High Yield Investments

UNC Real Estate Challenge
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IV. Financial Highlights
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Recommendations

Redevelop the Upper Hill as a mixed-use project featuring 1,870 residential apartments, 810,000 square feet of office and 463,320 square feet of retail space.
**Recommendations**

Targeting a 2.50 FAR puts too much supply on the market in too short a time.

Adding 2.6M SF produces a superior IRR (17.33%) with a significantly lower downside.

![Projected IRRs](chart.png)
Recommendations

- Capitalize on increased demand resulting from the BRAC (Base Realignment and Closure) relocation while minimizing risk exposure.

- Provide new housing, retail and office opportunities to existing players:
  - Northern Virginia Community College
  - Inova Hospital
  - Neighboring hotels
  - Local corporate facilities
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**Project Overview**

- **Residential**
  - 1,637 new units
  - 233 existing units

- **Office**
  - 810,000 SF of new office space

- **Retail**
  - 400,000 SF of new retail space
  - 63,320 SF already existing

- **Infrastructure**
  - New highway entry/exit ramp for I-395
RESIDENTIAL

• Increasing stock of residential units from 1,072 to 1,870 in eleven buildings
  – Nine 5-story buildings
  – One 6-story building
  – One 10-story building
  – Existing buildings in Town Square provide good value
Project Demand Drivers

- Significant pools of potential tenants located in proximity to Upper Hill:
  - Alexandria Campus of Northern Virginia Community College – 51 acre campus with more than 17,000 students
  - Inova Alexandria Hospital
  - Seven schools located within three mile radius
  - Various government agencies (DoD, Institute for Defense Analyses, Center for Naval Analyses) and contractors
**Project Demand Drivers**

- Upper Hill redevelopment provides desired new rental housing stock
  - *Currently less than 20% of rental units in Alexandria were built after 1990!*
- Easy access to I-395 and the Beltway
- Upper Hill development provides numerous amenities in walking distance of home

**Age of Alexandria's Housing Stock**

- Built 2000 or later
- Built 1990 to 1999
- Built 1980 to 1989
- Built 1970 to 1979
- Built 1960 to 1969
- Built 1950 or earlier
Strong local economy is drawing in additional corporate headquarters:

- Recently announced relocations of corporate headquarters:
  - Volkswagen Group of America (Auburn Hills, MI to Herndon, VA)
  - Hilton Hotels Corp. (Beverly Hills, CA to Tysons Corner, VA)
  - Northrop Grumman (Los Angeles, CA to D.C. area)
Office Overview & Demand

- Contractor tail: 1 to 1 ratio
- Office space is located in six, 6-story buildings
  - Begin construction when pre-leases exceed 60%
- Two of the towers will be constructed initially with the following prospective tenants:
Retail Overview & Demand

- Retail space is a destination for DoD employees/families and Mark Center residents
- New retail space is located adjacent to existing Mark Center retail
- Potential tenants include:
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Idiosyncratic Risks

• **BRAC-133:** Is the relocation all it’s cracked up to be?
  – Unpredictable contractor tail affects office demand
  – Lack of employee relocation affects residential demand
  – Redirection of traffic affects retail demand

• **Project Approval:** What is our plan for dealing with irritated constituencies in the aftermath of BRAC?
  – The City did not get its “pound of flesh” during BRAC approval
  – Neighborhood organizations are dissatisfied with BRAC outcome

• **Competition:** Will the Landmark redevelopment overwhelm our project?
Contractor Tail: ratio of private companies that co-relocate
  - Tail size determined by type of employees being relocated and distance of relocation
  - Smaller contractor tail reduces office demand
    - Office of the Secretary of Defense
    - Pentagon Force Protection Agency
    - Defense Technology Security
    - DoD Inspector General
    - DoD Education Activity
    - Washington Headquarters Service
  - Mitigation: conservatively expect 1-to-1 contractor tail
BRAC Risk – Employee Relocation

- Government Employee Relocation
  - Lower relocation rate reduces residential demand
  - Approximately 90% of the relocated workers live within 30 miles of Mark Center

- Mitigation
  - Limited supply of new residential units
BRAC Risk - Traffic

• Redirection of Traffic
  – Large projected influx of traffic near our project

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<th></th>
<th>PM Peak Hour</th>
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  – New “slip road” connecting south side of DoD parking structure I-395 will redirect traffic which could reduce demand for retail

• Mitigation
  – Redirection will not occur in the near future and is contested
  – Slip road limits direct access from I-395 to one parking garage
  – Slip Road only connects to the southbound lanes.
Risk - Project Approval

• City and Neighborhood Dissatisfaction
  – Lost tax revenue for the City of Alexandria
  – Potential damage to the Winkler Preserve
  – Problems with Traffic and Transportation

• Mitigating Factors
  – Redevelopment creates higher real property tax basis
  – Align with Neighborhood Organizations to address Winkler Preserve concerns and Traffic and Transportation issues
RISK – PROJECT APPROVAL

• Mitigating Factors (cont.)
  – Participation in BRAC Group Advisory Board
  – Participation in Small Area Study Commission

Neighborhood Organizations:
• John Komoroske, Planning Commission
• Jayme Blakesley, Alexandria Transportation Commission
• Geoffrey Goodale – Vice Chair, Brookville-Seminary Valley
• Julie Edelson, Lincolnia Hills/Heywood Glen
• Mark Benedict, Parkside of Alexandria
• Dick Somers, Seminary Park Community Association
• Dave Dexter - Chair, Seminary West
• Nancy Jennings, Seminary Hill
• Ronald Sturman, Seminary Heights

City Staff:
• Faroll Hamer, Director of Planning and Zoning
• Mark Jinks, Deputy City Manager
• Jeff Farner, Deputy of Urban Design
• Tom Canfield, City Architect
• Ravi Raut, Department of Transportation and Environmental Services
• Kathleen Beeton, Department of Planning and Zoning
• Pat Escher, Department of Planning and Zoning

VDOT:
• Tom Fahrney, P.E., BRAC Coordinator
• Ronaldo T. “Nic” Nicholson, VDOT Regional Transportation Director for the Northern
• Virginia Megaprojects
• Emmett Heltzel, P.E., VDOT - Assistant State Location and Design Engineer, Central
• Office Location and Design Division

Get to know these players!
Risk – Project Approval

- Anticipating City and Neighborhood concerns:
  - Traffic and Transportation
Mitigating Factor:

Build a highway on/off ramp for I-395 to ease traffic problems, gain support from the municipality and attract tenants.
RISK – PROJECT APPROVAL

• Protecting Nature
  – Redevelopment provides improvements to:
    • Winkler Botanical Preserve
    • Dora Kelly Nature Park

• Affordable Housing
  – 250 affordable units for moderate income families
  – 9% Low-Income Housing Tax Credits
    • Credits generate $10,200,000 in equity
  – FHA-Insured multi-family loan
    • 95% LTC at 4.85% interest
RISK - COMPETITION

- Competition: The Landmark Lifestyle Center
  - Listed as top priority in City of Alexandria strategic plan
  - Uncertainty due to GGP bankruptcy
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Financial Highlights

- Base case IRR of 17.33%
- Stabilized NOI of $84 million
- Total Costs of $932 million
- Senior Debt of $604 million (65% LTC)
- Equity Capital of $266 million
FINANCIAL HIGHLIGHTS

Annual NOI

% of NOI by Product Type

- Office
- Apartment
- Retail
### Sources & Uses

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#### Uses

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Aggregate Equity Schedule

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HIGH YIELD INVESTMENTS
Vacancy Sensitivity

18.34% IRR
- Residential – 3%
- Retail – 3.5%
- Office – 5%

17.33% IRR
- Residential – 5%
- Retail – 7%
- Office – 10.7%

15.20% IRR
- Residential – 10%
- Retail – 15%
- Office – 17.5%

Upside Case
Base Case
Downside Case
Rent PSF Sensitivity

- **Upside Case**: 19.47% IRR
  - Residential: $2.65
  - Retail: $40
  - Office: $40

- **Base Case**: 17.33% IRR
  - Residential: $2.50
  - Retail: $40
  - Office: $35

- **Downside Case**: 13.41% IRR
  - Residential: $2.35
  - Retail: $35
  - Office: $30
Absorption Sensitivity

- **Upside Case**: 17.57% IRR (Three Month Lease-up)
- **Base Case**: 17.33% IRR (Six Month Lease-Up)
- **Downside Case**: 16.84% IRR (Twelve Month Lease-Up)

High Yield Investments
**Cap Rate Sensitivity**

- **Upside Case**:
  - Acquisition Cap Rate: 9%
  - Terminal Cap Rate: 6%
  - IRR: 22.68%

- **Base Case**:
  - Acquisition Cap Rate: 8%
  - Terminal Cap Rate: 7%
  - IRR: 17.33%

- **Downside Case**:
  - Acquisition Cap Rate: 7%
  - Terminal Cap Rate: 8%
  - IRR: 12.86%
Aggregate Sensitivities

- **24.88% IRR**
  - Full market penetration
- **17.33% IRR**
  - Anticipated case
- **5.15% IRR**
  - If risks aren’t fully mitigated

Upside Case | Base Case | Downside Case
MEZZANINE DEBT

- Should the capital structure include mezzanine debt?
  - Enhances return to JPG
  - Increases return variance

We recommend no mezzanine debt
  - Marginal effect on return
  - Drastic increase to variance of return
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Construction Schedule

- Town Square
- Stoneridge
- Hillwood - West
- Hillwood - East
- Infrastructure

High Yield Investments
Town Square

- New Residential: 291 units
- Existing Residential: 233 units
STONE RIDGE

New Office
• 810,000 SF

Parking Garage
• 1,650 spaces
**STONE RIDGE – YEAR 1**

- **New Office**: 810,000 SF
- **Parking Garage**: 1,650 spaces
STONE RIDGE – YEAR 2

New Office
- 810,000 SF

Parking Garage
- 1,650 spaces
STONE RIDGE – YEAR 3

New Office
• 810,000 SF

Parking Garage
• 1,650 spaces
**West Hillwood**

- **New Residential**
  - 1,346 units

- **Parking Garage**
  - 1,683 spaces
West Hillwood – Year 1

- New Residential: 1,346 units
- Parking Garage: 1,683 spaces
WEST HILLWOOD – YEAR 2

New Residential
- 1,346 units

Parking Garage
- 1,683 spaces
West Hillwood – Year 3

New Residential
- 1,346 units

Parking Garage
- 1,683 spaces
EAST HILLWOOD

New Retail
• 400,000 SF

Parking Garage
• 740 spaces

Surface Lot
• 493 spaces
The development plan for the rest of Mark Center will depend on how the market reacts to Upper Hill and other macroeconomic factors.

For Phase II, our current plan includes:

- **Brookdale**
  - Expand office space with connections to Upper Hill offices
  - Build a school facility under a long-term lease w/ William Ramsey Elementary

- **Lynbrook**
  - Add a branded hotel to take advantage of new demand
  - Building a “big-box” type mall that takes advantage of the newly constructed highway ramp
Mark Center Phase II & III

- Phase III
  - Meadow Creek
    - Expand the retail space adjacent to Phase II Lynbrook developments
  - Willow Run
    - Rehab existing residential units
High Yield Investments

Questions?
Appendix – Market Overview

- Macro Economic Overview
- Virginia & Washington D.C. Metro Analysis
- Alexandria, VA Statistics and Local Issues
Although economic outlook throughout United States remains unclear and significant doubts exist concerning timing of recovery, Washington D.C. metro area has significantly outperformed other large metropolitan areas due to relative strength in employment.
Recently voted “America’s Top State for Business” by CNBC and “Best State for Business” by Forbes.com

Unemployment rate of 6.9% vs. national average of 10% (December 2009)

Right-to-work state with highly skilled and educated workforce

“At 5%, Virginia has the second lowest unionization rate in the country and one of the lowest unionization rates in the private sector at 2.50%”

— VA Econ. Development Authority
ALEXANDRIA, VA DEMOGRAPHICS

- Estimated population in 2010 of 143,900 – a 12.17% increase from 2000
• High incomes bode well for redevelopment plan and support growth of Upper Hill site....to an extent
• 42% of households earning over $100,000/yr, 30% earning between $50,000-$100,000/yr
• Mean household income of $115,010 and median household income of $85,135
Alexandria, VA Demographics

- Approximately 50/50 split between owner occupied and renter occupied residences in Alexandria – this represents a significantly higher rental ratio than national average of 33%

**Monthly rent**

- $1,500 or more: 9,963 units
- $1,000 to $1,499: 14,391 units
- $750 to $999: 4,197 units
- $750 or less: 2,025 units

*Source: U.S. Census Bureau, 2009-2013 5 year estimate*
**Alexandria Housing Stock**

**Age of Alexandria’s Housing Stock**

<table>
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<tr>
<th>Year Structure Built</th>
<th>Total Housing Units</th>
<th>% by year built</th>
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<td>6,255</td>
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<td>Built 1990 to 1999</td>
<td>7,419</td>
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<td>Built 1980 to 1989</td>
<td>6,198</td>
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<td>Built 1970 to 1979</td>
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<td>Built 1960 to 1969</td>
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<td>Built 1950 or earlier</td>
<td>25,557</td>
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<td><strong>Total</strong></td>
<td>70,058</td>
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Source: U.S. Census Bureau, 2006-2008 3 year estimate
## Current Supply In Alexandria

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<th></th>
<th>Multi-Residential</th>
<th>Office</th>
<th>Retail</th>
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<td>7,013,000 SF</td>
<td>1,416,000 SF</td>
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<td>YTD Completions</td>
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<tr>
<td>YTD Net Absorption</td>
<td>433</td>
<td>(137,000) SF</td>
<td>(19,000) SF</td>
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<td>Vacancy Rate</td>
<td>5.0%</td>
<td>6.2%</td>
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<td>Data as of:</td>
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Source: CBRE Econometric Advisors
# Appendix - Financials

## Property Cash Flow Analysis

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**IRR**: 17.3%
## Appendix - Financials

### Investor Yield Analysis

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<th>Year</th>
<th>Project Equity</th>
<th>JBG Management Fee</th>
<th>Total Equity Contributed</th>
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Sale of Asset at Year 10  
Return of Equity  $(214,861,524)  
Preferred Return  $(104,891,394)  
Residual Proceeds  $360,286,153  

80% to Equity Investor  $288,228,922  
Investor's Yield  15.9%  

JBG management fees  $5,415,565  
JBG Share of Residual Proceeds  $72,057,231  
Total Proceeds to JBG  $77,472,795