

Fiscal and Economic Impact Analysis of 301 West Broad Street Falls Church, VA

Rushmark Properties | January 9, 2013



301 WEST BROAD STREET

Background and Objectives

Rushmark Properties, LLC (“Developer”) engaged RCLCO, a national real estate advisory firm based in Bethesda, MD, analyze the fiscal and economic impacts of its proposed mixed-use development on the City of Falls Church. The proposed development, to be located at 301 West Broad Street is planned to include 294 luxury apartments, a 60,900 square foot Harris Teeter grocery store, and 4,500 square feet of other retail space (“Project”).

RCLCO’s independent analysis of the project’s direct fiscal impacts largely confirms the conclusions of the City’s own fiscal impact analysis (“City Analysis”). Nonetheless, RCLCO identified one assumption in the City Analysis that may be underestimated. Moreover, this report quantifies the indirect and induced impacts of the project on the City, both fiscal and economic, which are not included in the City Analysis.

BPOL Tax on Lessors

The City Analysis appears to base its estimates of BPOL (Business/Professional/Occupational License) taxes on the gross receipts of the retailers. While this certainly accounts for the majority of the BPOL taxes that the project will generate, BPOL tax is also applied to the gross receipts of the owners of residential and commercial property who lease their property. Based on the projected gross receipts provided by the Developer and the applicable tax rates, RCLCO estimates that this will generate an additional \$35,000 in annual tax revenue.

Spending by Residents

While the City Analysis accounts for additional retail sales tax supported by the planned grocery store, it does not account for retail sales tax and restaurant tax that spending by residents of the project will generate. On the basis of the projected average monthly rent at the Project as provided by the Developer, RCLCO estimated the average household income of its residents to be approximately \$95,000.¹ According to data from the Bureau of Labor Statistics’ Consumer Expenditure Survey, households in this income range spend an average of 19.2% of their income on retail items resulting in annual retail expenditures of \$18,240 per household, or approximately \$5.1 million in total annual retail spending by the project’s residents, assuming a 95% occupancy rate. It is impossible to predict with certainty how much of this retail spending will occur in Falls Church, but for purposes of this analysis, RCLCO has estimated that 20% of the resident’s spending will occur in the City of Falls Church, meaning that resident spending will generate approximately \$10,000 in additional annual tax revenues to the City.

A similar analysis was performed for purposes of calculating restaurant tax generated by the residents. The Consumer Expenditure Survey indicates that households in the likely income range of the project’s residents spend an average of 5.2% of their income at restaurants, or \$4,940 per household per year, resulting in total restaurant expenditures by resident households of \$1.38 million. Again, RCLCO estimated that 20% of those expenditures are likely to occur in Falls Church. The restaurant spending by residents is projected to generate \$11,000 in additional tax revenues to the City each year.

¹ Assuming the average household in the building spends 27.5% of annual income on rent.

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Indirect and Induced Impacts

Indirect and induced effects refer to the purchase of goods and services from other local companies by the construction contractor and its employees, and the grocery store and its employees, and the resultant spending cycle that works its way through the economy until all money leaks from the Falls Church economy. This spending generates additional sales and income taxes for Falls Church. Software developed by IMPLAN, a nationally recognized economic impact analysis firm, was used to estimate indirect and induced impacts on the local economy.

Based on the estimated construction budget provided by the Developer and the IMPLAN software model, RCLCO estimates that the Project's construction will support 358 direct jobs and 185 additional jobs, for a total of 543, through indirect and induced effects. Jobs, in this case, refer to temporary, full-time equivalent employment for a period of one year. Further, the IMPLAN model estimates that the construction will generate \$2.2 million in indirect and induced retail spending and \$427,000 in indirect and induced restaurant spending, resulting in \$39,000 in additional retail and restaurant taxes.

The operation of the grocery store is projected to support approximately 90 full-time equivalent employees on a permanent basis and the apartment building an additional 10. In terms of indirect and induced impacts, spending by the grocery store, the apartment building, and their employees is projected to support an additional 30 jobs. In total, the Project will support 130 permanent jobs. Indirect and induced impacts will generate \$860,000 in annual retail sales, as well as \$204,000 in restaurant sales in Falls Church. The annual retail and restaurant tax revenue resulting from the indirect and induced spending is estimated to total \$17,000.

Potential Impacts of a Grocery Store on Nearby Property Values

A high-quality grocery store within walking distance is a valuable amenity to nearby properties. Johnson Gardner LLC, a real estate consulting firm in Portland, Oregon found in their study of the impacts of various amenities on residential sale prices in Portland, that specialty grocers, defined as grocery stores with a mix of traditional, organic, specialty and deli/prepared food, increased sale prices of residences within a 1.5 block radius by an average of 17.5%.² The study was notable for its statistical rigor and attempt to control for other variables that may influence the home prices. Based on a review of the City's property records, RCLCO estimates that there is \$36,000,000 of assessed residential property value within 1.5 blocks of the proposed development site. If the 17.5% increase holds true in Falls Church, it will result in an additional \$80,000 of property tax revenue for the City each year.

Summary of Impacts and Comparison to Existing Property

The existing property generates \$55,000 per year in property tax. RCLCO does not have data on retail sales at the existing restaurant but for purposes of this analysis, has assumed that it generates restaurant tax revenue of \$40,000 per year for a total net fiscal impact of \$95,000 per year. In comparison, the City Analysis concludes that the Project will generate approximately \$1.39 million in net fiscal impact after

² "An Assessment of the Marginal Impact of Urban Amenities on Residential Pricing." June 2007. http://johnson-gardner.com/files/Urban_Amenities_Final5.pdf

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stabilization. Including the applicable RCLCO adjustments above, the net fiscal impact of the Project could be as high as \$1.54 million per year.

To put these numbers in perspective, the addition of \$1.39 million to the City in net fiscal impact is the equivalent of a \$.0435 change in the real property tax rate. That is to say, after the Project is developed and stabilized, its positive net fiscal impact would theoretically cover a reduction in the City of Falls Church's real property tax rate from \$1.27 per \$100 of assessed value to \$1.23. An annual net fiscal impact of \$1.54 million, which includes RCLCO's adjustments described above, would cover a reduction in the property tax rate of \$.0483 per \$100 of assessed value. (See Exhibit 2 for details)

Assuming a discount rate of 5%, an inflation rate of 3%, and not including the RCLCO adjustments, the net present value of the net fiscal impact of the Project over the next 20 years is \$23.3 million. Including the RCLCO adjustments, the net present value rises to \$25.9 million. In comparison, the net present value of the fiscal impact from the existing property is only \$1.6 million. The table below summarizes the results. (See Exhibit 3 for details)

Item	Annual Net Fiscal Impact ¹	20-Year Total Net Fiscal Impact ²	Net Present Value ³
City Analysis of 301 W. Broad St. Project	\$1,392,000	\$37,404,000	\$23,334,000
RCLCO Adjustments to City Analysis			
BPOL Tax (Tax on owners of rental property)	\$35,000	\$940,000	\$587,000
Retail Tax on Spending by Residents	\$10,000	\$269,000	\$168,000
Restaurant Tax on Spending by Residents	\$11,000	\$296,000	\$184,000
Indirect and Induced Retail Spending per IMPLAN (due to Grocery Store/Apt. Operation)	\$9,000	\$242,000	\$151,000
Indirect and Induced Restaurant Spending (due to Grocery Store/Apt. Operation)	\$8,000	\$215,000	\$134,000
Impact of Grocery on Nearby Property Values	\$80,000	\$2,150,000	\$1,341,000
Total Including RCLCO Adjustments	\$1,545,000	\$41,516,000	\$25,899,000
Estimated Net Fiscal Impact of Existing Property	\$95,000	\$2,553,000	\$1,592,000
Difference between Existing Property and Proposed Project (City Analysis)	\$1,297,000	\$34,851,000	\$21,742,000
Difference Including RCLCO Adjustments	\$1,450,000	\$38,963,000	\$24,307,000

1/Refers to the annual net fiscal impact after stabilization in \$2012 and does not include temporary impacts from construction

2/Assumes a 3% annual inflation rate

3/Assumes a 5% discount rate

Finally, as discussed above, the project is projected to temporarily add 543 jobs to Falls Church during the construction phase and support 130 permanent, full-time equivalent jobs once complete.

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CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they stand the test of time.

We assume that the economy and real estate markets are close to bottoming out for the current cycle, and that they will grow at a stable and moderate rate starting in 2010, more or less in a straight line on average for the duration of the analysis period (to 2020 and beyond). However, history tells us that stable and moderate growth patterns are not sustainable over extended periods of time, and that the economy is cyclical and that the real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when the current economic and real estate downturns will end, and what will be the shape and pace of growth once they are recovered.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not take into account the potential impact of future economic shocks on the national and/or local economy, and does not necessarily account for the potential benefits from major "booms," if and when they occur. Similarly, the analysis does not necessarily reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

For all the reasons outlined, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that once the current cycle is over, the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- The availability and cost of capital and mortgage financing for real estate developers, owners and buyers, at levels present in the market before the most recent run up (i.e., early 2000s levels).
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should probably be updated, with the conclusions reviewed accordingly (and possibly revised).

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GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

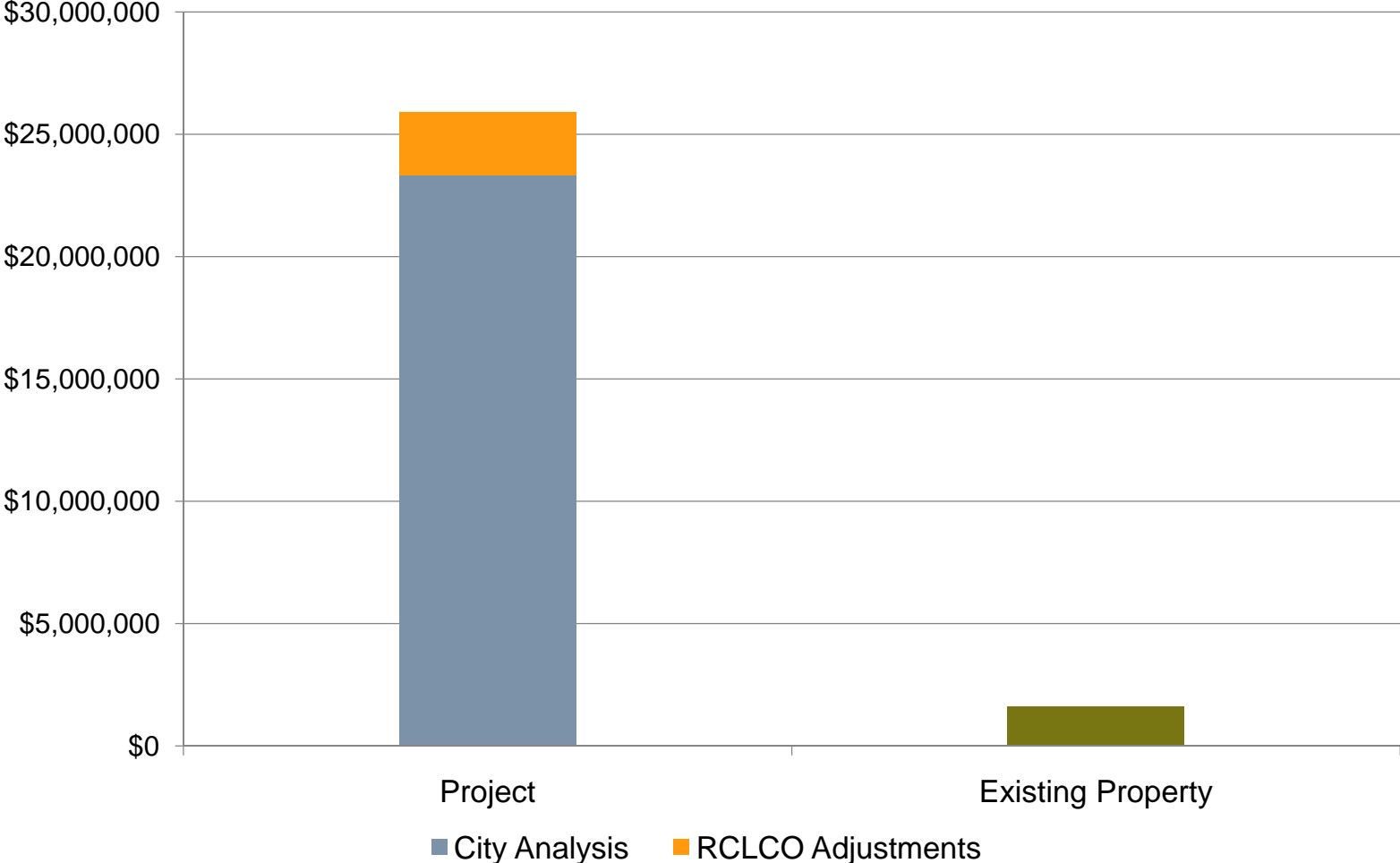
Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co., LLC" or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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Exhibit 1

NET PRESENT VALUE OF THE NET FISCAL IMPACT ON FALLS CHURCH OVER 20 YEARS
PROPOSED PROJECT VS. EXISTING PROPERTY



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Exhibit 2

CALCULATION OF POTENTIAL ADJUSTMENT OF THE CITY PROPERTY TAX RATE 301 WEST BROAD STREET, FALLS CHURCH 2012

Total Taxable Assessed Value in City of Falls Church ¹	\$3,200,000,000
Current Property Tax Rate	\$1.270 per \$100 Assessed Value
Estimated Current Total Annual Property Tax in City of Falls Church	\$40,640,000
301 W. Broad St. Annual Net Fiscal Impact / Potential Reduction in Need for Property Tax (City Assumptions)	\$1,392,000
Needed Property Tax to Maintain Current Revenues after Project Stabilization	\$39,248,000
Effective Property Tax Rate	\$1.227 per \$100 Assessed Value
Difference from Current Rate	\$0.0435 per \$100 Assessed Value
301 W. Broad St. Annual Net Fiscal Impact / Potential Reduction in Need for Property Tax (RCLCO Assumptions)	\$1,545,000
Needed Property Tax to Maintain Current Revenues after Project Stabilization	\$39,095,000
Effective Property Tax Rate	\$1.222 per \$100 Assessed Value
Difference from Current Rate	\$0.0483 per \$100 Assessed Value

¹/As of January 1, 2012. <http://www.fallschurchva.gov/content/government/departments/finance/realestateassess/default.aspx>

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Exhibit 3

NET PRESENT VALUE CALCULATIONS 301 W. BROAD ST. 2013 - 2032

Year	Existing Property ²	RCLCO Adjustments							
		City Annual Net Fiscal Impact ¹	BPOL Tax on Rental Revenue ²	Retail Tax on Resident Spending ²	Restaurant Tax on Resident Spending ²	Indirect and Induced Retail Tax ²	Indirect and Induced Restaurant Tax ²	Grocery Impact ²	Total
1	\$95,000	\$1,392,000	\$35,000	\$10,000	\$11,000	\$9,000	\$8,000	\$80,000	\$1,545,000
2	\$97,850	\$1,433,760	\$36,050	\$10,300	\$11,330	\$9,270	\$8,240	\$82,400	\$1,591,350
3	\$100,786	\$1,476,773	\$37,132	\$10,609	\$11,670	\$9,548	\$8,487	\$84,872	\$1,639,091
4	\$103,809	\$1,521,076	\$38,245	\$10,927	\$12,020	\$9,835	\$8,742	\$87,418	\$1,688,263
5	\$106,923	\$1,566,708	\$39,393	\$11,255	\$12,381	\$10,130	\$9,004	\$90,041	\$1,738,911
6	\$110,131	\$1,613,710	\$40,575	\$11,593	\$12,752	\$10,433	\$9,274	\$92,742	\$1,791,078
7	\$113,435	\$1,662,121	\$41,792	\$11,941	\$13,135	\$10,746	\$9,552	\$95,524	\$1,844,811
8	\$116,838	\$1,711,984	\$43,046	\$12,299	\$13,529	\$11,069	\$9,839	\$98,390	\$1,900,155
9	\$120,343	\$1,763,344	\$44,337	\$12,668	\$13,934	\$11,401	\$10,134	\$101,342	\$1,957,160
10	\$123,953	\$1,816,244	\$45,667	\$13,048	\$14,353	\$11,743	\$10,438	\$104,382	\$2,015,875
11	\$127,672	\$1,870,732	\$47,037	\$13,439	\$14,783	\$12,095	\$10,751	\$107,513	\$2,076,351
12	\$131,502	\$1,926,854	\$48,448	\$13,842	\$15,227	\$12,458	\$11,074	\$110,739	\$2,138,641
13	\$135,447	\$1,984,659	\$49,902	\$14,258	\$15,683	\$12,832	\$11,406	\$114,061	\$2,202,801
14	\$139,511	\$2,044,199	\$51,399	\$14,685	\$16,154	\$13,217	\$11,748	\$117,483	\$2,268,885
15	\$143,696	\$2,105,525	\$52,941	\$15,126	\$16,638	\$13,613	\$12,101	\$121,007	\$2,336,951
16	\$148,007	\$2,168,691	\$54,529	\$15,580	\$17,138	\$14,022	\$12,464	\$124,637	\$2,407,060
17	\$152,447	\$2,233,751	\$56,165	\$16,047	\$17,652	\$14,442	\$12,838	\$128,377	\$2,479,271
18	\$157,021	\$2,300,764	\$57,850	\$16,528	\$18,181	\$14,876	\$13,223	\$132,228	\$2,553,650
19	\$161,731	\$2,369,787	\$59,585	\$17,024	\$18,727	\$15,322	\$13,619	\$136,195	\$2,630,259
20	\$166,583	\$2,440,880	\$61,373	\$17,535	\$19,289	\$15,782	\$14,028	\$140,280	\$2,709,167
Total	\$2,553,000	\$37,404,000	\$940,000	\$269,000	\$296,000	\$242,000	\$215,000	\$2,150,000	\$41,516,000
NPV (5%)	\$1,592,000	\$23,334,000	\$587,000	\$168,000	\$184,000	\$151,000	\$134,000	\$1,341,000	\$25,899,000

1/ Year 1 refers to the annual net fiscal impact after stabilization in \$2012 and does not include temporary impacts from construction

2/ Please refer to the text of the report for explanation of these additions

NOTE: Above analysis assumes a 3% annual inflation rate.

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Exhibit 4

SUMMARY OF FINDINGS EXISTING AND PROPOSED DEVELOPMENT 2012

Item	Annual Net Fiscal Impact ¹	20-Year Total Net Fiscal Impact ²	Net Present Value ³
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3/Assumes a 5% discount rate