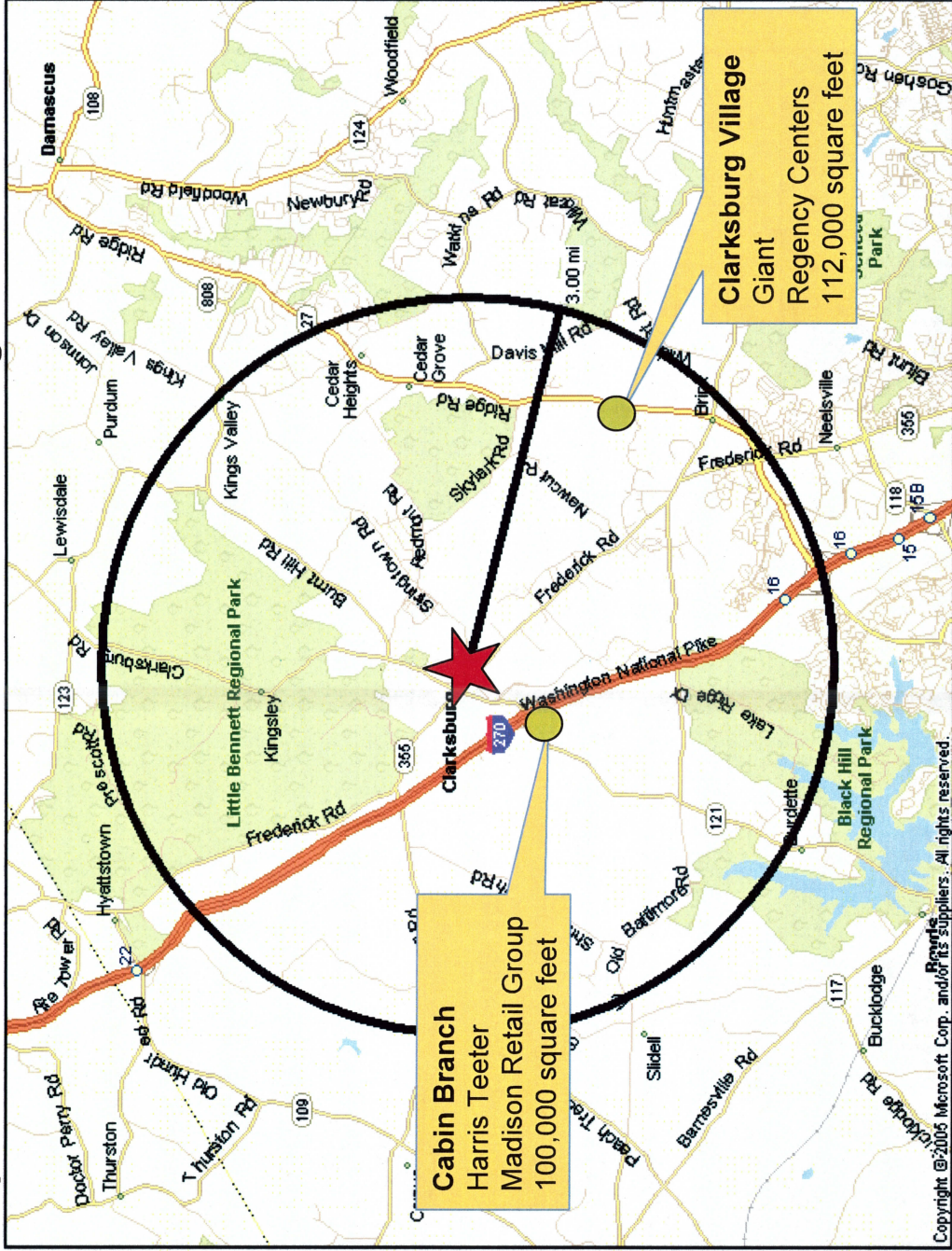
OBJECTIVE: “PACKAGE” AND VALUE TOWN CENTER FOR A SINGLE DEVELOPER RESPONSE

▶ COMMERCIAL OPPORTUNITY

- Question 4: Is the proposed commercial program supportable? What rents are achievable?
- Answer: 133,000 square feet is supportable based on the projected number of households in 2015. First-mover advantage is key. Rents moving up quickly - grocery store: \$25 (NNN); rents for in-line stores: \$35-40 (NNN).
- Rationale:
 - Retail center has critical first to the market leasing opportunity achieved by moving ahead of Cabin Branch and Clarksburg Village.
 - Retailers aggressively seeking northern Montgomery County locations to serve growing HH base.
 - Live/work market in Montgomery County particularly strong
 - Nearby retail centers in Gaithersburg and Germantown have demonstrated higher rents in some instances.

FIRST-MOVER ADVANTAGE IS CRITICAL TO SUCCESS OF RETAIL AT CLARKSBURG T.C.

Map of Planned Retail Centers in/near Clarksburg



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AGGRESSIVELY PURSUE BEST LIFESTYLE TENANTS

Store Type	Recommended Total Space (SF)	Number of Stores
Home Furnishings	2,000	1
Electronics & Appliances	2,000	1
Grocery	56,000	1
Specialty Food	1,200	1
Beer, Wine, & Liquor	3,500	1
Health & Personal Care	28,000	2
Clothing	3,500	1
Jewelry, Luggage, & Leather Goods	1,000	1
Florist	1,400	1
Office Supplies, Stationery, & Gifts	2,000	1
Other Miscellaneous Retail	2,000	1
Full-Service Restaurant	8,000	2
Limited-Service Eating Places	10,000	5
Subtotal	120,600	19
Additional Demand from Services	12,400	4
TOTAL	133,000	23

- ▶ Many retail tenants are eager to serve the Clarksburg marketplace
- ▶ The retail program includes a 56,000 square-foot grocery store and supporting in-line retail

OBJECTIVE: “PACKAGE” AND VALUE TOWN CENTER FOR A SINGLE DEVELOPER RESPONSE

▶ **COMMERCIAL OPPORTUNITY**

- Question 5: What is the best strategy for developing the retail and residential uses and what is the value for the land and development rights to Newland?
- Answer: One developer should develop all three blocks, sell the residential units, and either sell the retail after stabilization (quick-exit purchaser) or operate retail for income production (income-producing purchaser).
- Rationale:
 - Strategy minimizes complexity of transaction.
 - Allows Newland to stop lost revenue streams from idle land and creates a critical mass as soon as possible.
 - Financial analysis suggests positive land value with this concept.
 - Preliminary RCLCO interviews met with very strong developer interest

TWO POTENTIAL PURCHASERS OF TOWN CENTER: QUICK-EXIT AND INCOME-PRODUCING

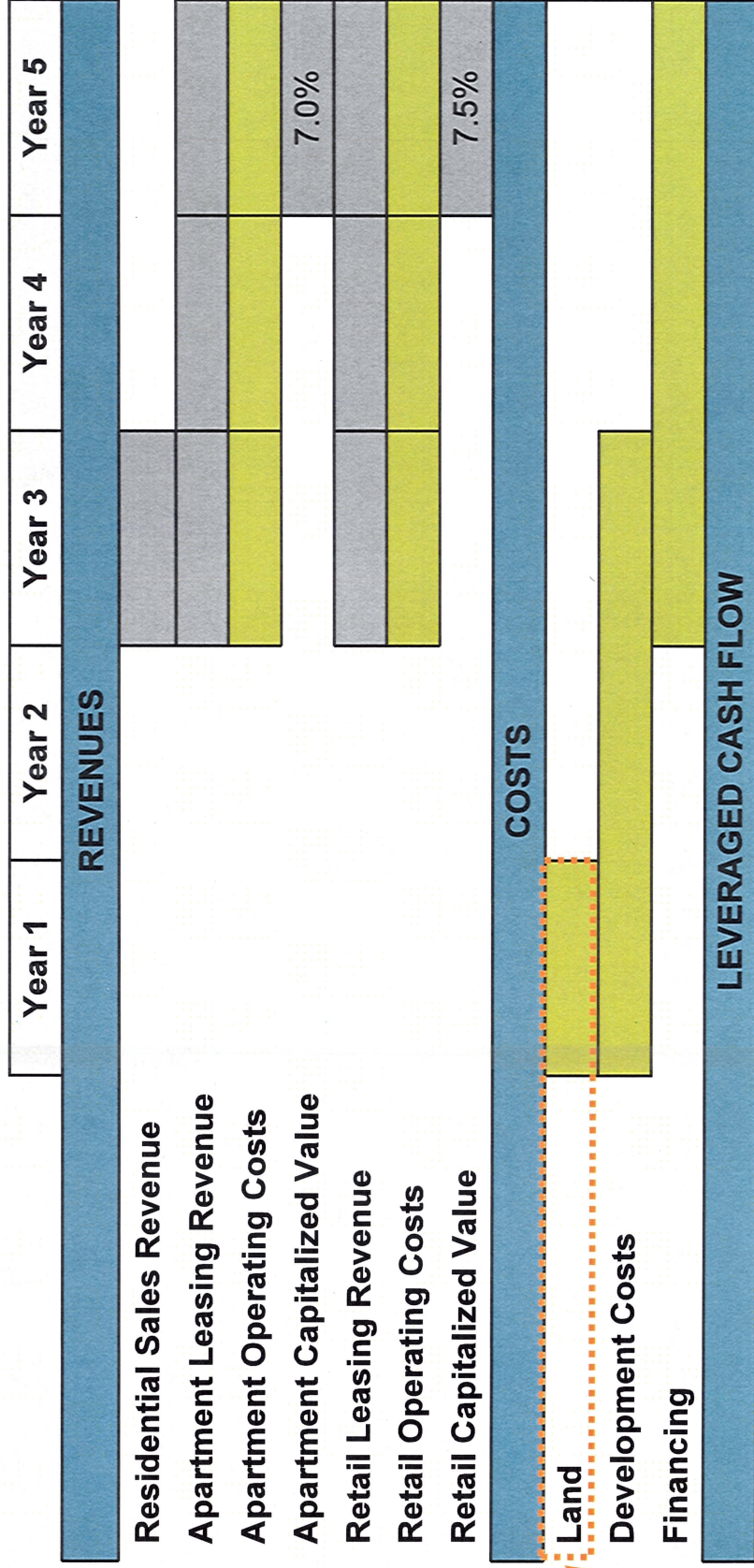
Quick-Exit Purchasers

- ▶ A quick-exit purchaser would develop all three blocks, sell the residential condominium units, and then, after the retail center has stabilized (after year 4 or 5), would sell the retail condominium to a retail operator
- ▶ Potential buyers include:
 - EYA
 - JBG
 - Artery Group
 - Madison Marquette
 - Roadside Development

Income-Producing Purchasers

- ▶ An income-production purchaser would also develop all three blocks and sell the residential units, but hold onto the retail portion as an operator for income production
- ▶ Potential buyers include:
 - BF Saul
 - Lerner
 - JPI
 - Federal Realty

METHODOLOGY OF FINANCIAL ANALYSIS: VALUE OF LAND THAT YIELDS 15% BUILDER PROFIT



Solve for land value that provides 15% builder profit

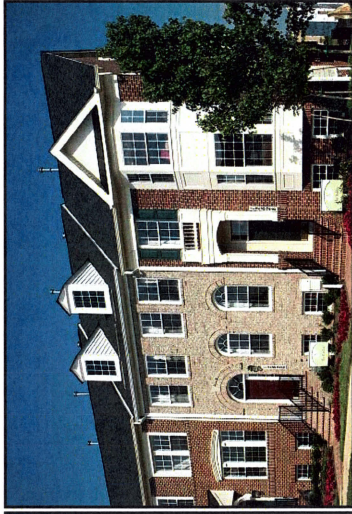
“BASE” SCENARIO HAS A LAND VALUE OF \$16.9M FOR CONDOS OVER RETAIL OR \$10.7M WITH RENTAL APTS.

Scenario	Retail Cap Rate	Rental Cap Rate	Res. Price Premium	Grocery Lease Rates	In-Line Retail Lease Rates	Grocery T.I.	Retail T.I.	In-line T.I.	Land Value (Condo)	Land Value (Rental)
Conservative	7.5%	7.5%	0.0%	\$25	\$35	\$0	\$50	\$50	\$9,245,502	\$1,885,525
Aggressive Cap Rate and Prices	6.5%	6.5%	5.0%	\$30	\$35	\$0	\$35	\$35	\$21,446,199	\$15,184,637
Aggressive Cap Rate	6.5%	6.5%	0.0%	\$30	\$35	\$0	\$35	\$35	\$18,533,470	\$13,483,369
Aggressive Prices	7.5%	7.0%	5.0%	\$30	\$40	\$0	\$35	\$35	\$19,824,146	\$12,383,595
Base	7.5%	7.0%	0.0%	\$30	\$40	\$0	\$35	\$35	\$16,911,417	\$10,693,093

Note: Reflects 15% developer return valuation

NEXT STEPS

- ▶ Play introductory role with potential partners
- ▶ Refine financial analysis based on detailed costing estimates



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RCLECO

