

# Charles County Department of Economic Development

**Indian Head Science & Technology Park  
Market Analysis and Due Diligence Services**

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**Prepared by:**



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## Executive Summary

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### Background

Jones Lang LaSalle Americas, Inc. is pleased to provide this analysis for the Indian Head Science and Technology Park (the Park), a 260-acre site located in Charles County, Maryland, which was acquired by the County in August 2014. The purpose of this study is to inventory local and regional demographic, real estate and economic dynamics in and around Charles County and to present the County with marketable land use product mix and disposition scenarios for the Project Site. The study will assist the County in making an informed decision on the strategy for the Project moving forward.

In order to mitigate fiscal impacts of the acquisition, and to further the County's economic development goals, JLL has undertaken a Market Analysis of the Park to better understand current market conditions, local trends and dynamics, and regional and national market factors. The Market Analysis also projects the property value of the Park using pro forma analyses of the property under various land uses and disposition scenarios.

#### Indian Head Science and Technology Park

The Indian Head Science and Technology Park in Charles County, Maryland is approximately 25 miles south of Washington, DC. The Site is generally bounded by Indian Head Highway (MD-210), Livingston Road (MD-227), and Bumpy Oak Road (MD-224) and is adjacent to Maryland Airport (2W5).

While the Project was initially envisioned by the private developer to support the military operations of Naval Support Facility Indian Head (NSF IH) by providing office and flex space for base-related industries, demand has not materialized, leading to the dissolution of a 2008 public-private partnership between the County and a private developer joint-venture.

The Site has been rezoned to a planned employment and industrial park designation and has received approval for up to 1.1 million square feet of office space, approximately 380,000 square feet of industrial space and 21,000 square feet of retail space.

Currently the Site sits undeveloped as the County continues to market the property and determine the best course of action.

## Findings

### Local and Regional Economic Trends

Our analysis focused on an immediate 350 square mile area comprised of a set of communities located within a 15-mile driving distance from the Site (“Market Area”), which includes Charles County and portions of southern Prince George’s County. The Market Area’s key population and commercial clusters are concentrated almost exclusively in and around the towns of Waldorf, St. Charles and La Plata while there is limited activity in western portions of Charles County. These businesses focus primarily on professional services, retail trade, and government services, with a growing density of tech-related employers in recent years.

The Market Area has low unemployment which is bolstered by a highly educated population of 178,000 residents. These individuals have median household incomes that exceed that of the larger Washington MSA, and benefit from one of the lowest costs of living in the region.

### Real Estate Market Dynamics

While the larger MSA is significantly impacted by federal spending decisions, the Market Area has been buffered due to the limited presence of Federal Government tenants in Charles County. However, perhaps partially because of the limited presence, the Market Area has historically had very low levels of office inventory and only limited transaction activity.

The Market Area’s commercial office market is comprised of a small inventory of assets of generally lower-quality product compared to other inventories in the MSA, particularly in the western portion of the County. While space will continue to be absorbed in the Market Area, historic limited transaction volume indicates that demand is relatively limited and that nearby submarkets offer more attractive options.

The industrial market within the Market Area and nearby is similarly comprised of a limited inventory of lower-quality assets, which are not competitive with surrounding submarkets. There is no history of industrial product near the Site; however recent growth in the technology sector has spurred some demand for industrial-flex space within the larger region, which is expected to continue in the near-term.

The Market Area contains large (200,000+ square feet) retail developments, which are located in population centers east of the Site in St. Charles and Waldorf and are integrated into desirable mixed-use, walkable environments. While there is no demand for space of this size in Indian Head and Bryans Road, smaller locally-serving retail opportunities may exist.

Although residential development was not originally envisioned in plans for the Project, the Market Area is home to a growing residential population and a number of residential developments either recently competed or under development. There is potential demand for additional residential options in and around Indian Head, west of the concentration of residential development in Waldorf and La

Plata. This residential demand also has the potential to create future commercial demand once the development matures.

### **Base-Related Demand Conclusions**

Federal defense contracting is a major source of employment and revenue in the Washington MSA. However, with shrinking procurement spending available to contractors, there will continue to be lingering uncertainty through 2015 and beyond.

The Naval Support Facility Indian Head focuses on energetics research and development and has consistently been one of the top two largest employers in Charles County with 3,032 individuals working on base, including 1,988 civil servants, 469 federal contractors and 575 active duty military members. However, only approximately half of these contractors are professional services providers and are spread over a diverse group of more than 35 contracting firms.

JLL and the County toured NSF IH and held conversations with key stakeholders (Base Leadership, the Office of Military Affairs in the Maryland Department of Business and Economic Development, the Energetics Technology Center). JLL also conducted due diligence and lease analysis of the major federal contractors who do business with the Base. Based on anecdotal evidence and quantitative analysis, there is a low likelihood that a large federal contractor would choose to anchor the Site due to the Site's location. In addition, there is uncertainty as to the future of Indian Head concerning future rounds of BRAC, which also limits contractors' interest in the Site.

### **Innovative Users Demand Conclusions**

Due to the size, location and public ownership of the Site, there have been multiple informal proposals to attract an "innovative" or unique user to the Site. Such a user would not be a conventional real estate developer or corporate client, but would instead be an institution, not-for-profit or other non-traditional entity that could anchor a new use not originally envisioned in the Project plans. Specifically, there have been five contemplated innovative user types for the Site: demand tied to National Harbor, a new eco-tourism project, uses related to the Maryland Airport, university and hospital users, and green residential development.

Demand for any one of these uses is uncertain. Moreover, while the uses outlined above may meet County economic development and aesthetic goals, they are not the highest and best uses for the Site on a financial basis. Therefore, the County would have to be willing to subsidize or discount the land substantially below market value in order to attract these innovative users, particularly eco-tourism, universities and hospitals and green residential developers.

### **Market Demand Conclusions**

Based upon JLL's analysis of the local real estate market, the following conclusions can be made:

- JLL does not see enough demand in the market to justify construction of new speculative office buildings on the Site.

- The Market Area does not appear to support substantial speculative industrial or flex development.
- The Site could support limited local retailing that could service the surrounding single-family communities and find synergies with future commercial development, as it should arise.
- JLL's analysis revealed a strong and growing residential development trend in the Market Area and Charles County in general.

JLL recognizes that residential development does not closely meet the County's economic development goals. However it would provide near-term monetization of at least a portion of the Site, while the County could allow additional time to market the Site and pursue tenant leads with the goal that demand may materialize for large users to locate at the Site. Additional work with a professional land planner may elucidate this concept.

### **Property Value and Disposition Strategy**

JLL prepared a flexible and dynamic multi-scenario development pro forma model to project the potential value range of various build-out scenarios for the Project. Our 'building block' approach to the model determined the land value per given unit of measure, allowing the County flexibility in determining the Site value under a wide range of land use compositions.

The model calculated three scenarios: (1) economic development, (2) balanced, and (3) near-term monetization scenarios. These scenarios are not the only possible outcomes but rather mark three points along a spectrum; many more scenarios are possible based on the land use type and size. Each of the three representative scenarios characterizes different goals – sustained economic objectives versus near-term realization of fiscal return– and the balance between those goals.

# Indian Head Science and Technology Park Overview

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## History and Status of the Park

In late 2005, Charles County received a 50-acre parcel of land from the State of Maryland as compensation for lost revenue caused by a now-defunct mixed-use development known as Chapman's Landing. The County moved forward with site planning and issued a request for proposals (RFP) to enter in to a partnership with a private development entity for the Site.

In October 2008, Charles County entered into an agreement with a joint-venture comprised of Corporate Office Properties Trust (also known as COPT) of Columbia, Maryland and the Facchina Companies of La Plata, Maryland to develop the Indian Head Science and Technology Park (IHSTP), which included the 50-acre County parcel in addition to an additional 210-acre adjacent privately-held property.

The agreement outlined that the County would cover the cost of infrastructure provisioning to the Site, while the private partners would be responsible for financing on-site infrastructure and all vertical construction in the Project.

### Purpose of the Park

The Town of Indian Head and the western region of Charles County are some of the least developed areas of the County. Despite the area's proximity to NSF IH, the County's main commercial and business nodes are located further east in the towns of La Plata, St. Charles and Waldorf. As such, the Town of Indian Head and the adjacent region stand to benefit from catalytic investment of large commercial users.

IHSTP was also envisioned as having the potential to support the major commands at NSF IH by providing office and flex space for base-related industries, including private enterprises that have contracts with the Naval Support Facility. It was expected by some that defense contractors specializing in energetics technology – one of the primary activities at NSF IH – could be among the key tenants.

### Current Status of the Park

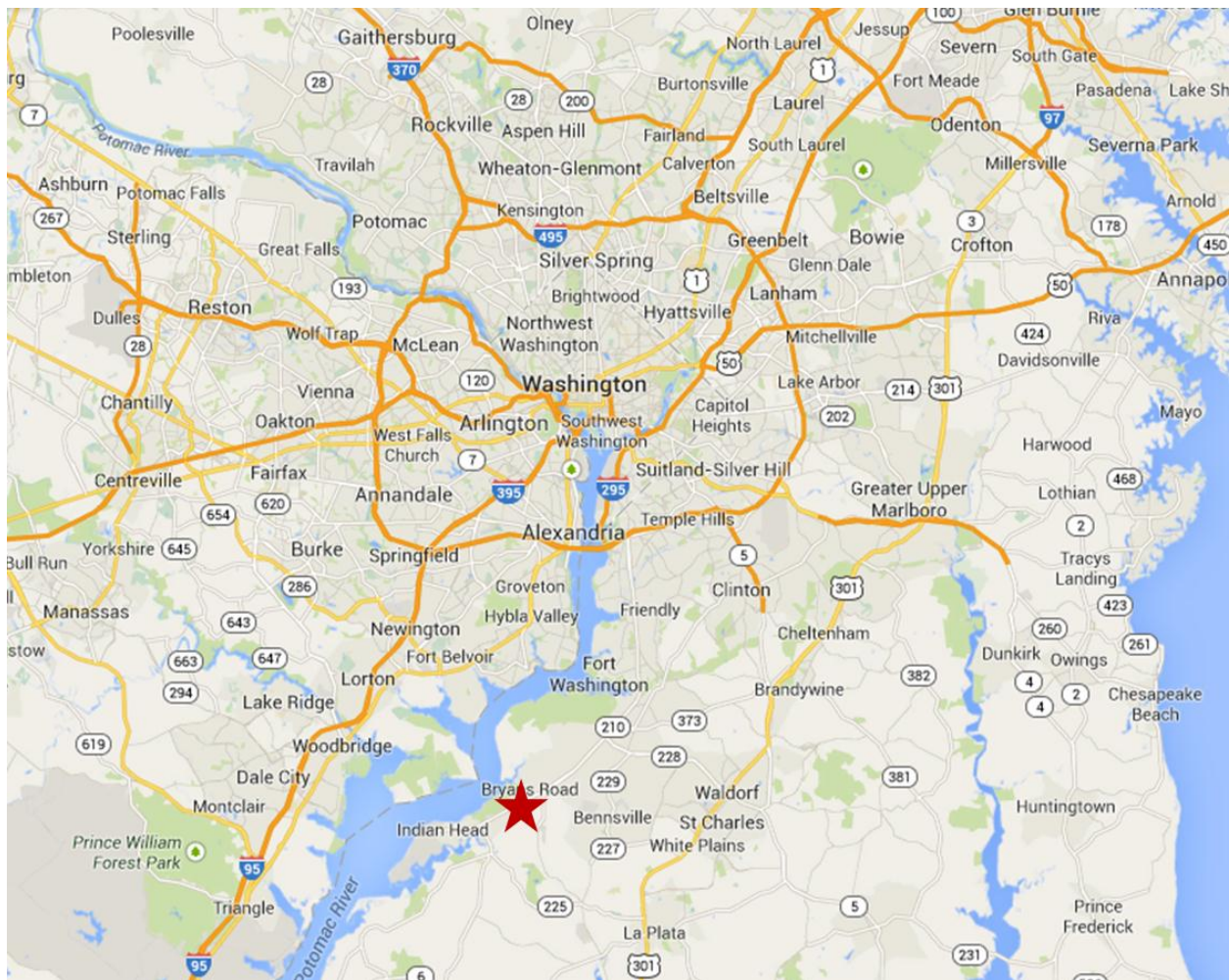
In 2012 it was announced that the Park's public-private partnership would dissolve due to the lack of market demand partially attributable to the recent economic downturn. Moreover, while some stakeholders anticipated that market demand would arise from additional civil servant jobs brought to NSF IH from closing and realigning installations under the 2005 Base Realignment and Closure

(BRAC) process, those jobs failed to materialize. The 2005 BRAC process actually netted a loss of 95 civilians to NSF IH.

Per the County's 2008 agreement with the private parties, the County was obligated to purchase the privately owned portion of the property from the joint-venture in August 2014 at a purchase price based upon a calculation outlined in the 2008 agreement.

### Project Location

The Indian Head Science and Technology Park site is located in Charles County, Maryland, approximately 25 miles southeast of Washington, DC. The Site is located 5 miles north of the entrance to NSF IH, near the intersection of Hungerford Road and Metropolitan Church Road and is directly adjacent to the Maryland Airport. The Site is generally bounded by Indian Head Highway (MD-210), Livingston Road (MD-227) and Bumpy Oak Road (MD-224). The Site is identified with a red star on the map below.



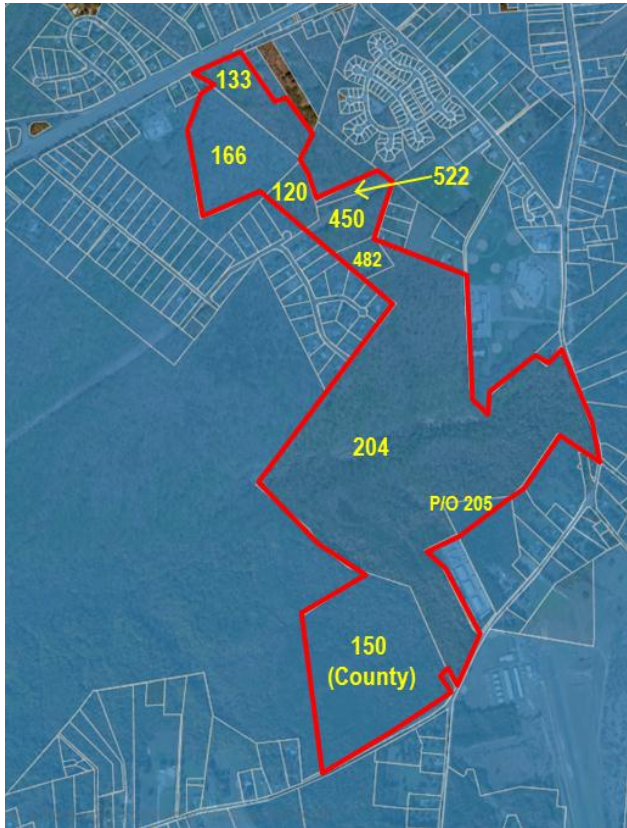
The Charles County Comprehensive Plan includes the Cross County Connector, a new four-lane road that provides greater access from the Site to commerce centers in Waldorf and La Plata to the east.



**Site Overview**

The Site is an assembly of ten existing tax parcels totaling ± 260 acres of land. Nine parcels, totaling 210 acres, in the northern and middle sections of the Site were controlled by the private joint-venture between COPT and Facchina, and were transferred to the County in August 2014. The remaining 50 acres, in the southern end of the Site, are owned by the County and are adjacent to the Maryland Airport.

**Site Parcel Map**



Parcel	Tax ID	Acreage	Current Use*	Existing Structures
133	07-019254	11.0	Residential	2,100 SF home
166	07-084676	22.6	Residential	None
120	07-029004	5.1	Commercial	None
522	07-085699	2.3	Residential	None
450	07-019963	8.8	Commercial	None
482	07-019998	4.1	Residential	700 SF home
204	07-025793	152.5	Commercial	None
150	07-075189	50.0	Exempt Commercial	None
P/O 204	07-025793	1.4	Commercial	None
P/O 205	07-025041	2.8	Residential	None
<b>TOTAL</b>		<b>260.6</b>		

\*Note: all parcels are approved for rezoning to Planned Employment Park (PEP)

Map source: Charles County Treasurer’s Office 2014

The Site has a gently rolling topography with steeper grades in the middle section where the property is bisected by a creek. Level terrain is in the northern and southern portions of the Site.

The Site is almost entirely wooded, screened by tree vegetation, and free of permanent structures.

While major public infrastructure is adjacent to the Site, no horizontal development or infrastructure has been constructed on the Site.

### **Site Context**

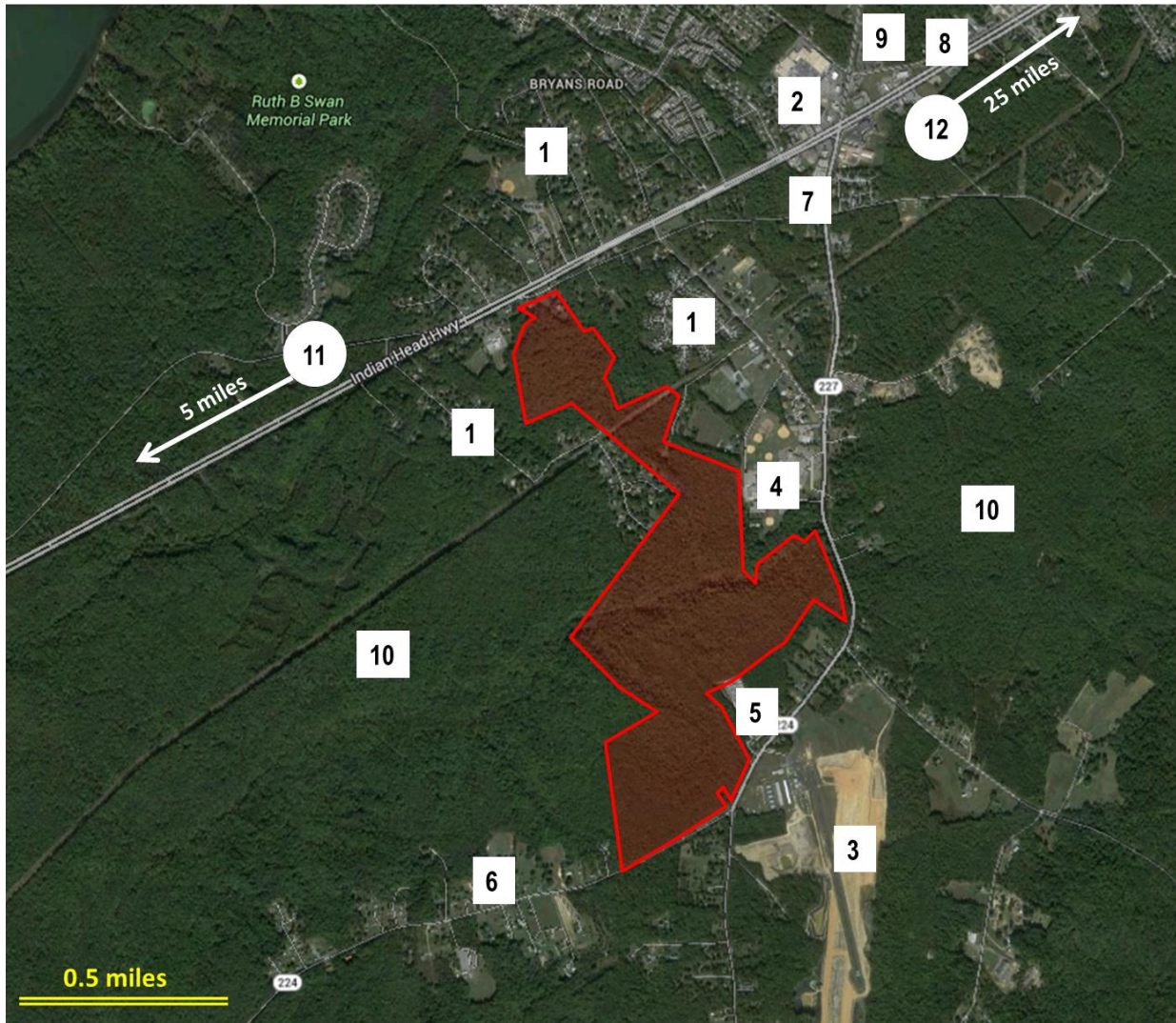
The Site is part of the growing Bryans Road community. With a 2010 population of approximately 11,850 people, the community has grown by 17.5% over the past decade. Commercial development outside of NSF IH is limited to small roadside and community commercial uses. There are no existing or proposed large commercial developments in the immediate vicinity of the Site.

The area includes a mix of single family residential, smaller commercial and agricultural uses, as well as rural conservation areas:

- There are two single-family residential communities that border the Site towards the northern end – one to the east and one to the west of the Site.
- Just north of the Site across MD-210, there is an emerging approximately 30-acre planned residential community known as Chelsea Manor, which, at total build-out, will contain 246 townhome units.
- To the east of the Site is the J.C. Parks Elementary School, the Matthew Henson Middle School and a number of community commercial uses and utilities.
- The Site is bordered to the south by Maryland Airport, a privately-owned general aviation facility that is undergoing runway and facility improvements. The area surrounding the airport has general industrial zoning designation.
- The Site has access to Metrobus service via the Indian Head Express Line (W19) at the nearby Bryans Road Park & Ride lot. The W19 line runs from the Main Gate of NSF Indian Head to the Southern Avenue Metro Station, a trip of about one hour.
- Areas further south and east of the Site are rural conservation zones.

There has been substantial activity in single-family construction in Bryans Road since the mid-2000s. Charles County is currently among the top three fastest growing residential areas in the State of Maryland, and has maintained this pace since 2000.

Local Context of the Site



- |  |                                     |
|--|-------------------------------------|
| 1 – Bryans Road Residential Communities            | 7 – Fire Station                    |
| 2 – Bryans Road Shopping Center                    | 8 – Roadside Locally-Serving Retail |
| 3 – Maryland Airport                               | 9 – Food Lion (grocery store)       |
| 4 – J.C. Parks Elementary and Henson Middle School | 10 – Rural Conservation Areas       |
| 5 – Self-storage facility                          | 11 – NSF Indian Head                |
| 6 – Residential Development                        | 12 – Washington, DC                 |

## Site Zoning

In 2009, the IHSTP Site received Planned Employment and Industrial Park (PEP) zoning. It is the purpose of the PEP Zone to establish standards for planned developments of light and medium industrial uses along with related commercial uses.

In addition to specific buffer requirements imposed on the Site, uses and structures located near the periphery of a PEP Zone shall be compatible with the surrounding area and provide adequate transition in intensity and building design. The minimum area shall be 20 acres. The maximum FAR per site shall be determined by Development Guidance Systems and apply to each lot in the PEP Zone. Preliminary Design Covenants which conform to the approved Site Design and Architectural Guidelines shall be submitted with Site Development Plans.

Additional information on specific PEP zoning requirements can be found in Article VI, Section 297-107 of the Charles County Zoning Regulations (last updated November 2013).

The Planned Development process establishes density and intensity of uses with a Master Plan. The IHSTP Plans were finalized in March 2012; the Site has received approval for:

- 1,100,000 square feet of office space
- 379,000 square feet of industrial space
- 21,000 square feet of retail space

## Planning Context

There have been multiple recent planning efforts around Charles County, Naval Support Facility Indian Head, and the Project. These efforts include, but are not limited to:

- Charles County drafted an updated Comprehensive Plan in 2013, which serves as the policy guide and framework for future growth, development and preservation. Chapter 7 – Economic Development – estimates that based on job forecasts, there will be demand for approximately 2,773 additional acres for future employment development through 2040 in the County.
- Maryland Airport (located adjacent to the Site along Route 224) is currently undergoing a \$15 million expansion, which includes extending the paved runway to 4,300 feet as part of a four phase expansion plan. The Maryland Airport is the closest airport to Washington, DC that can accommodate corporate and private jets without a TSA presence on-site.
- The Naval Support Facility Indian Head Joint Land Use Study (JLUS) is a current cooperative planning effort between the military installation and the surrounding community to promote compatible community growth in Charles County and the Town of Indian Head while preserving military readiness and defense capabilities. The JLUS will identify existing and / or potential land use issues that could impact the NSF IH mission and surrounding communities and develop recommendations to mitigate or prevent these issues.

The results of the Market Study should be reviewed by the JLUS stakeholders to determine how the Site integrates with the long-term planning for the growth of the surrounding community.

- Simultaneously, the Naval Surface Warfare Center Indian Head Division has reached significant milestones in its BRAC process, which has activated military construction (MILCON) on base, including the new Energetics Research Lab Campus. The first lab building was commissioned in 2012 with \$96 million of additional MILCON projects authorized for fiscal years 2015-2019, including \$62 million to modernize utility services by replacing the Navy's last operating coal-fired power plant with an energy-efficient natural gas system.
- Bryans Road – Indian Head Sub-Area Plan created in October 2001 addressed the Cross County Connector, the Bryans Road Town Center Core Mixed Use Area and the Maryland Airport. Importantly, the Sub-Area Plan reiterated that new development in the Sub-Area is limited to Bryans Road, the Pomonkey/Maryland Airport area, and some small undeveloped areas near Indian Head. The Conceptual Land Use Map importantly shows that a portion of the Site falls within the Bryans Road Town Center Boundary (appropriate for medium-high density residential use), while the remainder of the Site should be zoned for a mixture of Employment and Open Space.
- Finalized in October 2000, the Nature and Experiential Tourism Report and Recommendations for Charles County (conducted by Fermata, Inc.) provided a number of actionable recommendations concerning increasing the amount of tourist traffic in the County, including marketing Charles County as the natural history counterpart to Washington, DC, and developing visitation materials, such as signed destinations that will facilitate visitation to the County.

### **Available Business Incentives**

The County can offer multiple business incentives to private industries looking to locate at the Project. While the specific incentive package correlates with the economic benefit to the County and the unique needs of businesses, incentives may include:

State-level incentives:

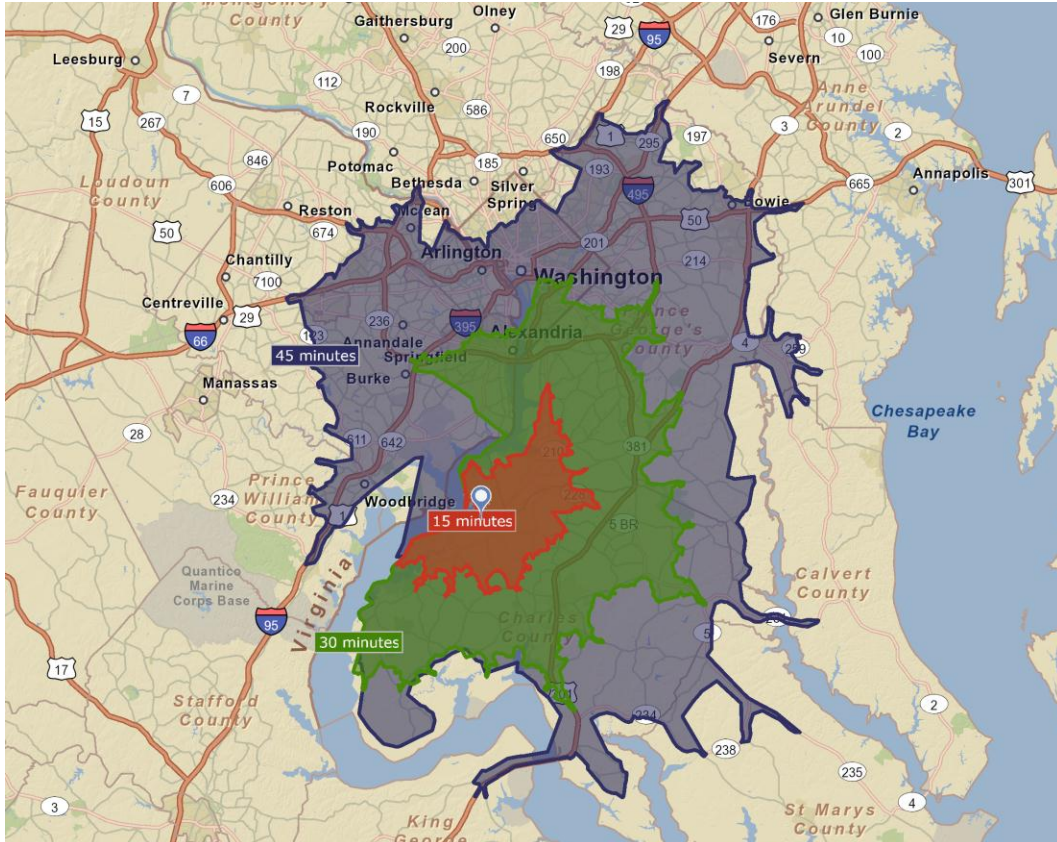
- Technology transfer and collaboration funding programs which provide funding for companies who wish to develop technology-based products and / or services in collaboration with universities and / or Federal laboratories in the State
- Direct loans from the Maryland Economic Development Assistant Authority and Fund
- Loan guarantees from the Maryland Capital Access Program and Federal Agencies
- Equity investment from the Maryland Venture Fund and Equity Participation Investment Program

- State of Maryland Department of Business & Economic Development financing programs, including Community Development Block Grants, Economic Adjustment Funds, Small Business Development Financing, and Maryland Industrial Development Financing

Local Charles County Business Incentives
Expedited permitting
Relocation and / or hiring assistance
Customized workforce training
Job Creation Property Tax Credit
Recordation Tax Credit
Tax Credit for Renovated or Rehabilitated Businesses
Tax Credit or PILOT for Energy Generation
Manufacturing Equipment Tax Exemption
Targeted Industry Loan Fund
Disadvantaged Loan Fund
Tax Increment Financing (TIF)
Economic Development Revenue Bonds*
Private Activity Bonds*
Infrastructure as part of a Development Agreement
Small, Local Business Enterprise Program
*Note: IRBs and PABs are complex matters under the IRS Code and require legal bond counsel

**Drive Times from the Project Site**

Below is a map of 15, 30, and 45-minute drive times from the Project Site. Importantly, Prince George’s County, the commercial core of downtown Washington, and key pieces of Arlington, Fairfax and Prince William Counties can be accessed in under an hour’s drive from the Site.



Map source: ESRI Business Analyst 2014

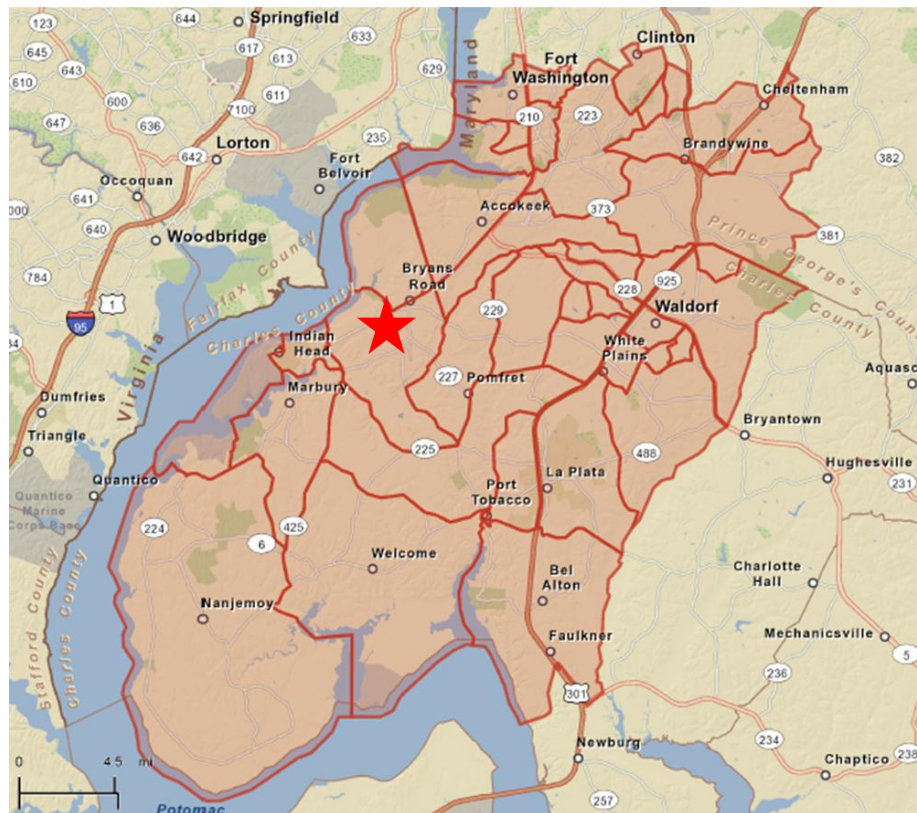
## Local and Regional Economic Trends

### Market Area Definition

The Project Site is located in a low-density community in the Washington, DC MSA that is largely characterized by single family residential neighborhoods with nearby local commercial development.

For the purposes of this study, our analysis is focused on the perspective of a firm looking to make a location decision. Therefore, the immediate Market Area is comprised of a set of communities located within a 15-mile driving distance from the Site (“the Market Area”); 15 miles is a standard distance in which a firm would consider other locations.

The Market Area includes the entire western part of Charles County as well as the southern Prince George’s County communities of Accokeek, Brandywine, Fort Washington and Clinton. The Market Area is comprised of 26 census tracts in Charles County and 13 census tracts in Prince George’s County. The total population of the Market Area is approximately 178,000 across 350 square miles. The Market Area is shown in the map below, based on the 2010 US Census tract borders.



Map source: ESRI Business Analyst 2014



### **Market Area Population and Geography**

Based on the 2010 Census, the Market Area is home to 178,000 individuals, which is a 20% increase from the 2000 Census. According to U.S. Census forecasts, the Market Area's population is expected to continue to grow at 1.6% per year over the next five years, which substantially outpaces the Maryland State average growth forecast of 0.5% per year.

Approximately three-quarters of the Market Area's population resides in Charles County. Within Charles County, approximately 80,000 residents live in Waldorf and St. Charles, the most active communities in the County.

Within the Market Area in Charles County, there are three incorporated communities: the Town of La Plata (population: 8,700), the Town of Indian Head (population: 3,900) and Port Tobacco Village (population: 13).

The Prince George's County portion of the Market Area includes three communities: Accokeek (population 10,500), Fort Washington (population 24,000) and Clinton (population 36,000). While these communities have seen recent growth, the majority of Prince George's County in the Market Area is designated rural preservation land, with minimal anticipated expansion in the near future.

### **Market Area Commercial Clusters**

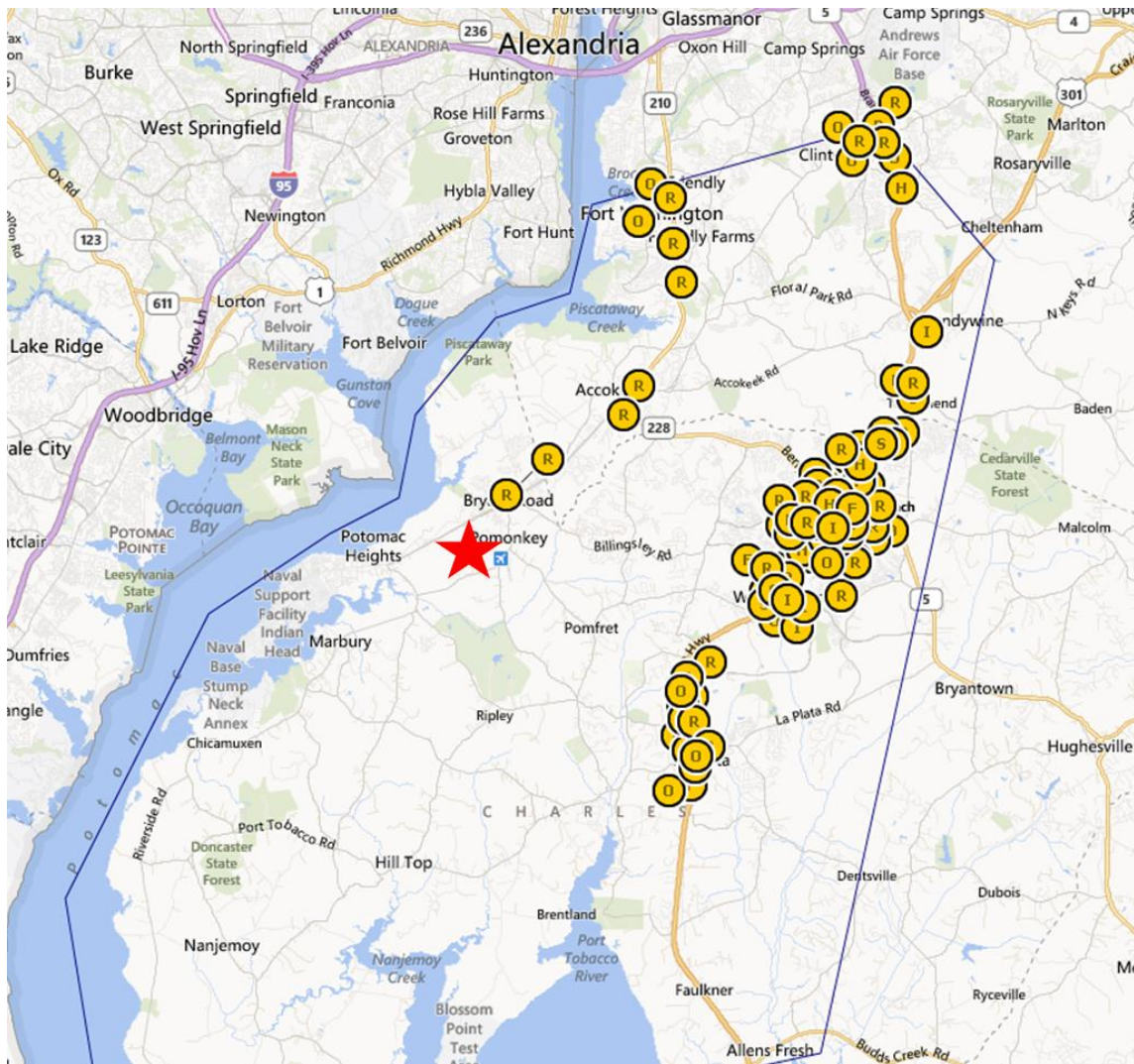
Commercial spaces in the Market Area are heavily concentrated along U.S. Route 301, most notably in and around Waldorf, St. Charles and La Plata, the seat of Charles County government. The Waldorf-St. Charles corridor, located 10 miles to the east of the Site, is the largest commercial cluster in Charles County, home to approximately 50% of County residents and 11 million square feet of commercial space.

U.S. Route 301 has been the main focus of new development and redevelopment activity in recent years and is anchored by healthy, well-performing mixed-use product, book-ended by the St. Charles Towne Center (at the intersection of US-301 and MD-228) and central Waldorf (at the intersection of US-301 and MD-5).

Other communities in Charles County are largely suburban and have traditionally had very limited commercial development, limited to smaller than 30,000 square feet. Nearby communities in Prince George's County also retain a suburban character with limited commercial development. The largest concentrations of commercial space in Prince George's County are commercial clusters in Fort Washington, Clinton and Brandywine along US-301, near the border with Charles County.

The map below shows the concentration of office, retail, hospitality and industrial properties over 30,000 square feet near the Project. The majority of these sites are located along U.S. Route 301, with a smaller node in Fort Washington, and limited retail near the Site, which is identified with a red star. There are no office, industrial or hospitality projects near the Site, indicating that local demand is likely satisfied by the supply elsewhere in the Market Area.

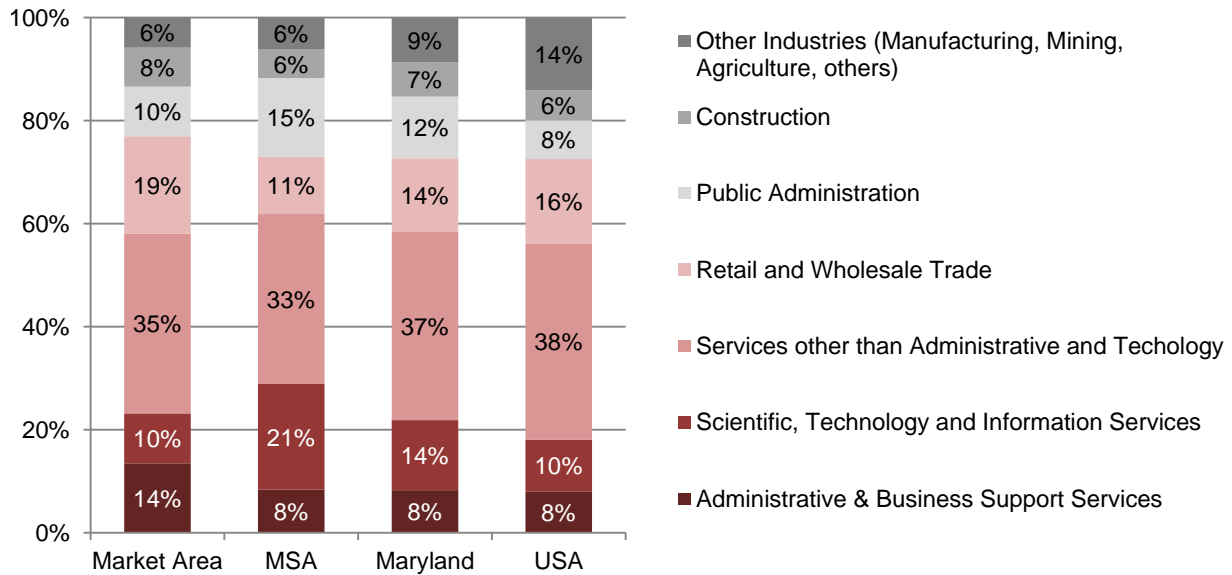
**Map: All Office, Retail, Hospitality and Industrial Clusters in the Market Area**



Map source: Costar Properties 2014

**Market Area Businesses**

The basic economic structure of the Market Area skews toward professional services, similar to the larger MSA and State economies; of the approximately 10,500 businesses in the Market Area, only 2% are classified as manufacturing. Within the services industries, the largest employment sectors in the Market Area are retail trade (15% of local jobs), administrative (14%) and government (10%) services, scientific/technology services (8%) and construction (8%).



Data source: ESRI Business Analyst 2014

The Market Area has specialization in administrative and business support services. Such services, per the North American Industry Classification System (NAICS) definition, include office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services. The administrative and management activities performed by establishments in this sector are typically on a contract or fee basis.

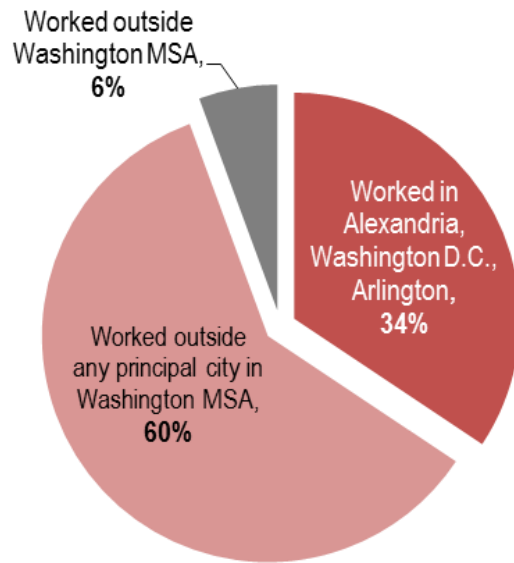
The Market Area has become the location of headquarters for multiple local firms within these services. The towns of Waldorf and La Plata serve as headquarter locations for a number of regional firms, including Facchina, Shasho Consulting, Wills Group, OUTSOURCEIT, College of Southern Maryland, Zekiah Technologies, and Community Bank of the Chesapeake, among others.

The Market Area is also attracting a growing number of tech-related employers. The number of technology services firms exceeded 1,600 by the end of 2012, comprising approximately 15.2% of the total number of businesses in the Market Area. The concentration of high-tech firms is seen as a new source of local jobs, potentially helping the Market Area to fill the gap between the size of its labor pool and local employment deficits, as discussed below.

Recently, local community leaders have supported the creation of additional high-quality commercial space as a viable means to enhance the business environment and attract jobs, particularly in Charles County. The County has launched a number of significant initiatives directed at improving commercial space availability, most notably for tech-related tenants. In the wake of these initiatives, Charles County recorded an increase of commercial construction permits and a \$100 million increase in commercial assessed value between 2008 and 2012.

**Current Labor Market Conditions**

The Market Area is home to approximately 178,000 people, of whom 138,000 are in the labor force; these individuals are of working age and are economically active, i.e. they are employed, self-employed or actively job hunting. While there are 138,000 individuals in the labor force, the Market Area currently provides fewer than 60,000 job positions, leading to a significant shortfall of 78,000 between the number of individuals employed or job hunting, and the number of positions available within the Market Area. Consequently, after adjusting for unemployment, approximately half (70,040 individuals) of the Market Area workforce must commute beyond the Market Area for work, either to surrounding Maryland counties, or into Virginia and the District of Columbia.



As highlighted in the pie chart, 34% of Market Area laborers commute for work to principal urban locations inside the Washington MSA (Washington D.C., Alexandria and Arlington). At the same time, only 6% of Market Area job commuters travel for work elsewhere outside of the MSA.

**Unemployment**

The Washington MSA historically been one of the most economically productive metropolitan areas in the nation, and has experienced limited rates of unemployment due to buffering caused by the presence of the Federal Government, as well as MSA residents’ high levels of educational attainment. While the Market Area has experienced weaker employment performance relative to the larger MSA it is generally in line with the State of Maryland.

The March 2014 unemployment rates for Charles County and Prince George’s County were 5.5% and 6.0% respectively, which were higher than the MSA average at 5.0%, but in line with the State average of 5.6%; Charles County and Prince George’s County ranked 7<sup>th</sup> and 10<sup>th</sup> out of the 25 Maryland Counties in terms of unemployment rates, respectively.

Over the past three years the MSA, Charles County and Prince George’s County unemployment rates have continually decreased post-recession, and have consistently performed well below the national rate.

Area	Unemployment Rate		
	March 2012	March 2013	March 2014
Charles County, MD	6.3%	6.2%	5.5%
Prince George's County, MD	7.0%	6.7%	6.0%
Washington MSA	5.7%	5.4%	5.0%
USA	8.4%	7.6%	6.8%
Source	March 2014 BLS Unemployment Statistics		

Individuals who cannot find work within the Market area either work beyond the Market Area or face prolonged unemployment. However, the Counties' proximities and ease of access to other Maryland counties, Washington, DC and communities in Virginia, present viable commuting opportunities for Market Area residents, driving down the local unemployment rates. However, it is likely that based on the future industry size and user types that locate in the Market Area, that many of these workers would prefer shorter commute options and would prefer to relocate locally.

**Workforce Education**

The Market Area has a more highly educated population compared to the State and nation as a whole. While the Market Area's education levels may be below those of the MSA, the Market Area represents a competitive inventory of human capital that matches a wide range of skillsets required by local industries.

Area	Less than High School Diploma (%)	High School Diploma (%)	Some College or Associate's Degree (%)	Bachelor's Degree or Higher (%)
Market Area	7.7%	28.9%	34.6%	28.8%
Washington MSA	10.1%	19.2%	23.0%	47.6%
State of Maryland	11.5%	26.0%	26.1%	36.3%
USA	14.3%	28.2%	29.0%	28.5%
Source	2008-2012 American Community Survey			

The share of local residents aged 25 years or older who have a post-high school education (some college, associate's degrees or higher) is 63.4%; above the Maryland (62.4%) and national (57.5%) averages, yet below the larger MSA (70.6%).

**Workforce Training**

Although the Market Area population is generally highly educated, businesses in the State, and more specifically the County, can access support in workforce recruitment, retention and training. In addition the County support, the Maryland Workforce Exchange (also branded as the "Southern Maryland JobSource"), administered through the State's Department of Labor, Licensing and Regulation helps businesses stray productive through a range of services that match employers with job candidates, help with training of incumbent workers, and provide information to help businesses

with employment issues. Specifically, State-level services include, but are not limited to the following:

- **Recruitment Services:** helps businesses find and screen qualified candidates for job openings.
- **Education Services:** helps companies identify suitable training programs for workers.
- **Other Services:** including labor market information, government resources, labor relations assistance, and information on HR-related topics.

In addition, the Corporate Center at the College of Southern Maryland offers comprehensive training, education and consulting for organizations seeking to increase employee productivity and organizational efficiency at their St. Mary’s, Calvert and Charles Counties campuses. This training can be fully customized to the needs of an employer. Entrepreneurs and emerging growth companies are also provided with the knowledge, mentoring, and support services necessary to achieve business and management success.

**Local Income and Cost of Living**

While the Market Area is comprised of a well-educated workforce, the County’s private sector workforce generally earns lower household incomes compared to the larger MSA. As of 2012, the median Household Income in the Market Area was \$88,568, which is approximately 6% greater than that of the MSA (\$83,803), and substantially greater than the State of Maryland and the nation as a whole.

Area	Median Household Income	Per Capita Income
Market Area	\$88,568	\$36,212
Washington MSA	\$83,803	\$40,940
State of Maryland	\$68,038	\$34,360
USA	\$50,157	\$26,409
Source	ESRI Business Analyst, 2014	

While the Market Area’s median household income is above the MSA average, the Market Area is also more affordable than many other jurisdictions in the MSA. According to the Council for Community and Economic Research, as of 2012, the composite cost of living index for Charles County was 115.8; for comparison, an index score of 100 indicates a jurisdiction’s cost of living is equal to the national average. In Charles County, grocery items, housing, utilities, transportation, healthcare and miscellaneous goods and services are all higher than the national average, but are substantially below other MSA jurisdictions, helping to explain the recent local boom in residential development. Below is a brief summary of the cost of livings indexes for representative jurisdictions in the MSA.

Jursidiction	Cost of Living Composite Index
Fairfax County, VA	162.9
Washington, DC	157.7
Prince George's County, MD	135.0
Charles County, MD	115.8
National Average	100.0
Source	ACCRA Cost of Living Survey Q1 2012

## Conclusion

The Market Area – defined as a 15-mile driving distance around the Site – has a population that is primarily concentrated in communities east of the Site in Waldorf, La Plata and St. Charles. These eastern communities are also the location of the majority of commercial clusters, which are comprised of newer, mixed-use inventory. By contrast, there is only limited retail development near the Site, and no office or industrial development larger than 30,000 square feet, indicating that local demand for these uses in the western portion of the County is met by the current supply.

Market Area businesses skew towards professional services, which is similar to the larger MSA and the State economies. While retail trade and administrative services are the most common industries, there has recently been a growth in tech-related employers. These services are in-line with the original uses envisioned at the Project, however within the Market Area, these industries are located at points east of the Site.

Due to limited options within the Market Area, the majority of residents commute out of the area on a daily basis for work to surrounding Maryland counties, points in northern Virginia and the District of Columbia. However, the County's proximity to these markets, as well as the ease of access, presents viable commuting opportunities for residents, although the ability to reverse commute would likely be an attractive option for residents who must instead commute in Washington, DC metro area daily traffic. Due to the tight job market within the Market Area, as well as the ease of commute and the high educational attainment of area residents, unemployment is low.

Residents in the Market Area benefit from high median household incomes relative to the MSA and the State. Combined with a low cost of living compared to the Washington, DC MSA, these conditions have driven a boom in the single family residential market in recent years as residents have greater purchasing power in the Market Area, while being within a 45-minute driving commute of major employment hubs in the Washington, DC metro.

## Real Estate Market Dynamics

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### Overview

The Market Area of the IHSTP– defined as the fifteen-mile driving distance around the Site – is part of the larger region of the Washington, DC MSA, and largely follows trends within the metropolitan area. While the region has historically been one of the key economic engines of the nation, its reliance on the federal government has impacted its real estate market dynamics in recent years as federal spending has been debated in Congress.

While the Market Area is also subject to these regional trends, it is less directly tied to the Federal Government than other submarkets in the region. However, its relative independence from these larger trends has resulted in comparatively low market demand for commercial space versus other counties in the region, and limited levels of absorption. The following sections detail current market conditions for the broad regional market, and for the Market Area by product type.

### Regional Real Estate Market Conditions

By the end of the second quarter of 2014, the unemployment rate in Metro DC plunged to 4.5 percent, the lowest level in over five years, as signs of a broad economic recovery began to take hold across the country. Total employment in Metro DC reached an all-time high of 3.1 million jobs, and growth within the healthcare, education and technology sectors helped drive hiring momentum.

Although payrolls within the federal government – the region’s largest employer – continued to decline, the federal budget deficit narrowed to its lowest point since 2008. With tax receipts rising by 7.5 percent year-over-year and outlays declining 2.3 percent, the federal budget outlook appeared to be headed back toward a sustainable path – a key development given government contractors’ reliance upon procurement programs and agencies’ need to replenish funds and backfill recently vacated positions.

Broadly speaking, real estate demand stabilized during Q2 2014. The majority of large and lucrative leasing decisions were driven by building quality and location, as employers increasingly looked to improve utilization ratios and accommodate evolving workforce preferences for buildings in walkable, urban environments. As a result, leasing velocity within the Trophy segment and most centrally located submarkets inside the Beltway continued to see robust leasing activity, while second-generation suburban assets experienced more limited tenant demand.

Competition for new, efficient buildings remained strong as speculative construction activity tapered off and space options increasingly skewed toward older and less desirable buildings. Demand from



the traditional segments of the broad market – namely law firms and federal contractors – remained relatively flat, while the GSA continued to seek opportunities to reduce Federal Agency footprints. Several tenants in nontraditional industries, such as consumer tech and healthcare, helped offset the choppiness in more traditional sectors.

Although near-term tenant demand remains somewhat limited, the pullback in new construction will have a meaningful impact on the Metro DC real estate market over the next 24 months. Vacancy across the region is becoming concentrated in Commodity Class A and Class B assets – buildings that are not appealing to today’s efficiency-minded tenants. The result of this trend is that large tenants with pending lease expirations must start their search process early to preserve the option of anchoring a new development or risk being confined to less-desirable second-generation space. That confining supply-demand dynamic is likely to signal a peak in concession packages and a gradual shift in negotiating leverage from tenants’ favor to more balanced conditions by 2015.

Narrowing the regional trends to the Charles County market it is likely that these trends would continue; better located office developments would attract key users first, while those who are unable to locate in the new product would likely select less-desirable space in the eastern portion of the County over new product at the project Site.

## Market Area Real Estate Conditions

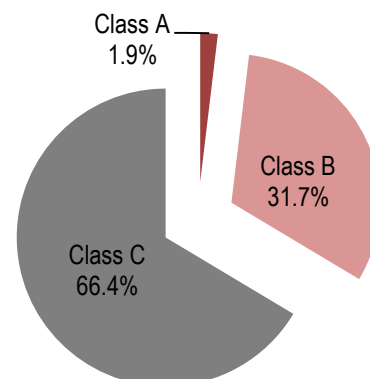
The Market Area’s real estate market is comprised of a diverse, small inventory of buildings that range in size, age and efficiency. The market is notable because of its small inventory – which yields two peculiarities. First, it is difficult to establish strong historical trends within the market, due to the small sample size. Second, the impacts of a single large user’s movements are significantly increased in terms of the overall statistics of the market. Huge swings in absorption statistics can be caused by single commercial users entering or exiting the market.

## Office Market Conditions

### Inventory

With a total of 282 commercial office properties totaling 3.1 million square feet of space, the Market Area has a limited supply of commercial office space, making projection of future demand based upon historical trends difficult, due to the small sample size.

- The majority of properties are concentrated in three commercial corridors stretching along US-301, MD-5 and MD-210.
- The office inventory in the Site’s Market Area (Classes A, B and C) is generally comprised of small buildings compared to



those in core urban and suburban Washington submarkets.

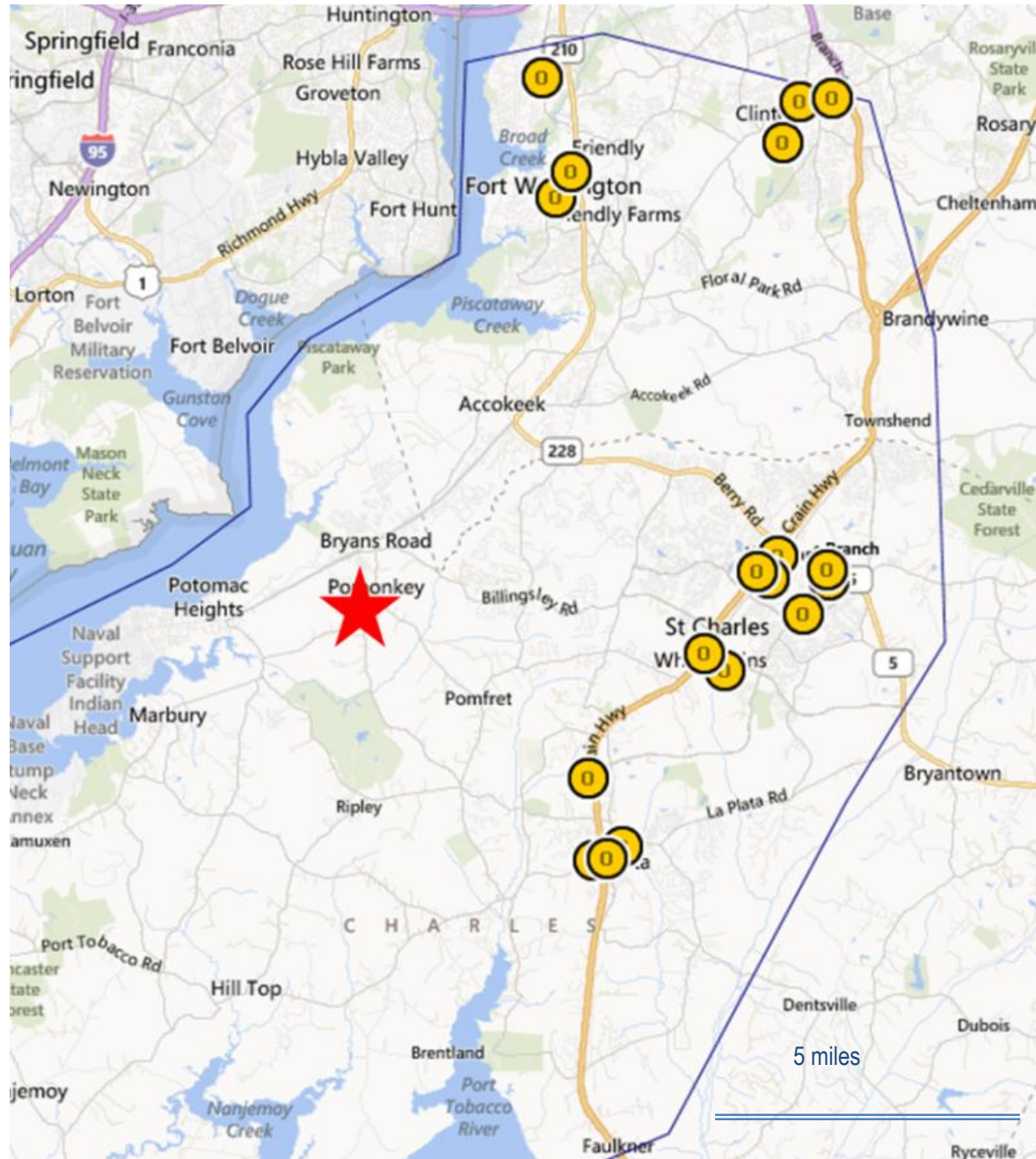
- There is a limited supply of high quality office product in the Market Area. Of the commercial properties in the Market Area that exceed 30,000 square feet, only 1 property is classified as Class A, and 17 as Class B, or 6.4% of the total inventory. However, these buildings are relatively large in size, collectively totaling 1.0 million square feet, approximately one-third of total commercial office square footage.
  - The Class A and B properties are exclusively concentrated in the commercial corridors of La Plata and Waldorf-St. Charles.
  - 10665 Stanhaven Place in White Plains, a mid-rise 60,000 square foot office property built in 2005, is the only building in the Market Area classified as Class A.

Market Area – Key Office Market Statistics	
<b>Number of assets</b>	282
<b>Inventory</b>	3,147,000 square feet total Average property size is 11,000 square feet; which is well below the Metro DC market average of 50,000 square feet
<b>Development activity</b>	Nine buildings totaling 178,000 square feet have been delivered since 2008; one 4,000 square foot office building is currently under construction
<b>Vacancy (Q1 2014)</b>	12.2%
<b>Trailing-year annual net absorption</b>	-14,318 square feet per year
<b>Quarterly net absorption (5-year average)</b>	4,600 square feet
<b>Gross Annual Leasing Activity (2009 - 2013)</b>	35,000 – 120,000 square feet
<b>Median lease exposure time (per office unit)</b>	16 months
<b>Average estimated rental rate (deal rate)</b>	\$19.95 per square foot per year, full service (\$21.29 asking)
<b>Average Cap Rate</b>	8.0%

The majority of new office developments over the past decade have been build-to-suit projects rather than speculative development, which is indicative of slow absorption and limited demand for office space in the Market Area. These developments are concentrated along US-301 between La Plata and Waldorf, which is 12 to 15 miles east of the Site. Discussions with seasoned local commercial brokers in Charles County confirmed that demand for office space in the western portion of the Market Area is extremely limited and that there is currently no speculative office development.

There are no commercial office properties proximate to the Project Site, which is identified with a red star on the following map. The inventory of these properties is also shown in the following table.

**Map: Office Properties within the Market Area**



Map source: Costar Property and JLL 2014

Mapping of office properties 30,000 square feet or larger in size reveals that these properties are located in the population nodes in Waldorf and La Plata, as well as points further north in Prince

George’s County (Fort Washington and Clinton), indicating that there has yet been no need to create supply to meet demand for office space near the Project, as firms choose to locate at points further east and north, near larger population centers.

**Inventory: Office Properties within the Market Area that Exceed 30,000 SF**

<b>Building Address</b>	<b>Building Class</b>	<b>Rentable Building Area (SF)</b>
102 Centennial St, La Plata, Charles County	B	89,000
9320 W And W Industrial Rd, La Plata, Charles County	B	79,715
12070 Old Line Ctr, Waldorf, Charles County	B	75,900
200 Kent Ave, La Plata, Charles County	B	75,375
9131 Piscataway Rd, Clinton, Prince George's County	B	60,191
10905 Fort Washington Rd, Fort Washington, Prince George's County	B	60,111
101-201 Centennial St, La Plata, Charles County	B	60,000
3261 Old Washington Rd, Waldorf, Charles County	B	60,000
601 Post Office Rd, Waldorf, Charles County	B	60,000
10665 Stanhaven Pl, White Plains, Charles County	A	59,752
10903 Indian Head Hwy, Fort Washington, Prince George's County	B	50,000
3510 Old Washington Rd, Waldorf, Charles County	B	49,068
8507 Oxon Hill Rd, Oxon Hill, Prince George's County	B	40,000
4475 Regency Pl, White Plains, Charles County	B	40,000
10 St Patricks Dr, Waldorf, Charles County	B	40,000
9135 Piscataway Rd, Clinton, Prince George's County	B	35,694
8926 Woodyard Rd, Clinton, Prince George's County	B	33,161
3670 Leonardtown Rd, Waldorf, Charles County	B	30,000
<b>TOTAL</b>	<b>-</b>	<b>997,967</b>

## Future Development

Importantly, there are three significant prospective commercial developments underway in the Market Area:

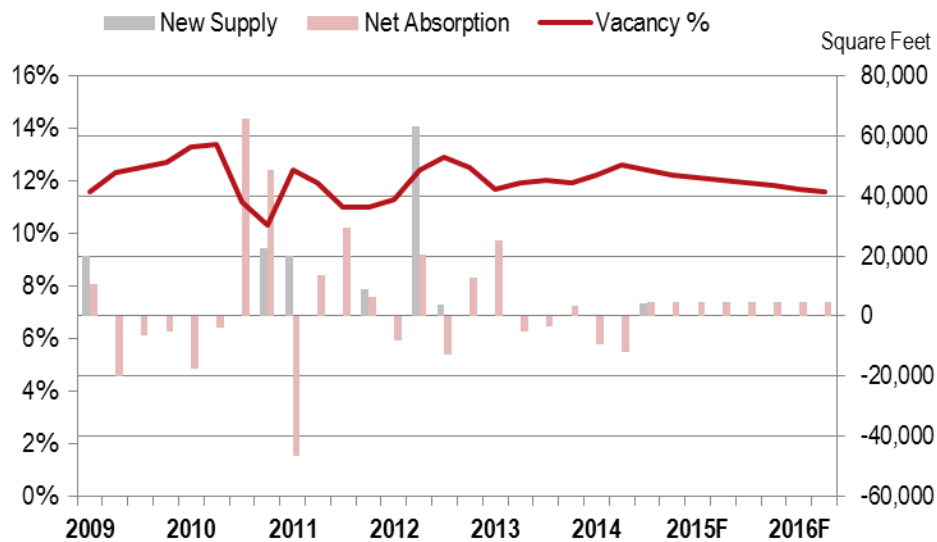
- St. Charles Master Planned Community – currently under development
  - One of the largest master planned communities in the country at 9,200 total acres.
  - Approximately 65% completed. At full build-out the community will include 24,730 housing units, more than 1.4 million square feet of retail, and multiple commercial and industrial developments across approximately 1,500 acres.
  - Current commercial development includes:
    - O'Donnell Lake Commercial Center: 2.25 acres across three parcels. Parcels are connected to a lakefront boardwalk and utility lines and have road access. Adjacent to the St. Charles Towne Center.
    - Fairway Commercial: 40 acres with road access and utility lines to site.
    - Parcel AA: 23 acres of subdivided commercial land with up to 43,500 square feet of commercial space available located near the White Plains Regional Park.
    - Piney Reach Business Park: 46-acre commercial site. PUD zoning for professional office and industrial uses.
- Waldorf Technology Park – currently under development
  - A 400,000 square foot master-planned office park on 64 acres at the intersection of US-301 and MD-228 along the established commercial node.
  - Two projects are completed in the Park; a 35,000 square foot flex property and a Marriott Residence Inn.
  - The remainder of the Park includes for-sale fully-permitted office pads.
  - The Market Area's low demand for office and technology space has impacted the Park's development. In October 2013, the developer's rezoning request to permit multifamily residential development was approved.
- White Plains Corporate Center – currently under development
  - A multi-phase planned business park planned in the White Plains business district, near St. Charles Towne Center.
  - Three buildings, totaling approximately 124,000 square feet, are completed.
  - An 85,000 square foot medical office building is planned for 2015.
  - The Army Reserves acquired a 16 acre site adjacent to Phase III of the project for a new approximately 80,000 square feet facility.
  - For-sale pad sites are certified and fully-permitted for additional office buildings.

St. Charles, Waldorf Technology Park and White Plains Corporate Business Park are current under development and are located in the commercial nodes in the eastern portion of the County. These developments are competitive assets in the Market Area that would likely out-compete the Project. These projects would likely need to be fully absorbed in order for additional demand to extend to the Project.

**Vacancy Rate and Absorption**

Over the past five years, the Market Area office vacancy rate fluctuated as the market right-sized itself post-recession. The large fluctuations in absorption in 2010 through early 2012 were the result of large users entering and exiting the market. Individual users occupying 20,000 square feet or greater have the ability to impact the market absorption rates due to the small market size.

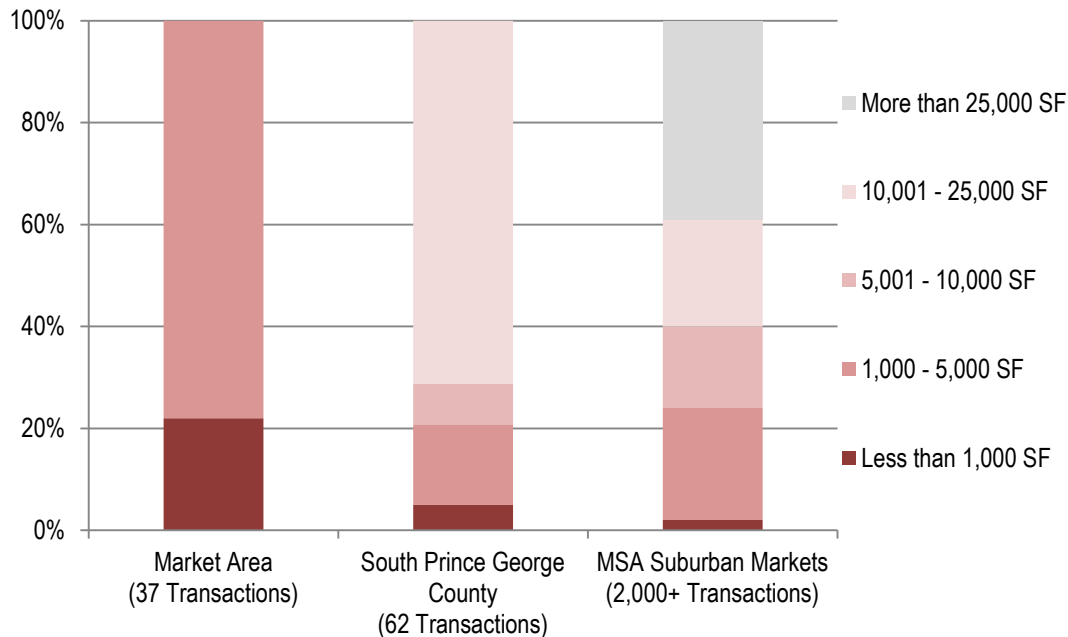
Since mid-2012 there has been a slow, but steady, absorption of office space in the Market Area. Analysis of these data, as well as macro-level trends in office product, lead us to project that modest positive absorption will continue in the near future, through 2016, further decreasing the vacancy rate. It should be noted that due to an upcoming concerted marketing effort at the County level, market vacancy may continue to decrease further if the efforts are able to attract new users from out of market.



Over the past five years net absorption was largely positive, and averaged around 18,400 square feet per year. Moving forward, absorption is forecasted to remain positive as the local market has right-sized and tenants generally look to modestly expand their footprints, rather than new tenants entering the market.

**Lease Transactions**

From Q2-2013 through Q2-2014, there have been 37 lease transactions for office space in the Market Area; these transactions have been very small, with an average transaction size of 1,290 square feet and none exceeding 5,000 square feet. The largest transaction that occurred in 2013 was a 4,000 square feet lease in the Franklin Square building, a Class B asset in Waldorf.<sup>1</sup>



**Comparative Performance of Nearby Office Submarkets**

Geographically and functionally, the closest suburban office clusters to the Site are in southern Prince George’s County, consisting of the Pennsylvania Avenue Corridor, National Harbor / Oxon Hill and the Branch Avenue corridor. Defense contractors – many of them focused on the nearby Joint Base Andrews and Joint Base Anacostia-Bolling – professional and medical services, and construction companies are the key tenants in these markets. The tenancies are often small, at less than 10,000 square feet, which is comparable to the Market Area.

Because of the larger operations at these Joint Bases and the closer proximity to Washington, DC, defense contracting firms generally prefer to locate in these clusters. Because NSF IH is a smaller installation and only approximately 30 miles to the south, defense contractors can easily commute down to Charles County from these locations.

The southern Prince George’s County submarket is comparable to the Market Area in both size and quality of assets. A Q1 2014 snapshot of the southern Prince George’s office clusters includes the following highlights:

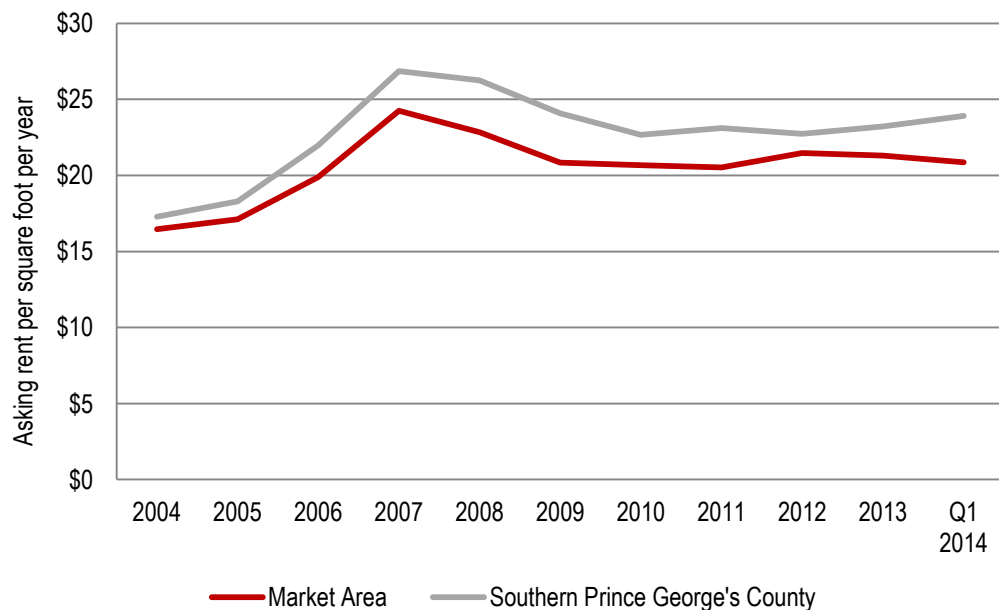
<sup>1</sup> Data do not include any transactions that occurred after Q2-2014.

- There are 323 office properties across all asset classes, totaling 4.5 million square feet.
  - Quality space is generally limited; 18% of the inventory is Class A.
- The average property size is 14,000 square feet.
- Total office market vacancy is 12.3%.
  - There is low demand for quality space; the largest vacancy is in Class A space at 26.9%.
- There is no new office development; the most recent completions occurred in Q4 2010.
- The average quoted rent for all classes was \$23.24 per square foot.

Although annual net absorption had not exceeded 50,000 square feet during the last four years, recent transactions at the end of 2013 and beginning of 2014 resulted in a positive net absorption of 140,000 square feet, indicating that the submarket may be recovering quickly post-recession. Anecdotally, while Charles County may be able to offer a more business-friendly environment to prospective users (due to generally lower taxes and a business-oriented government) southern Prince George’s County is able to attract large tenants drawn by proximity to military installations, public transit, and other tenant amenities.

**Rental Rates**

Office rents for Class A and B space on a per-square foot per year basis continue to stabilize post-recession. While office rents will continue to increase with inflation, it is expected that future growth will be slow. The Market Area lags southern Prince George’s County as the assets are generally of lower quality and lack the same level of tenant amenities. The average Q1 2014 quoted full-service rent in the Market Area was \$20.86, compared to \$23.24 in southern Prince George’s County.





The majority of Class A and B rents in the Market Area are full-service, followed closely by triple-net structures. Below is the breakdown of rental structures based on statistics for class A and B office space currently offered for lease in the Market Area.

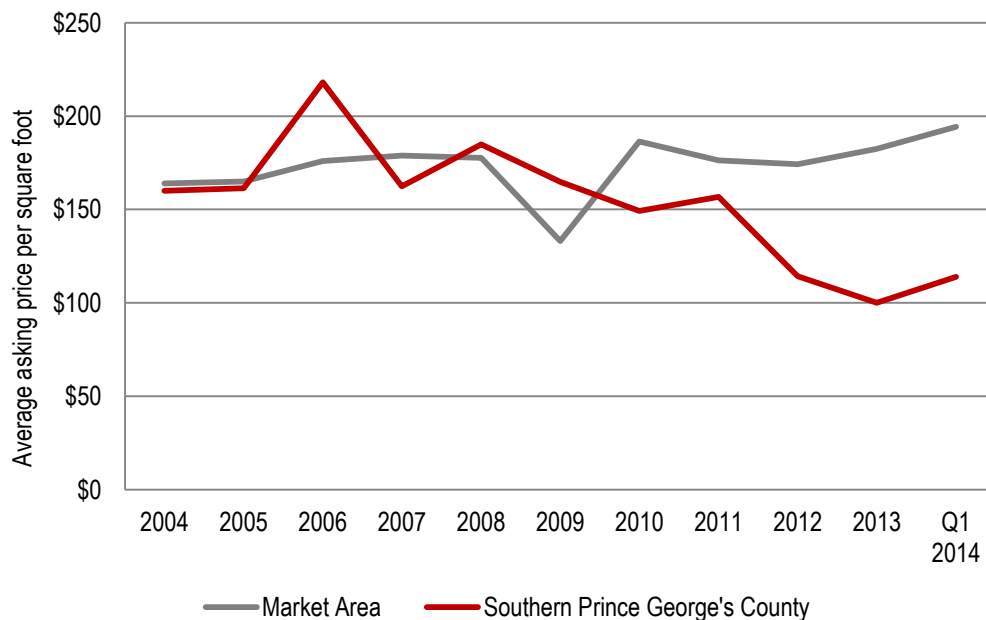
Triple net lease structures are more common in higher quality buildings in the Market Area, especially in Waldorf - St. Charles commercial corridor.



Average Market Area Rents	
Full Service	\$20.86
Triple Net	\$16.65

**Sales Activity**

There has been little capital markets activity in the Market Area. During the past decade there have been 34 sales transactions, including office condo sales, in the Market Area. Average asking sales price per square foot in Q1 2014 was \$194.29 in the Market Area, compared to \$113.90 in southern Prince George’s County, however due to the limited sales transactions in the Market Area, direct comparisons between the two submarkets are limited.



## National Harbor

Opened in 2008, National Harbor is a 350-acre mixed-use waterfront development along the Potomac River. National Harbor is approximately 17.5 miles driving distance from the Site. Because National Harbor is just beyond the Market Area (i.e. beyond a 15-mile driving distance from the Site) in Prince George's County, it was not included in the data collection for this report, however its large size very near the Market Area warrants further discussion.

At completion, the project is expected to cost in excess of \$2.0 billion and will feature 7.3 million square feet of mixed-use space, including 2,500 residential units, 4,000 hotel rooms, 1.0 million square feet of retail, dining and entertainment space and 500,000 square feet of Class A office space. To date, approximately 230,000 square feet of commercial office space have been completed. Office vacancy is currently at 8.6% as of Q2 2014, however this figure is shifting due to the delivery of new space while the project is under development. Vacancy is expected to continue to decrease as the project stabilizes by 2016. The five-year average full service commercial office rent at National Harbor is \$33.85 per square foot per year (compared to the Q1 2014 average of \$23.24 in the larger Prince George's County market, and \$20.86 in the Market Area).

Specific attributes of National Harbor that made development possible include:

- Ease of access from DC, northern Virginia, suburban Maryland and points north along the Capitol Beltway and I-295, as well as water taxi services to Alexandria, Virginia and Metrobus service from the Branch Avenue Metro Station.
- A highly visible, "destination" location along the Potomac River
- A single master developer committed to the success of the project.
- Buy-in from key national office, hospitality and retail tenants.

National Harbor is a one-off destination development project that differs from the Project Site in a few key attributes, as listed above. Despite comparable sizes and nearby locations, the Project Site would not be competitive with National Harbor due to these site-specific features.

There is the potential that as National Harbor builds-out, that there could be an increased demand for housing options along the MD-210 corridor, including in Charles County, where housing is more affordable than in others portions of the MSA.

## Office Market Conclusion

The office market is comprised of a small inventory of buildings that are predominantly of older vintage and lower asset class, with some important exceptions for new, local office development in eastern portions of the County. While the properties total 3.1 million square feet of commercial space, this product is, without exception, located near the population clusters in points east and north of the Site. Moreover, these developments tend to be build-to-suit projects rather than speculative

development, indicating that the local development community sees no speculative demand for office space in the Market Area, particularly in the west portion near the site.

While the five-year average annual net absorption is 18,400 square feet and absorption is expected to remain modestly positive over the next two years, it may likely be the result of tenants looking to modestly expand their footprints in their existing locations, rather than new tenants entering the market. It is important to note that this is not an indicator of an unhealthy local economy; rather the limited but steady absorption indicates that the Market Area's demand for office product is generally met by the supply. The Market Area's relatively high vacancy rate may be inflated somewhat by undesirable low-quality assets that are kept online despite limited demand for such a product.

The nearby submarket of southern Prince George's County is comparable in terms of size and quality of inventory. While this submarket has had generally equal performance compared to that of the Market Area, with a nearly identical vacancy rate of 12.3%, compared to the Market Area's 12.2%, recent transactions at the end of 2013 and beginning of 2014 resulted in a positive net absorption of 140,000 square feet in southern Prince George's County.

These transactions may signal that the southern Prince George's County submarket is recovering post-economic downturn; key attributes fueling this recovery include the submarket's ability to attract large tenants drawn by its proximity to multiple larger, growing military installations and the ability for professionals to commute to the submarket via public transit; these are amenities not found in the Market Area and result in higher quoted full-service rents. The average Q1 2014 Market Area quoted full-service rent was \$20.86, which was approximately 9.9% lower than the average quoted full service rent in southern Prince George's County.

## Industrial Market Conditions

### Inventory

There is a limited inventory of industrial and warehouse assets within the Market Area, which is comprised of 196 properties totaling approximately 4.3 million square feet.

- Similar to the local office market, these properties are generally concentrated along US-301 and MD-210.
  - In Charles County all large (+50,000 square feet) industrial and warehouse properties are concentrated at the St. Charles Industrial Park, White Plains, and Waldorf just east of US-301. Most of these assets are older Class C assets; some of which were recently renovated to Class B.
- The Market Area's inventory contains a majority of small and dated industrial assets.
  - There are no Class A industrial assets in the Market Area.
  - Approximately 25% of assets are Class B, the remaining properties are Class C.

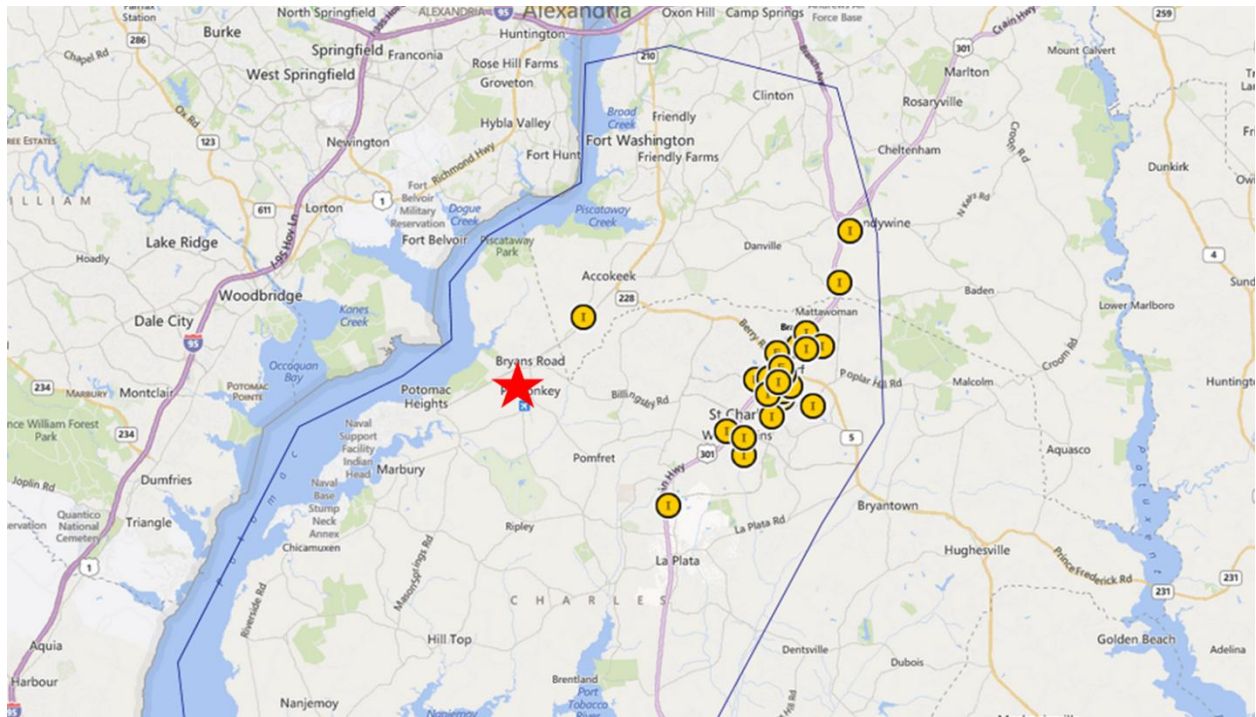
- The two largest industrial properties in the Market Area are located in the Brandywine community of Prince George’s County:
  - The Mid-Atlantic Distribution Center, a 625,000 square foot multi-tenanted Class B warehouse building substantially renovated in 2004. The building is currently one-fifth vacant.
  - The Brandywine Distribution Center, a 400,000 square feet property built in 1998. The property is fully-leased through 2020 as a distribution center for hhgregg, a consumer electronics and home appliances retailer.
- The most recent industrial developments in the Market Area are two warehouse buildings totaling 49,000 and 58,000 square feet, delivered in 2007 and 2001 respectively. These industrial developments, 70 Industrial Park Drive and 4545 Graphics Drive, are located in Waldorf and White Plains respectively, at the southern edge of the Charles County industrial cluster, east of US-301, and 10 to 15 miles southeast of the Site.

Market Area – Key Industrial Market Statistics	
<b>Number of assets</b>	193
<b>Inventory</b>	4,267,000 square feet 40% of space is located in 11 buildings
<b>Development activity</b>	220,000 square feet during the last decade, no properties under construction
<b>Vacancy (Q1 2014)</b>	4.0%
<b>Trailing-year annual net absorption</b>	7,509 square feet
<b>Quarterly net absorption (4-year average)</b>	7,500 square feet
<b>Gross Leasing Activity (2009 - 2013)</b>	996,000 square feet leased during last five years, including a 400,000 square foot lease executed at the end of 2009 by hhgregg.
<b>Median lease exposure time (per industrial unit)</b>	10 months
<b>Average estimated rent rate (deal rate)</b>	\$6.80 per square foot per year triple net (\$7.65 asking)
<b>Average Cap Rate</b>	9.20%

The majority of industrial development over 30,000 square feet in the Market Area occurred in the 1980s and 1990s; only a few properties have been renovated within the past decade.

There are currently no prospective industrial developments in the Market Area.

**Map: Industrial and Flex Properties within the Market Area**



Map source: Costar Property and JLL 2014

These industrial assets, with the exception of a single dated property of 1960s vintage, are located along US-301, which has better highway access and is nearer to the County’s population hubs than the project site. The properties located in the Prince George’s County portion of the Market Area are larger and newer, and are located closer to the Capital Beltway and points north. There are no industrial properties of 30,000 square feet or greater within a mile of the Project Site, which is identified with a red star on the map.

There has been no significant historic demand for industrial space near the Project.

**Inventory: Industrial Properties within the Market Area in Excess of 30,000 SF**

Building Address	City	Building Class	Rentable Building Area	Year Built / Renovated
7900 Cedarville Road	Brandywine, Prince George's County	B	624,502	1991 / 2004
14301 Mattawoman Drive	Brandywine, Prince George's County	B	393,440	1998
9 Jay Gould Court	Waldorf, Charles County	C	192,446	1988
1 Carnegie Court	Waldorf, Charles County	B	179,244	1975 / 2010
4590 Graphics Drive	White Plains, Charles County	B	103,000	1972
17601 Beretta Drive	Accokeek, Prince George's County	C	100,000	1968
44 Industrial Park Drive	Waldorf, Charles County	C	83,016	1977
4430-4346 Charles Crossing	White Plains, Charles County	B	82,230	1989
12115 Acton Lane	Waldorf, Charles County	C	81,152	1996
22 Industrial Park Drive	Waldorf, Charles County	C	80,000	N/A
12105 Acton Lane	Waldorf, Charles County	C	59,817	1942
4545 Graphics Drive	White Plains, Charles County	B	57,800	2001
3410 Rockefeller Court	Waldorf, Charles County	B	56,594	1990
70 Industrial Park Drive	Waldorf, Charles County	B	49,220	2007
11850 Pika Drive	Waldorf, Charles County	C	48,597	1989
33 Industrial Park Drive	Waldorf, Charles County	C	45,879	1986
3455 Rockefeller Court	Waldorf, Charles County	A (flex)	36,908	2005
2960 Technology Place	Waldorf, Charles County	B (flex)	35,520	2007
7 Industrial Park Drive	Waldorf, Charles County	B	33,578	1985
5780 Crain Highway	La Plata, Charles County	C	33,011	1991
12130 Acton Lane	Waldorf, Charles County	B	32,554	1989
2745 Old Washington Road	Waldorf, Charles County	B (flex)	31,950	1994
74 Industrial Park Drive	Waldorf, Charles County	C	30,828	1990
3435 Rockefeller Court	Waldorf, Charles County	B (flex)	30,000	2006
<b>TOTAL</b>	-	-	<b>2,501,286</b>	-

The only property not located along US-301 is the Beretta Drive asset, located in Accokeek. The Beretta property is the nearest asset to the Site and is located 2 miles to the north off of Indian Head Highway. According to public sources Beretta USA (the sole tenant of the property) has plans to vacate the property and relocate its manufacturing capabilities to Tennessee in mid-2015. Once Beretta moves, an additional 100,000 square feet of space will enter the market, further reducing the need to supply additional space in the western portion of the Market Area.

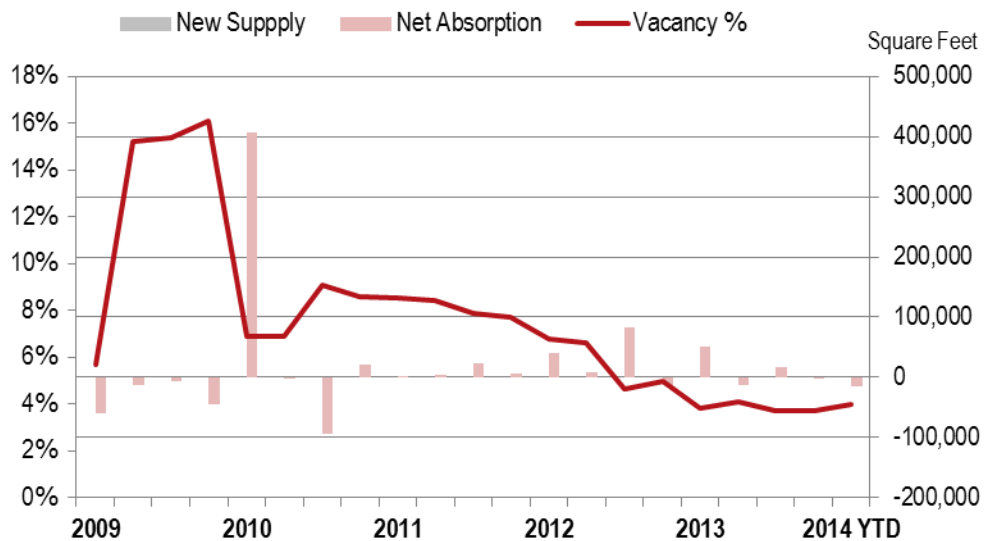
**Vacancy Rate and Absorption**

Over the past five years, the Market Area industrial vacancy rate has steadily decreased as there has been no new supply and only very limited positive net absorption. The low vacancy rate is reflective of limited market activity. With the exception of hhgregg’s large 400,000 square foot lease in late 2009, all lease transactions during the past five years have been less than 50,000 square feet. hhgregg’s lease on the distribution warehouse space at the Brandywine Distribution Center expires in 2020.

Over the next few years it is expected that vacancy will stabilize and market activity will be limited, barring any single large users entering or exiting the market. While the County’s population continues to increase, it is not possible to predict what impact it will have on the industrial market. As with the office market, the limited size of the industrial inventory means that a single large user can disproportionately impact the market. However, the limited amount of available quality product in the market, coupled with the lack of speculative development occurring, means that any new large users looking to occupy quality space of more than approximately 100,000 square feet in the Market Area would have to enter a build-to-suit agreement in order to be accommodated, or perhaps upgrade and occupy the former Beretta space should it become available.

While the current build-to-suit opportunities in the Market Area are located in points east near the County’s existing industrial concentration, it is equally likely that based on historical evidence, rather than enter into a build-to-suit agreement, a prospective user would select another nearby market where quality space of size is more readily available. However, the County could encourage industrial users to the Market Area by nurturing investor relations so as to accommodate space needs in the more attractively located areas of the County.

Over the past five years absorption was net positive and averaged around 30,000 square feet per year; however this average is skewed by the large transaction in late 2009. If considering only the trailing twelve month net absorption, the number is limited to 7,509 square feet, which is likely more reflective of future trends.



Source: Costar Property, 2014

**Lease Transactions**

Historically, industrial leasing activity in the Market Area has rarely exceeded 50,000 square feet per quarter. It is expected the local industrial leasing activity will remain at this moderate level looking forward.

With the average size of industrial lease deals of less than 5,000 square feet and prevalence of tech-related and light-industrial tenants, new flex space product is more likely to meet the local demand for industrial space in the Market Area. During last four years there has been an average of approximately 16.5 lease transactions per year (industrial and flex space combined), which is a significant increase relative to historical trends, which averaged at approximately 7 transactions per year during the preceding five years.

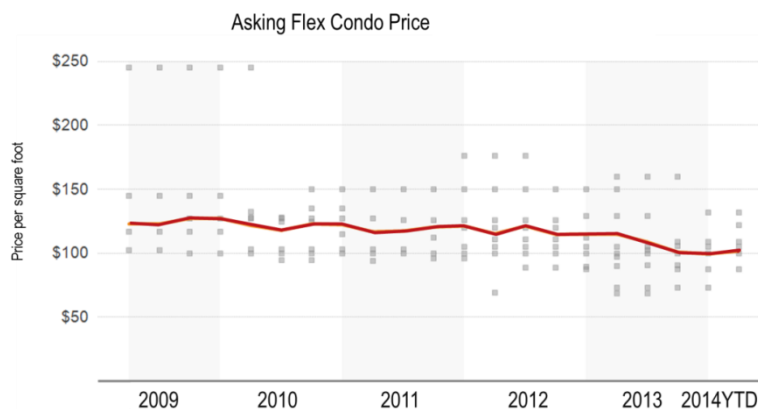
**Comparative Performance of Nearby Industrial Submarkets**

The Market Area lies within 20 to 30 miles of distribution clusters to the north in Prince George’s County. There are at least 23 large (greater than 200,000 square feet) Class A and B warehouse assets in Prince George’s County. While the majority of these properties are Class B and are generally of the same vintage as those in the Market Area, many have undergone renovations within the past decade, enhancing their competitiveness in the larger MSA market. There are only two properties of this size (both in Brandywine) within proximity to the Project Site, which is identified with a red star.

**Sales Activity**

Flex condos are the only viable for-sale industrial product seen in the local market, but mostly away from the Site. For-sale flex units can be attractive for tech-related tenants contemplating costly tenant improvements to accommodate versatile and specialized business needs.

Flex condo pricing data were collected across 18 properties in the Market Area. The average asking price remained stable during the past five years, keeping in the range of \$110-115 per square foot.



Source: Costar Protervt. 2014



## Flex Space

As mentioned above, there has been a growing presence in tech related businesses in the Market Area over the past five years. Despite the lack of anticipated demand for large-scale industrial and warehousing space, there may potentially be additional demand from smaller tech and R&D users — typically less than 10,000 square feet — looking for a combination of light-industrial, low-bay storage, office units, and flex industrial space.

The existing flex space inventory in the Market Area is very limited, comprising only about 135,000 square feet. The local flex space inventory consists mainly of newer product which is occupied by often young and growing firms. Increasing the supply of this product type has the potential to possibly meet an increasing market demand and catalyze a local trend moving forward. New flex space would further the County's economic development objectives, meeting a commercial market demand, while also providing jobs, many of which may be technology-based.

## Comparative Performance of Nearby Flex Submarkets

The nearest clusters of institutional flex space are largely concentrated north in Prince George's County. Submarkets such as Lanham, Laurel, and Beltsville have gained popularity among smaller industrial tenants and have attracted the majority of the region's recent leasing and development activity in the flex-industrial asset subtype. With over 6 million square feet of flex space, northern Prince George's County has become a significant cluster in the greater Washington, DC flex market.

Some of the notable flex-industrial assets in northern Prince George's County include:

- BECO Park at Forbes Center in Lanham – a mix of 16 office, flex and warehouse buildings, totaling over 650,000 square feet; developed in the 1980s and 1990s.
- Ammendale Tech Park in Beltsville – 309,000 square feet of office, high tech, flex and distribution space; built in the 1980s.
- Konterra Business Campus in Beltsville – 570,000 square feet mix of flex and office space with the capacity to double the size of offered space; development began in the mid-1990s.
- Alexandria Technology Center in Beltsville – a 200,000 square feet flex park, built in the 1980s.

More recent flex development has been driven by proximity to population centers and easy access to I-95 that allows servicing the markets of Washington, DC and Baltimore.

Flex space vacancy in Prince George's County has steadily edged lower over the past several quarters since reaching a peak of 23.6% in early 2013. Occupancy gains have focused on the northern Prince George's County submarket, where nearly 40% of the County's inventory is located.

Despite recent increases in vacancy in flex space, this product type has a 20-25% rental premium over conventional industrial space. The average rental rate in Q1 2014 was \$8.77 per square foot triple-net. As the market continues to recover and demand for quality space quickens, the differential in rental premium should continue to increase.

Overall Prince George’s County’s industrial clusters total approximately 8.0 million square feet of warehousing real estate, with an additional 1.5 million square feet of speculative Class A warehouse product coming online in the near future:

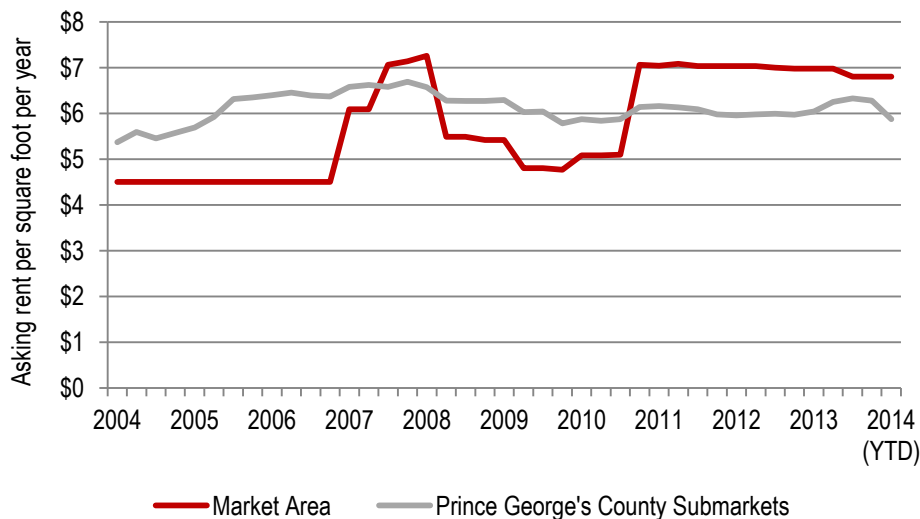
- Approximately 1.2 million square feet of Class A industrial and distribution product is under development and is planned to deliver by the end of 2014 in Prince George’s County.
- Steady leasing from small users (less than 10,000 square feet) has driven vacancy for the large stocks of flex space in Prince George’s County down over three percentage points in the past twelve months alone.

The demand drivers for the Laurel, Landover and other distribution hubs in Prince George’s County are inexpensive land, a large and inexpensive labor pool, proximity to Washington, DC and Baltimore, and direct access to the larger arterial road network.

Despite the Market Area’s affordable land and labor pool assets, the Site has limited accessibility compared to other competitive locations in the County with better accessibility, such as the St. Charles community. Moreover sites in Prince George’s County along the Beltway and I-95 will further limit demand for industrial space at the Site in the future. For example, while the Site is only 15 miles from I-95, many properties within Prince George’s County are less than half that distance.

**Rental Rates**

Industrial rents in the Market Area on a per-square foot per year basis have stabilized significantly over the past three years. The average triple net industrial rent in the Market Area is \$6.80 per square foot per year, which is 15% higher than the average rent in the Prince George’s County (\$5.87) submarket and 10% less than the Washington, DC industrial market average. Rents on conventional office space are expected to remain relatively stable in the near future due to a dearth of new product, with only limited inflationary increases expected.



## Industrial Market Conclusion

While the industrial inventory has 193 assets totaling 4.2 million square feet, approximately 40% of this space is located in only 11 buildings. These buildings are entirely located along US-301 east of the Site, with the newer, larger assets in Prince George's County, closer to roadway arterials.

Market Area vacancy is low at 4.0% as of Q1 2014, which is the result of a low inventory, with no new development in the pipeline. While the five-year average net absorption averaged 30,000 square feet per year, this number was inflated by a single very large transaction in late-2009. The trailing twelve-month net absorption was 7,509 square feet, which is likely more indicative of future trends.

The growth in tech-related businesses in the Market area over the past five years may present an opportunity for additional flex space from smaller tech and R&D users, despite a lack of demand for new large-scale industrial space in the Market Area.

The Market Area currently has 135,000 square feet of flex space in its inventory. This space is comprised of some of the newest assets in the Market Area. There is the possibility of additional demand for flex space in the Market Area moving forward; however the Site's location will limit the attraction of flex users from beyond the market. Any new users would likely come from within the Market Area and larger Charles County / Southern Maryland community and likely not occupy more than 30,000 to 50,000 square feet.

## Retail Market Conditions

### Inventory

Major retail uses in the Market Area are heavily concentrated around population centers along US-301, 12 miles east of the Site. The retail inventory in the Market Area includes several large-scale properties servicing the entire Southern Maryland market and the eastern suburbs of Washington, DC:

- St. Charles Towne Center in downtown St. Charles along US-301
  - The only super-regional mall in Southern Maryland, with approximately 1,100,000 square feet of space.
  - Built in 1989 and operated by Simon Property Group. The project underwent a major renovation in 2007.
- The Shops at Waldorf Center, located in Waldorf at the intersection of US-301 and MD-227
  - A 470,000 square foot power center with big-box national anchor tenants, including Babies 'R' Us, CVS, Model's Sporting Goods, Staples, PetSmart, hhgregg, and Ross Dress for Less, among others.
  - The Shops attract 3.4 million shoppers annually.

- Originally developed by Madison Retail Group in 1992, there is a planned 110,000 square foot expansion.
- Waldorf Marketplace, located in Waldorf along US-301
  - 475,000+ square feet of big box retail including Safeway, TJMaxx, HomeGoods, DSW and Office Depot.
  - Developed over three phases, the development has approximately 57,850 square feet of available space across 10 properties.

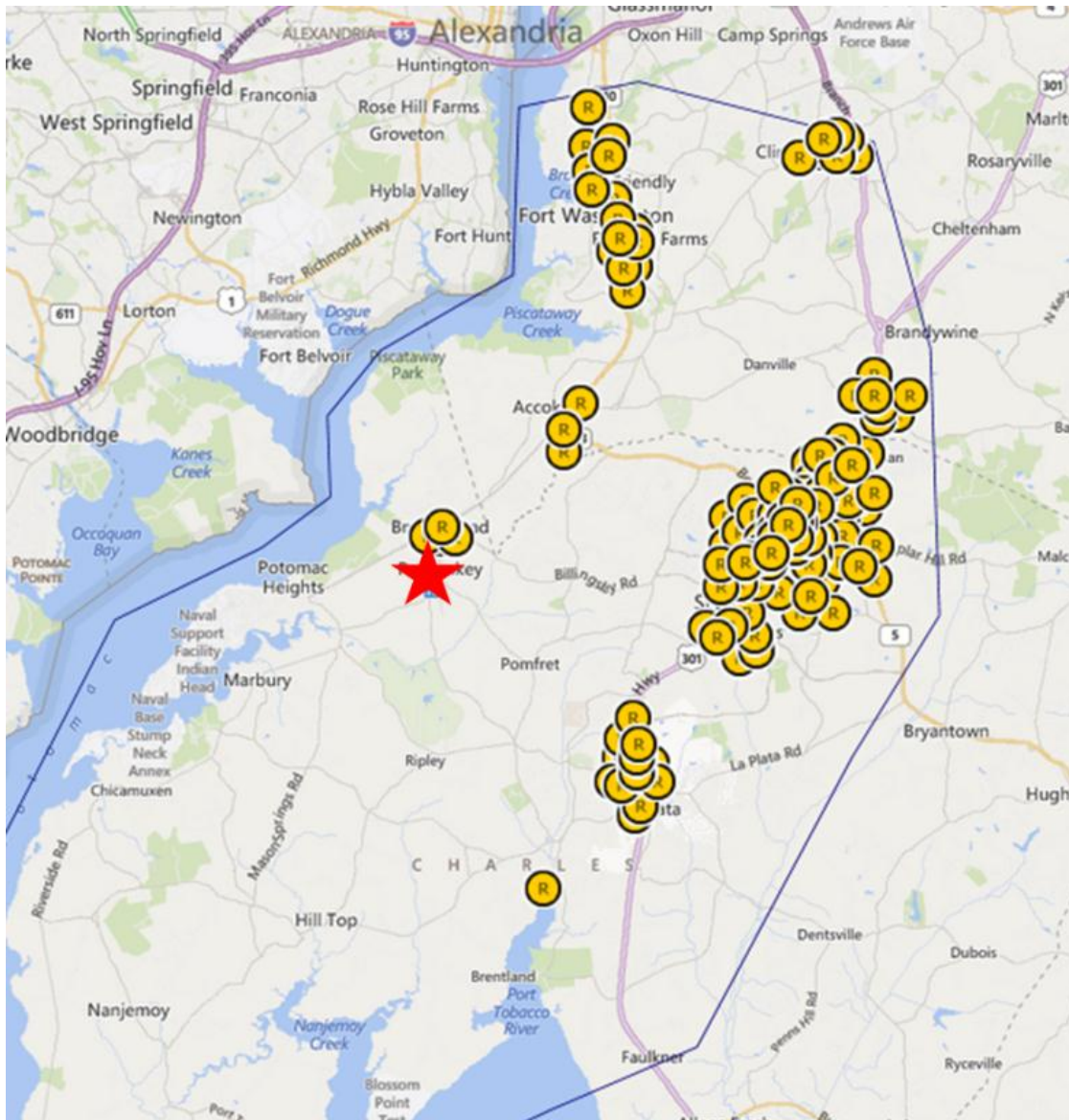
There are also a number of community retail assets located along US-301 in St. Charles, Waldorf and La Plata. These include free-standing big-boxes such as Lowes and Walmart, as well as centers including:

- Bryans Road Shopping Center: a 170,000 square foot grocery-anchored neighborhood center, anchored by Dollar General, Safeway and a number of restaurant and personal care services. Built in the 1970s and renovated in the early 1990s, it is the largest retail center near the Site.
- St. Charles Towne Plaza: a 300,000 square foot community mall located immediately south of St. Charles Towne Center.
- Rosewick Crossing: a 300,000 square foot regional community center in La Plata.
- Brandywine Crossing: a 450,000 square foot power center anchored by Costco, Target and Safeway, with an additional 400,000 square feet of retail space planned.

Market Area – Key Retail Market Statistics	
<b>Number of assets</b>	736
<b>Inventory</b>	10,376,000 square feet
<b>Development activity</b>	1.65 million square feet across 82 properties delivered during the last decade, mostly pre-recession. Only 300,000 square feet have been completed since the end of 2008.  There are no properties currently under construction.
<b>Vacancy (Q1 2014)</b>	5.0%
<b>Trailing-year annual net absorption</b>	Approximately 50,000 square feet
<b>Quarterly net absorption (4-year average)</b>	17,000 square feet
<b>Gross Leasing Activity (2009 - 2013)</b>	830,000 square feet
<b>Median lease exposure time</b>	20 months
<b>Average estimated rental rate (deal rate)</b>	\$16.10 per square foot per year (triple net equivalent)
<b>Average Cap Rate</b>	8.0%

While there is only limited large commercial development within close proximity of the Project Site, these retail centers provide the Market Area with approximately 3.2 million square feet of existing retail space, with an additional 500,000 square feet planned. The large quantity of new retail space within the Market Area likely limits the potential for large retail use at the Project Site, which is identified with a red star, in the near future.

Map: Retail Space within the Market Area



Source: Costar Property, 2014

With the exception of three retail projects in Bryans Road, all retail development is densely located in Fort Washington, Accokeek, La Plata, St. Charles and Waldorf. The three adjacent retail assets include an older shopping plaza (Safeway, Subway, Dollar General) and other developments (Sunoco, CVS, McDonald’s, Burger King) at the intersection of Indian Head Highway and Livingston Road. Anecdotally, these retailers appear to experience healthy transaction volume, although the Site’s interior location and limited visibility from Indian Head Highway makes the attractiveness of additional retail on the Site uncertain.

The 17 largest retail centers in the Market Area are summarized in the table below:

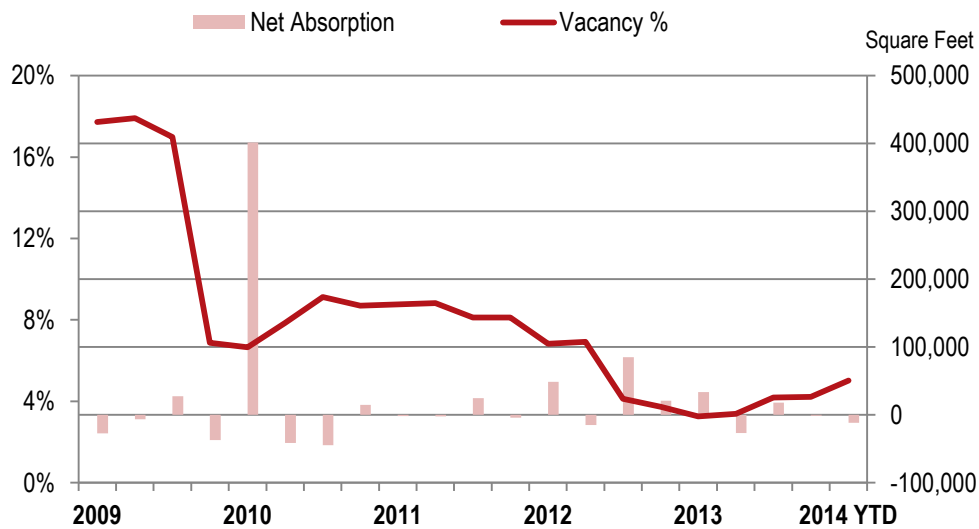
**Inventory: Largest Retail Centers within the Market Area**

Name	Type	GLA	City	% Leased	Year Built / Renovated
St. Charles Towne Center	Super Regional Mall	982,460	Waldorf	96.9	1990
St. Charles Towne Plaza	Community Center	324,546	Waldorf	76.5	1987
The Shops at Waldorf Center (Phase 1)	Power Center	247,498	Waldorf	76.9	1987
Waldorf Shoppers World	Power Center	220,788	Waldorf	92.8	1971 / 1990
Costco	Power Center	148,000	Brandywine	100	n/a
Charles County Plaza	Neighborhood Center	143,000	Waldorf	99.2	1980 / 2004
Waldorf Marketplace	Power Center	142,633	Waldorf	97.2	2006
Lowe's	Community Center	140,000	La Plata	100	2008
The Shops at Waldorf Center (Phase 2)	Power Center	128,797	Waldorf	97.5	n/a
Target	Power Center	128,500	Waldorf	100	n/a
Target	Power Center	127,000	Brandywine	100	2008
Giant	Community Center	125,872	La Plata	90.3	2008
Target	Community Center	122,000	La Plata	100	2007
Bryans Road Center	Neighborhood Center	121,175	Bryans Road	73.7	1972 / 1992
Safeway, Marshalls & Jo Ann's	Power Center	114,362	Brandywine	100	2008
Smallwood Village Center	Community Center	113,645	Waldorf	75.4	2005/2012
Waldorf Marketplace II	Power Center	108,469	Waldorf	100	2007
Livingston Square	Neighborhood Center	107,337	Fort Washington	79.4	1976/1992
<b>TOTAL</b>	-	<b>3,417,582</b>	-	-	-

**Vacancy Rate and Absorption**

Over the past five years, the Market Area vacancy rate has steadily declined as there has been a limited introduction of new product. The retail market strongly favors newer assets as developments that were constructed post-2008 generally have vacancy rates that are lower than 3%, while older product from the late 1980s and early 1990s may have vacancies as high at 25%.

Over the next five years it is expected that vacancy will hold steady around 5.0% as much of the new retail development is build-to-suit rather than speculative. Demand will remain low for dated assets, while new products will continue to out-perform the Market Area average.



**Lease Transactions**

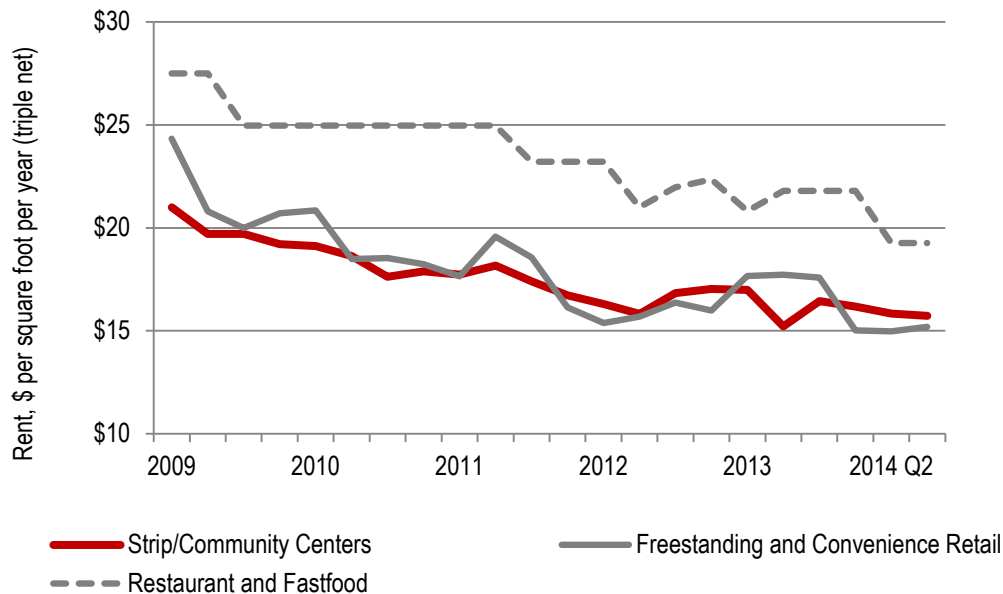
Over the past five years there has been a total of 88 lease transactions, or an average of 17.6 leases per year. Moreover, the transaction volume has been relatively stable per year – with lease volume ranging from a low of 15 transactions in 2010 to a high of 19 transactions in 2012 – indicating that the market has stabilized and there is a limited amount of net new absorption year-to-year.

**Rents and Sales**

Retail rents in the Market Area on a per-square foot per year basis have stabilized over the past three years across various retail types. The average triple net retail rent in the Market Area for strip/community centers is \$16.10 per square foot per year. The recent average retail sales price on a per-square foot basis has increased relative to the trailing five-year average.

Sales Parameters	Past Year Average	Trailing Five-Year Average
Sale Price per SF	\$182	\$176
Asking Price per SF	\$214	\$200
Sales Volume (\$M)	\$43.00	\$45.00
Actual Cap Rate	7.90%	7.40%





## Retail Market Conclusion

There is a large inventory of retail assets in the Market Area; 10.4 million square feet are spread among 736 assets. While the assets vary in type, quality and size – from recently renovated super-regional malls to lower quality convenience stores – the majority of these assets are located in the dense residential nodes of Fort Washington, Accokeek, La Plata, St. Charles and Waldorf – points further east and north of the Site. Local retail development near the Site is limited to grocery, fast-food/fast casual dining, gas station and pharmacy uses at the Bryans Road Center.

Q1 2014 Market Area retail vacancy remained low at 5.0% as the large and growing residential population drove retail demand in the population nodes. Moreover, the market favors quality and new retail assets. The average triple net rent in the Market Area for strip/community centers is \$16.10 per square foot per year, which is comparable to freestanding retail.

In addition to the large retail inventory, there is an additional half a million square feet planned or under development, which limits large commercial use at the Project. Large scale development at the Site is further hampered by the existing limited access and visibility to Indian Head Highway. Despite the lack of clear large commercial viability at the Project Site, there is the potential for smaller retail uses, which would be supported by the growing residential population in Bryans Road, as well as possible other uses that may locate at the Site.

## Residential Market Conditions

### Inventory

While the Market Area has remained relatively rural, there has been a recent growth in single-family housing construction in the Market Area and Charles County specifically. There are 20 recently completed or under development single family residential projects in Charles County, for which data were readily available, with the majority of these developments focused in Waldorf.

Community Name	Developer	Project Location	Home size (SF)	Average home price (\$)	Development Status
Autumn Hills	Ryan Homes	Waldorf	2,265 - 3,486 SF	\$370,000- \$420,000	Under Development
Colonial Charles	Ryan Homes	Waldorf	1,730 - 2,378 SF	\$280,000- \$340,000	Completed
Sunridge	Ryan Homes	Waldorf	1,680 - 2,760 SF	\$340,000 - \$380,000	Under Development
Greenhaven and Worthington	Ryan Homes	Waldorf	2,229 - 3,060 SF	\$340,000 - \$380,000	Under Development
Fieldside at St. Charles	Ryan Homes	Waldorf	1,407 - 3,060 SF	\$340,000 - \$380,000	Under Development
Gleneagles at St. Charles	Lennar	White Plains	2,514 - 3,372 SF	\$372,990 - \$414,990	Under Development
The Preserve City Homes	Ryan Homes	Accokeek	1,904 - 2,520 SF	\$330,000 - \$360,000	Under Development
Agricopia	Ryan Homes, Steuart Kret	La Plata	2,560 - 3,060 SF	\$370,000 - \$410,000	Under Development
Middletown Woods	KB Home	Waldorf	2,296 - 3,079 SF	\$355,990 - \$386,990	Under Development
Stonewall	KB Home	Waldorf	2,302 - 2,931 SF	\$331,990 - \$371,990	Under Development
Portfield Crossing	Lennar	Waldorf	2,514 - 3,372 SF	\$359,000 - \$419,990	Under Development
Inverness	Steuart Kret	Hughesville	2,854 - 6,323 SF	\$382,900 - 488,900	Under Development
Coachman's Path	Quality Built Homes	Waldorf	2,215 - 3,420 SF	\$409,000 - 459,900	Under Development
North Pointe	Quality Built Homes	Waldorf	2,213 - 3,174 SF	\$339,900 - \$374,900	Under Development
Turtle Creek	Quality Built Homes	Waldorf	2,215 - 3,494 SF	\$409,900 - 459,900	Under Development
Knotting Hill	Marrick Homes	Port Tobacco	1,864 - 4,548 SF	\$387,900 - \$599,900	Completed
Belmont	Marrick Homes	Hughesville	1,864 - 4,548 SF	\$388,900 - \$600,900	Under Development
Ridge Grove Estates	Marrick Homes	Hughesville	1,864 - 4,548 SF	\$405,900 - \$602,900	Under Development
Canterleigh	Marrick Homes	Hughesville	1,864 - 4,548 SF	\$386,900 - \$583,900	Under Development

Leighland Meadows	Richmond American Homes	Waldorf	2,350 - 3,013 SF	\$352,990 - \$462,556	Under Development
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These projects will bring approximately 2,000 to 2,500 new housing units to the Market Area once they are fully built-out. These communities are on average 150 acres and have approximately one acre per home; however there is variability in these statistics. For example, Iverness in Hughesville is 275 acres, while Knotting Hill in Port Tobacco is just 57 acres.

With an average home size of approximately 2,500 square feet and an average sales price of approximately \$350,000, the average price per square foot is \$140. Compared to an average sales price of approximately \$372 per square foot in the larger MSA, these properties represent tremendous value and help explain the recent rise in residential community development in the Market Area. The low cost of living and the accessibility to the larger Metro Area further drive this new development.

Residential development in Charles County is expected to continue as private developers are able to purchase large parcels of land for prices that are less expensive than in more highly built-out sections of the MSA.

**Land Comparables**

Over the past four years, the Market Area experienced 13 land sales for single-family residential development. The sales ranged from 13.5 acres to 500 acres; similarly there was a large range in what the buyers paid per acre of land, from a minimum of \$8,672 to a maximum of \$198,925 per acre. The average sale price per acre in the Market Area is \$68,200 per acre, with an average transaction size of 136 acres.

Address	Sale Price	Sale Date	Land Area (AC)	Price / Acre	Buyer
McKendree Rd, Brandywine	\$10,958,865	Mar-13	393.33	\$27,862	Walton International Group
Berry Rd, Waldorf	\$7,300,000	May-12	105.72	\$69,053	Watt Companies
Berry Rd, Waldorf	\$4,850,000	Jul-11	500.72	\$9,686	Walton International Group
6315 Floral Park Rd, Brandywine	\$3,873,693	Mar-13	275.67	\$14,052	Walton International Group
6900-6910 Simmons Ln, Clinton	\$2,800,000	Dec-11	18.00	\$155,556	Ryan Homes
12811-12814 Hallwood Pl, Ft Washington	\$2,110,724	Feb-12	13.57	\$155,598	D.R. Horton, Inc.
Nancy Ln & Odlanyer Ct, Ft Washington	\$1,200,000	Dec-11	13.50	\$88,889	D.R. Horton, Inc.
Billingsley Rd, Waldorf	\$1,184,000	Feb-11	24.82	\$47,703	Lennar Corporation
Cedarville Rd, Brandywine	\$190,000	Jun-13	21.91	\$8,672	Unknown
Unlisted Address, Waldorf	\$1,463,466	Dec-12	25.74	\$56,856	Unknown
Berry Road, Waldorf	\$5,623,598	Aug-11	28.27	\$198,925	Unknown
2475 Archway Lane, Bryans Road	\$1,000,000	Jan-13	23.90	\$41,841	Unknown
6910 Accokeek Road, Brandywine	\$3,873,693	Mar-13	326.14	\$11,877	Unknown
<b>AVERAGE</b>	<b>\$3,571,388</b>	-	<b>136.25</b>	<b>\$68,198</b>	-

## Residential Market Conclusion

The Market Area's proximity to multiple employment nodes in the greater Washington MSA, as well as its low cost of living relative to surrounding communities has spurred single-family residential development in recent years.

Currently the Market Area has 20 new residential projects currently under development or recently completed. With an average sales price of \$140 per square foot compared to the MSA's average of \$372, the Market Area represents tremendous value for homebuyers; demand for newly constructed single-family homes is expected to continue in the near future as neighborhoods in the Market Area, including Bryans Road, continue to expand. These neighborhoods are among the fastest growing residential communities in the State of Maryland.

Based on thirteen recent large land sales comps in the Market Area, the average transaction was 136 acres at a price of \$68,200 per acre of land for single-family residential development.

## NSF IH Related Demand

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### Overview of NSF IH and Potential Demand

The Naval Support Facility Indian Head is the second largest employer in Charles County, with 3,032 individuals working on Base as of 2013. Of these individuals, 1,988 are civil servants and 469 are federal contractors.<sup>2</sup> An additional 575 individuals are active duty and reside on-base.

While NSF Indian Head has strategic value for its research and development center and operational support programs, the base is also an economic engine. In FY2013, the base generated over \$560 million in the form of payroll dollars and defense contracts in the State of Maryland.

There are six major commands at NSF IH:

- Naval Surface Warfare Center, Indian Head Explosive Ordnance Disposal Technology Division (NSWC IHEODTD): researches, develops, tests, evaluates and supports energetics and energetic systems. NSWC IHEODTD works to provide active duty members worldwide with the information and technological solutions to detect / locate, access, identify, render safe, recover / exploit, and dispose of both conventional and unconventional explosive threats.
- Naval Ordnance Safety and Security Activity (NOSSA): serves to establish standard policy and procedures for and provide global oversight of Department of Navy explosives safety, ordnance physical security and ordnance environmental matters.
- Naval Support Activity South Potomac (NSASP): oversees Naval Support Facility Dahlgren, Virginia and Naval Support Facility, Indian Head, Maryland. The mission of the command is to sustain combat readiness through effective shore installation management and support. Shore installation management functions encompass all land, buildings, and support services. As the base landlord, NSASP provides management functions as the supporting command to more than a dozen supported commands and other activities located at NSASP installations.
- Naval Sea Logistics Center, Detachment Indian Head (SEALOG): provides testing, prototyping, and implementation of corporate and logistics related information applications for the naval shipyards, fleet support and logistics activities and program executive offices.
- Joint Interoperability Test Command (JITC): supports the warfighter in their efforts to manage information on and off the battlefield.

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<sup>2</sup> These individuals utilize on-base work spaces during at least half of their annual working hours.

- U.S. Marine Corps Chemical Biological Incident Response Force (CBIRF): responds to terrorist incidents involving the use of chemical, biological, radiological or nuclear weapons of mass destruction.

As mentioned above, 469 defense contractors work across these Commands, with NSWC IHEODTD and JITC employing the majority of these individuals, with 240 and 184 contractor employees respectively, representing 51.2% and 39.2% of the total contractor presence on base.

The Project Site was originally envisioned to be occupied by federal contractors who hold contracts with NSF Indian Head, which is in line with the County's target industries (specifically defense intelligence/homeland security and federal agency back office / continuity of operations). However, there are a limited number of contractors on base as compared to other nearby installations. These individuals are spread across a variety of firms and job functions, as discussed below, which limits their demand for local space off-base.

In order to assess the market demand for the Site as it relates to NSF IH, JLL reviewed the federal contractor market in the Washington, DC MSA, met with Base Leadership, toured the Installation, had a teleconference with the State's Office of Military Affairs, met with other Charles County stakeholders and researched and gathered due diligence on base federal contractors to ascertain market demand as originally envisioned.

### **Federal Contractors in the Washington DC MSA**

In the Washington DC MSA, sequestration and government uncertainty drastically impacted the government contractor market as firms cut back on employment levels, real estate footprints and expansion efforts. However, the December 2013 passage of a budget is expected to guide government contractors in making long-term real estate decisions.

Seven of the top ten government contractors in terms of prime, unclassified contracts saw total government contract dollars decline in 2013. Northern Virginia, perhaps the highest concentration of federal contractors in the nation, saw decreases in federal procurement spending; from \$43.0 billion in 2010 to \$21.4 billion in 2013.

Leasing activity in the MSA from government contractors has not dramatically increased in early 2014; Q1 2014 saw 29 transactions totaling 495,408 square feet, down from 37 transactions totaling 748,164 square feet in Q4 2013. While the scaling back of sequestration cuts is expected to modestly expand real estate footprints as contract money increases, about \$60 billion of sequestration cuts were restored to the budget over the next two years, leading to lingering uncertainty in to 2015.

The government contractors who have fared the best in the past year have been in protected markets including cybersecurity; healthcare IT; and intelligence, surveillance and reconnaissance.

The five largest lease transactions in Q2 2014 all occurred in Northern Virginia, and included:

- Argon ST: 165,000 square foot renewal in Fairfax Center

- USIS: 62,255 square foot renewal with contraction in Tysons Corner
- Solers: 35,483 square foot renewal with contraction in Route 28 South
- RadiantBlue Technologies: 33,713 square foot renewal in Route 28 South
- SES Government Solutions: 30,006 square foot relocation to Reston

## Base Leadership and Site Tour

On June 25, 2014 JLL and the County toured NSF Indian Head and the Stump Neck Annex and met with the Commanding Officer of Naval Support Activity South Potomac (NSASP), as well as the Commanding Officer's Public Affairs Officer, the NEPA Compliance and Cultural Resources Director, and the Environmental Director ("Base Leadership"). The purpose of the site tour and discussions with Base Leadership were to understand the current operations of the base, informally assess the condition of real assets on-base, and quantify the base's decision-makers' views on the surrounding market.



It is important to note that discussions were with the Commanding Officer of the Installation. Each of the six major commands also has leaderships and operates on their own funding streams with independent mission objectives. NSASP provides operations support for the major commands and tenant activities on base and essentially functions as the "landlord" for NSF IH.

During the site tour, JLL and the County discussed with the Base Leadership the operations of NSF Indian Head, future plans for the Base, as well as their impressions of the larger Indian Head community. These discussions yielded important insights into the future of the base, as well as provided guidance into the Site's market positioning.

In discussion with Base Leadership, the core operations at NSF IH are primarily those of technical ordnance research and development (R&D), and controlled disposal of explosives. These functions are exclusively performed in secure federally-owned buildings on base, with federal contractors required to receive base access clearance to work in these facilities. In addition, there are few single-use office buildings on base related to the six major commands. While there are new lab spaces and a possible data center, the major commands require integrated lab-office-storage space and are such that relocating these operations off base is not possible.

As indicated by Base Leadership, the majority of tasks undertaken by federal contractors employed by NSWC IHEODTD are blue collar positions that provide support labor. Federal contractors at JITC are generally computer scientists and information technology specialists; however these individuals are often required to work on base in secure facilities. While NSWC IHEODTD and JITC combined employ the majority of federal contractors at NSF Indian Head, their roles are such that they likely would not be relocated to "outside the gate" (i.e. on land outside the secure NSF Indian Head perimeter).

Moreover, Base Leadership sees no change in major commands over the next 10 to 25 years, meaning that there likely will be no large increase in defense contractors on base in the near to mid-term.

Despite these impressions, Base Leadership did express their belief that the Market Area has a dearth of quality retail and restaurant options adjacent to the base, which has negatively impacted the quality of life of civil servants, active duty members, and federal contractors. In addition, Base Leadership stated that the majority of civil servants and federal contractors live in La Plata, approximately 15 miles to the east. The impression of the Base Leadership is that there is local demand for housing not currently met near NSF Indian Head.

Base Leadership did not comment on the viability of industrial assets at the Project Site.

## Maryland Office of Military Affairs

On July 10, 2014 JLL and the County held a teleconference with General Michael Hayes (ret.) and his staff at the Office of Military Affairs (OMA) in the Maryland Department of Business and Economic Development. OMA is responsible for helping ensure military vitality and improving access by Maryland businesses for technology commercialization and partnering. General Hayes is also a member of the Maryland Military Installation Council, which works to identify what public infrastructure and community support is needed for the development and expansion of the State's military installations, as well as what the potential impact of development and expansion will be on local communities.



OMA provided a general macro-level view of the military presence in the State and in Charles County, as well as opinions on the future of the installation. Due to perceived redundancies and a desire to consolidate operations, in 2005 as part of the BRAC process, the Department of Defense (DOD) recommended realigning the base by relocating all weapons and armaments research, development & acquisition, test & evaluation, and energetic materials to Naval Air Weapons Station China Lake, in California. However, the majority of BRAC recommendations were not pursued, resulting in a loss of only approximately 95 civilians at the Base.

Over the past two decades, there has been interest in the Base from multiple stakeholders. Before the economic downturn during earlier rounds of BRAC (1995 and 2005), the DOD was approached by the private development community to purchase the Installation for redevelopment. Notably, the developers understood the cost of site remediation work, and still found the property marketable. Post-recession, there have not been similar offers.

OMA understands the economic impact that the Base has in the community, and the Office sees a lot of value and potential in the Base's location for military functions. While additional branches of the military have contacted the office to discuss relocating to unused portions of the property. Additional missions or DOD functions could spur demand for off-base development; however nothing has yet to materialize.



However, OMA stated that NSF IH may be at BRAC risk again in as early as 2015, and believes that the future of the Base is the most volatile military installation in the State of Maryland. While some functions at the Base are necessarily tied to its geography, such as the Chemical Biological Incident Response Force (CBIRF), many of the Base's missions could be realigned due to a growing federal concern that there is a redundancy in DOD energetics lab space throughout the nation.

OMA believes there is a strong potential that NSF IH will be affected during the next round of BRAC; either some key functions will be realigned to another installation, or other missions will be realigned and locate at Indian Head.

The Base currently does not have enough of a presence to spur additional off-base demand for space from contractors and related users. However, the determination of the future of the Project should not be dependent upon the uncertain future of the Base. While there may be calls for realignment of Indian Head, there are also key political, economic and geographic considerations that will counterbalance future discussions. OMA believes that the Market Area's strength in demographics, growing residential market and its location proximate to Washington, DC will be strong sources of future use of the Site, regardless of future Base activities. The number of advanced degree holders in the fields of chemistry and energetics are an especial highlight; private industries and university-backed research institutions may be drawn to the Market Area's intellectual capital in these fields.

## Other Stakeholders

On July 30, 2014 JLL and the County met with the Senior Staff of the Energetics Technology Center (ETC). Located in Waldorf, Maryland, the ETC is a 501(c)(3) non-profit organization with a charter to promote the development of science and engineering activities in Southern Maryland. ETC is an applied research and development organization that primarily contracts with the DOD in the fields of energetics, robotics & autonomy, informatics, platform vulnerability, incubation and policy development.



ETC has important insights into the technology and energetics business sectors in the Market Area. Importantly, in July 2013 ETC opened Techfire – an incubation center that targets women, minority and veteran technology entrepreneurs in the technology fields. To date, Techfire has six member firms, with an additional eight undergoing pre-screening for membership.

The Senior Staff were familiar with the Site, the Project vision, and its history. The Senior Staff reiterated the high levels of educational attainment in Charles County, as well as the daily “brain drain” that is the result of these individuals commuting to the Naval Research Laboratory and other points north in downtown Washington, DC. These same individuals are innovators; as of 2012 Charles County residents held 879 patents (497 active patents), representing a significant level of human capital.

While ETC did not believe the likelihood is high of attracting a major government contracting firm to the Site (to be discussed in more detail below), ETC believes it would be possible to attract a university or other institution that could, in coordination with the ETC, establish a tech-based incubation flex space that would in-turn create more demand for space at the Project. This tech-based assertion is in-line with the growth in this field observed in the Market Area.

As individuals attuned to the business climate in Charles County, the Senior Staff also provided input on business recruitment leads to the County.

**University Tenants**

ETC indicated that an academic institution would be an attractive user for the Site. This user would operate educational and research functions, potentially including flex space or incubation facilities. The recruitment of a university as a space user would largely be pursued in the same fashion as a private tenant.

Attraction of these users would be difficult to predict in much the same way as a private tenant, however there are additional steps that the County could take to influence decision-makers in academia. For example, the County should collaborate with ETC to liaise with public universities concerning opportunities for expansion, including the College of Southern Maryland and the University System of Maryland (which does not have a presence in Charles County). University involvement may include a role as major as a new university campus (which has a low likelihood), to as limited as co-sponsoring a research facility (which is more feasible).

Discussions with these institutions will elucidate the probability of bringing an academic presence to the Site. In these discussions, the County should focus on its key attributes (i.e. human capital, proximity to Washington, DC, the growing residential population, and new development in communities to the east) when discussing the benefits of locating at the site.

**Active Contractors at Indian Head**

Through discussions with the County, the Public Affairs Officers for Naval Support Activity South Potomac and Joint Interoperability Test Command, and local news sources, JLL has identified the following firms as currently or recently holding professional services contracts with Indian Head.

Professional Services Contractors	Nearest Corporate Office	Distance from NSF IH (mi)	Headcount at Nearest Corporate Office (est.)
Accountable Solutions Inc.	La Plata, MD	15	10
Advanced Vision Systems Inc.	Indian Head, MD	1	10
Alutiq	Vienna, VA	40	100 - 150
Applied Research Corporation	Arlington, VA	30	10
Arinbe Technologies, Inc.	Arlington, VA	30	10
BAE Systems	Washington, DC	25	150
Booz Allen Hamilton	Washington, DC	27	1,000+

Professional Services Contractors	Nearest Corporate Office	Distance from NSF IH (mi)	Headcount at Nearest Corporate Office (est.)
CACI International Inc.	Arlington, VA	30	400
Camber Corp	Washington, DC	25	20
Concurrent Technologies Corp	Jessup, MD	55	150
Cruz Associates	Yorktown, VA	130	150
Culmen International	Alexandria, VA	25	50
Eastern Research Group	Arlington	30	42
EHS Technologies Corp	Columbia, MD	60	10
EMCUBE Inc.	Alexandria, VA	25	20
Engility Corp	Lexington Park, MD	60	100
Enterprise Ventures Corp	Jessup, MD	55	150
Fairfield Systems	Catonsville, MD	65	10
Garcia Information Systems Corp	Indian Head, MD	1	15
Gateway Ventures Inc.	Upper Marlboro, MD	30	10
Georgia Tech Research Institute	Aberdeen, MD	100	15
Herd Consulting	Chelsea, AL	700	40
ICI Services Corp	Washington, DC	25	100
Inmedius	Pittsburgh, PA	300	50
Leidos	La Plata, MD	15	10
ManTech International	Alexandria, VA	25	40
National Technologies Associates Inc.	Alexandria, VA	25	500
Quantell Inc.	Taneytown, MD	100	10
R3 Strategic Support Group	Virginia Beach, VA	200	20
SAIC	La Plata, MD	15	10
SRA International Inc.	Washington, DC	30	150
T & W Operations	Fort AP Hill, VA	60	Unknown
Technology Management Group	King George, VA	40	15
TSM Corp.	Arlington, VA	30	10
VSE Corp.	Alexandria, VA	25	150
Wyle Aerospace	Arlington, VA	30	90
Zekiah Technologies Inc.	La Plata, MD	15	11

While more than 70 firms hold contracts with NSF IH, the 37 firms listed above are those that provide professional services to the Base (52.8% of all contractors); other services, such as materials supply, manufacturing support, compliance oversight, custodial or equipment maintenance functions, etc. were excluded as these firms are not likely to require additional off-base space in line with local demographics and economic development goals.

It should also be noted that the scope and size of contracts with these firms varies substantially, including one-off project consulting, professional management, certified public accounting services,

IT support, and indefinite delivery / indefinite quantity contracts. Some of these engagements can be performed remotely, while others must be performed on-base, or would benefit from being nearby.

Upon first review of the list of contractors, it is important to note that the average distance of the nearest corporate office to NSF IH is approximately 65 miles; however if the three furthest distances are removed (Herdt Consulting at 700 miles, Inmedius at 300 miles, and R3 Strategic Support Group at 200 miles), that distance decreases to approximately 35 miles, which is generally within a 30 to 45 minute drive of NSF IH.

Furthermore, due to security restrictions, as well as shifting contracts, it is not possible to determine the numbers of contractors per firm who work on-base. While the total number as of 2013 was 469 contractors who spend at least half their time on base, many of these individuals may not be employees providing professional services. Therefore, if we assume that 52.8% of all on-based contractors provide professional services, there are 248 individuals who work at 37 firms, or approximately 7.5 individuals per firm. While this estimation is very rough (for example, one firm may have sixteen employees on-base while another may have zero) it demonstrates that overall there is a limited full-time contractor presence on-base.

**Top Indian Head Contractors**

Based on available data, the following ten firms are the largest by total number of employees and/or total revenue (as of 2013) that hold contracts with NSF IH. Nine out of ten of these firms were listed among the top 100 firms to receive federal contracts based upon award amount in the year 2012, the most recently available year. These firms are the only ones ranked that do business at NSF IH.

Professional Services Contractors	2012 Federal Contracting Dollars Rank (out of 100)	Total Employees (as of 2013)	2013 Revenue (\$ billion)
BAE Systems	20	88,200	\$30.89
Booz Allen Hamilton	8	26,000	\$5.76
CACI International Inc.	14	15,300	\$3.71
Camber Corp	71	600	\$0.69
Engility Corp	N/A	10,000	\$2.00
SAIC	4	14,000	\$4.00
SRA International Inc.	29	5,700	\$1.14
Concurrent Technologies Corp	81	N/A	\$0.23
ManTech International	17	10,000	\$2.31
Wyle Aerospace	30	4,800	\$1.10

Our analysis focused on these firms because their size and general dominance in the federal contracting business market represent the types of game-changing users originally envisioned to locate at the Project Site in office space of up to 1.1 million square feet. These users typically occupy

quality space in large footprints on corporate campuses and are located in communities near their clients. Other, smaller firms who hold contracts with Indian Head would not have large space requirements, or as closely meet the County's economic development goals.

In many instances, JLL has pre-existing relationships with the largest private contractors, including the firms listed above. Using our business network, office researchers, and market presence, our firm has insight in to the space needs, footprints, and lease terms of these firms. Moreover, our connections allowed us to directly receive insight into the future location factors and decisions of the firms. JLL also analyzed the existing lease terms and conditions for each firm, totaling nearly 60 leases in the Washington Metro.

All hold multiples leases in the Washington, DC MSA. For example:

- SAIC holds 15 leases totaling approximately 595,000 square feet.
- BAE Systems holds 11 leases totaling approximately 520,000 square feet.

The largest leases held for each firm are in northern Virginia. The northern Virginia market offers proximity to multiple military installations, the Pentagon, federal buildings in downtown Washington, and is largely transit-accessible for employees. For example:

- CACI International occupies 160,000 square feet in Chantilly, Virginia.
- SRA International occupies 162,500 square feet in Chantilly, Virginia.

**SAIC is the only of the top-100 government contracting firms to have a corporate office in La Plata, approximately 15 miles from the Base. SAIC has a 5,000 square foot lease on Howard Street, directly off US-301.**

**None of the other top-100 firms have corporate offices in the Market Area.**

These firms prefer to occupy Class A and B+ properties. Of the leases analyzed:

- 67.9% (38 properties) were Class A.
- 30.4% (17 properties) were Class B.
- 1.8% (1 property) were Class C.

## **Summary: Base Related Demand**

**Based on our analysis and the discussions detailed above, it appears that there is a very low likelihood that a large, federal contractor would choose to anchor the Project Site.**

Base Leadership, the Office of Military Affairs, the ETC and JLL's market insight and contractor due diligence support this assertion, which is based on the following broad factors:

- There have been only limited local recruitment efforts for these type of firms, and demand for the Site has not materialized since Project inception.

- Overall, there is low demand for large, quality office and industrial space in the Market Area.
- The Market Area's character and location are not attractive to the federal contracting community; the Market Area does not have a supply of the type of asset preferred by these firms.
- The contractor presence on-base is low and there is very limited history of firms locating "beyond the fence" at Indian Head.
- The future of Indian Head is uncertain and contracting firms can easily access the base as-needed from more densely populated geographies in Washington, DC and northern Virginia.
- These firms locate "where this money is" in nodes closer to the seat of the federal government.

It is the role of County leadership to make informed decisions about allocation of funding, particularly as it concerns increased recruitment efforts of federal contractors. Our analysis has revealed that there is low likelihood that this site would attract a contractor user given current conditions. While the County, as owner of the property, has the ability to subsidize any transactions in order to attract the desired user, the County should be mindful of the balance between subsidizing the project and financial returns, particularly given that other build-to-suit sites presented above would be more attractive during the site selection process.

## Conclusions: Market and Base-Related Demand

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### General Conclusions

The lack of demonstrated market demand explains the current situation at the Project. The private joint-venture development partners' initial plans for the Project were based on speculative future demand for office and industrial product types based upon assumptions of future growth related to the Naval Support Facility Indian Head. These expectations – and the associated risk – were back-stopped by the public-private partnership, which incentivized the creation of the Project. However, to-date this demand has not materialized, and it appears unlikely that NSF IH commands will create this demand in the future.

In this report, JLL has worked to measure and understand the current and future demand for the Project as initially envisioned. As previously detailed, it is our opinion that the demand for the initial Project is very low and that it is unlikely that a large federal contractor anchor will materialize at the Site. Moreover, current market trends suggest that the full build-out of the Project as previously envisioned with 1.1 million square feet of office, 379,000 square feet of industrial and 21,000 square feet of retail product would be an extremely lengthy process, while other more limited scopes could be achieved on shorter timeframes as discussed below.

However, there is potential limited demand for the Project Site for multiple product types that are not directly related to the military operations at Indian Head.

### Conclusions: Office Demand

The office market in the vicinity of the Site is off-transit and in a lower-density suburban environment, just as emerging workplace trends are driving office demand in urbanized, transit-accessible locales. To that end, markets like western Charles County and southern Prince George's County are expected to face significant challenges in attracting large office demand in the future. For example, two commercial parks in the eastern portion of the Market Area (Waldorf Technology Park and White Plains Corporate Business Park) are currently under development and are more competitive than the Project Site.

Coupling the quantitative market data and the anecdotal discussions with key local stakeholders and analysis of the contracting firms on base, JLL believes that there may be annual demand for approximately 20,000 square feet of office product per year in the Market Area.

It is unlikely that this amount of absorption would be entirely captured by the Site. An estimate of 50% of market area absorption coming to the site yields an annual demand of 10,000 SF. This

amount of demand is too small to warrant significant construction of office product on the site, except in the case of a potential large one-off user as described above.

**In view of the Market Area office analysis conducted within this report, coupled with the limited one-off demand that is forecasted for Base related users, JLL does not see enough demand in the market to likely justify construction of new office buildings on the Site.**

However, part of the site could potentially be reserved for future build-to-suit development opportunities that would allow a large user to locate at the site, or a speculative office development should market conditions allow.

While tenant attraction efforts may include marketing the site to federal contracting firms, our data gathered from both the Office of Military Affairs, as well as our analysis of the presence of Indian Head contractors indicates that there is very limited demand for sizable commercial office space on the part of the federal contractor community.

**It is possible that users may present demand for small footprints (~ 10,000 square feet) but the project's original vision of large speculative office development tailored to a federal contracting anchor is not marketable at this time.**

## Conclusions: Industrial Demand

**The Market Area does not appear to support large-scale speculative industrial development.**

With an average industrial deal size of less than 5,000 square feet per year and overall limited leasing activity that does not exceed 50,000 square feet annually; there is very limited demand for large-scale industrial and warehousing space in the market area; and therefore on the on the Site. The Bryans Road community does not have a legacy of warehouse and industrial development.

However, as mentioned above, there is small but potentially growing demand for flex industrial product in the Market Area. With a growing working age and educated population in the Market Area, potential interest from tech-related industrial tenants, the Site may offer a potential location for smaller-scale flex development. This is possible given the limited local competition for flex space with no flex development south of Capitol Heights, and the largest known proposed flex development is far removed at an 18-acre commercial site near the Brandywine Crossing Power Center in southern Prince George's County. However, flex development does not necessarily mesh well with the existing character of the surrounding neighborhood.

## Conclusions: Retail Demand

Due to the Site's location on a secondary artery with relatively limited traffic as compared to major thoroughfares and the large amount of retail development in the market area, the Site's retail potential is limited to local retailing that could service the surrounding single-family communities, and find synergies with future commercial uses on the Site, should they arise.



Gaps exist in the local retail mix, such as a higher-end grocer. Issues such as limited frontage on MD-210 reduce the Site's development potential for these uses that demand good roadside visibility.

## Conclusions: Residential Demand

Residential development was not originally included in the plans for the Project Site. However, JLL's analysis revealed a strong and growing residential development trend, that is primarily driven by land values, proximity to the Washington, DC Metro Area, and a high-standard but low-cost of living in the Market Area.

Although approximately 2,000 to 2,500 new housing units are expected to come online in the County over the next two to three years, it is expected that residential demand will remain strong.

It is important to note that, while residential development may not directly meet the County's economic development goal of permanent job creation, the County will realize real property tax income and other benefits from residential development. For example, a new home with an assessed value of \$350,000 will pay approximately \$4,200 in real property tax to the County in 2014.<sup>3</sup>

New housing can also spur additional development of supporting uses, such as pharmacies, grocers, dry cleaners, etc. (local commercial uses), medical offices, legal offices, etc. (local professional services). The Site's accessibility and proximity to commercial nodes in La Plata, Waldorf and St. Charles, and points north, are all amenities that would be valued by potential homebuyers, in addition to the surrounding wooded environment of the Site itself.

## Conclusions: Innovative Users

Due to the size, location and public ownership of the Site, there have been multiple informal proposals to attract an "innovative" or unique user to the Site. Such a user would not be a conventional real estate developer or corporate client, but would instead be an institution, not-for-profit or other non-traditional entity that could anchor a new use not originally envisioned in the Project plans. Specifically, there have been five contemplated innovative user types for the Site: demand tied to National Harbor, a new eco-tourism project such as that suggested in the 2000 Nature and Experiential Tourism study by Fermata, uses related to the Maryland Airport, university and hospital users, and green residential development.

### National Harbor

As discussed above, National Harbor was a unique one-off destination development project. While the Project Site would not be competitive with National Harbor, there is the potential that as National Harbor is built-out, the Site could be positioned to meet additional demand from individuals who commute to National Harbor for work and leisure. Specifically, there will likely be increased

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<sup>3</sup> It is important to note that this estimate is not derived from a full impact study and does not include County costs of services.

residential demand for housing options along the MD-210 corridor. Charles County, which has significantly lower housing costs than the MSA average, could meet the demand using at least a portion of the Site, which is less than 20 miles from National Harbor.

Any additional office demand generated by National Harbor will most likely be met first by pre-existing, healthy office clusters in the eastern and northern portions of the Market Area, and not the Site.

### **Eco-tourism**

As outlined in the Fermata study from 2000, Charles County is home to many prime natural resources which it can leverage to increase its nature tourism in the MSA. The Site is currently undeveloped and is tucked into a low-density environment with rural conservation zoning nearby, as well as State-owned conservation land immediately to the southwest. In order to evaluate and potentially develop the site as an eco-tourism destination, three key efforts would have to be instituted: the County would need to develop and refine its eco-tourism vision for the Site, procure an eco-tourism developer, and substantially increase its MSA-level marketing efforts to attract eco-tourists.

### **Maryland Airport**

Recent and planned improvements to the Maryland Airport will likely increase air traffic in and out of Charles County. While the first airport-related development will most likely occur on the undeveloped industrial land within the airport property, there is the potential to capture spillover effects on the Site. However, these effects would likely be relatively limited because users who require airport access prefer to locate at “on-airport” sites, whereas at the Project Site, any user would have to site itself across Livingston Road. While the County can incorporate the Site’s proximity to the Maryland Airport in to its marketing efforts (and it will be attractive to travelers and certain businesses) we do not believe it is a de facto attractor to the Site.

### **Universities and Hospitals**

Universities and hospitals represent the type of large one-off users that are difficult to forecast because they do not frequently or predictably enter the market for new, ground-up development. JLL does not currently know of any universities or large healthcare institutions who would be interested in locating in the Market Area, however the County can engage in discussions with Maryland institutions to determine the probability of bringing an academic or healthcare presence to the Site.

If such a user is identified, the County would structure a public-public partnership (for public institutions) or a public-private partnership (for private and not-for-profit institutions) whereby the County could long-term lease (typically 99 years) all or a portion of the Site to the institution. The partnership would include a joint-development agreement, in which the County can specify the types of university and hospital uses permitted on the Site, thereby ensuring that the property is used for purposes which are agreeable to the County, while also allowing the institution use of the property.

**Green Residential Development**

Although the Market Area demonstrates sufficient residential demand to support housing development on the Site, JLL understands that the community does not have a unified opinion concerning further residential development in the area. One proposed solution is to procure a residential developer who would improve the Site with green, sustainable design elements that could incorporate new urbanist theories and provide more valuable public amenities, among other concepts. While this product is possible, the demand conclusion is tentative due to the Site’s relative inaccessibility to high-speed public transit, which is typically a near-requirement for a project of that scope; for example, it would take approximately 1 hour and 45 minutes to commute to the Site from downtown Washington, DC via Metrorail and Metrobus service, making the Site prohibitively difficult to access via public transit from DC.

**Innovative Users and Site Subsidization**

The County has an interest in developing the Site using progressive approaches and by procuring and partnering with institutions, not-for-profit and innovative development entities. However, demand for any one of these uses is uncertain. Moreover, while the uses outlined above may meet County economic development and aesthetic goals, they are not the highest and best uses for the Site on a financial basis. Therefore, the County would have to be willing to subsidize or discount the land substantially below market value in order to attract these innovative users, particularly eco-tourism, universities and hospitals and green residential developers.

**Development Program Implications**

Due to the Site’s naturally rolling topography, it is possible to design the site such that multiple uses could be accommodated and phased in a manner that allows for flexible development of the site to respond to market demand. Thus, a residential component could be added to the project that is physically distinct from commercial office, retail, and industrial-flex uses. Such development can also be designed so as to limit the disruption of natural areas of the site.

	Commercial Office	Industrial / Flex	Retail	Residential
Strength of Market	Low	Low	Medium	High
Potential Absorption Timeframe	Long	Medium	Medium	Short

**Tenant Attraction**

It is important to note that this study considered the demand for real estate of various product types based upon current market conditions and analysis of historic trends. These projections do not account for one-off large commercial users who cannot be predicted, but choose to make substantial

capital investments in locations due to a variety of factors, including site attributes, local human capital, proximity major transportation infrastructure, and business attraction and location incentives offered by State and local governments.

Although there is a low possibility of a large user choosing to locate at the Site, the County can improve the odds by:

- Developing an attractive toolkit of State and local business incentives that can be used to attract large users.
- Ensuring that the Site is “shovel ready” to reduce the time to development for interested users.
- Collaborating with the State of Maryland Department of Business and Economic Development to include the Site in the State’s marketing efforts.
- Pursuing additional tenant leads that arise through local business connections, including the Energetics Technology Center and Naval Support Facility Indian Head.

**Marketing Strategy**

IHSTP is a 260-acre site located within one of the nation’s most important metropolitan statistical areas and is one of only 13 development sites in the State of Maryland larger than 200 acres, according to the State of Maryland Department of Business and Economic Development, and is the closest to Washington, DC of the top 10 sites.

Project	Location	Size (ac)
Sparrows Point International Trade Center	Sparrows Point, MD	3,100
Principio Business Park	North East, MD	800
Hunter	Hagerstown, MD	524
Greensboro Farm Industrial Site	Greensboro, MD	440
Bainbridge Site	Port Deposit, MD	350
Friendship Business Park	Hagerstown, MD	300
<b>Indian Head Science and Technology Park</b>	<b>Indian Head, MD</b>	<b>268</b>
Keysers Ridge Business Park	Grantsville, MD	225
Harrison Property	Hagerstown, MD	210
Greensboro Lot - 313 N.	Greensboro, MD	207
Presidential Corporate Center	Upper Marlboro, MD	200
The GATE Office & Technology Park	Aberdeen Proving Ground, MD	200
Watkins Mill Town Center	Gaithersburg, MD	200

As such, there are several unique marketing features that could be incorporated into the project’s marketing strategy, including:

- The strong population demographics of the County

- The site's proximity to Washington, DC and points in northern Virginia
- Proximity to Maryland Airport

Because these observations are high-level, in order to more fully develop a marketing strategy, the County can engage a professional real estate marketing firm, engage a private broker, and advertise the project opportunity in industry forums (Urban Land Institute, the Wall Street Journal, International Council of Shopping Centers, etc.) that are followed by real estate developers and potential users.

## Property Value and Disposition Strategy

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### Methodology

In order to estimate the potential value range and the financial feasibility of various development scenarios on the Site, JLL prepared a multi-scenario development pro forma model for the Project, which determines residual land value through the income approach and analyzes a series of project feasibility and profitability metrics.

Given the unclear demand for various product types at the Project, we have taken a ‘building block’ approach to the model in order to determine the land value that can be created per a standard unit of each product type – per 50,000 SF of office or industrial/flex, per 20,000 SF of retail, or per 20 single family homes. The land value also accounts for the time required for the market to absorb the individual components; product types which have longer absorption (i.e. industrial/flex) have values that are more heavily discounted than product types which have shorter absorption (i.e. residential).

We have used these ‘building blocks’ to assemble three potential development program scenarios, but have also presented the results on a per-‘building block’ basis – so as to allow the County to create any number of potential scenarios and understand the land value created. This technique allows the County flexibility in determining the Site value under a wide-range of land use compositions.

### Potential Land Value by Product Type

	Office	Industrial/Flex	Retail	Residential
<b>Size of ‘Building Block’</b>	50,000 GSF	50,000 GSF	20,000 GSF	20 homes / 10 ac
<b>Land Value per ‘Building Block’</b>	<b>\$770,000</b>	<b>\$410,000</b>	<b>\$1,090,000</b>	<b>\$700,000</b>
<b>Time to Develop</b>	<b>Long</b>	<b>Long</b>	<b>Medium</b>	<b>Short</b>

It is important to look at these values in the context of the time it would take to develop each of the product types. For example, despite the potential land value, developing and tenanting a block of office space would take a significant period of time given the lack of proven demand in the area. This

limited demand would necessitate marketing efforts in order to target and attract users, as well as perhaps offering concessions or other below-market-value business terms. While not entirely impossible, some product types may not be an attractive proposition for private developers, given the long payback periods necessary to yield a return on their investment.

## Scenario Analysis

Ultimately, the future of the Indian Head Science and Technology Park is as much a local political decision as it is a fiscal and economic one. There is a spectrum between satisfying a need for near-term fiscal returns and sustained economic development objectives such as job creation. Ultimately the disposition and development of the site will fall along this spectrum.



The scenarios that are provided in this report are not the only possible conclusions; rather they represent three possible financial outcomes along the spectrum. These scenarios represent the two ends (“economic development” and “near-term monetization”) as well as a middle option that balances the product mix to meet economic development goals with that to meet near-term land value objectives. If desired, the County should engage a land planner and roadway engineering experts in order to determine revised site layouts and on-site and off-site improvements under these scenarios.

Of note, this middle option is potentially very close to the zoning concept adopted in 2001 for the Bryans Road sub-area Plan by Charles County, in that it proposes potential residential along the Route 210 side of the site, and employment uses closer to the Maryland Airport.

A flexible approach to the development has numerous advantages. Notably, it allows the County to respond in both timing and land use composition so that the Site can adapt to changes in the market, as well as the County’s continuing business attraction efforts. For example, if a university or a large corporation is attracted to the site, the land use can change based upon the identified users. Moreover, if the Cross County Connector is constructed and demand materializes in the western portion of the County, the Site could be developed in tandem with the new development.

Below we present the findings of our three scenarios, as well as the original project vision for reference. We have included the timing of delivery to market by product type. For example, Scenario 3, which includes the development of 400 housing units, has 200 units delivered three years after the project commences, and the remaining 200 units five years after project commencement.

Moreover, these scenarios assume that the Project would attract 50% of the total Market Area absorption by product type. As outlined below, despite these aggressive absorption assumptions, the build-out of each scenario is not achievable in the short term, apart from the residential components.

	Original Project Vision	Scenario 1 Economic Development	Scenario 2 Balance	Scenario 3 Near-term Monetization
Office (SF)	1,100,000 SF	250,000 SF / 27 years to full absorption	150,000 SF / 16 years to full absorption	0 SF
Industrial / Flex (SF)	379,000 SF	100,000 SF / 10 years to full absorption	50,000 SF / 5 years to full absorption	0 SF
Retail (SF)	21,000 SF	20,000 SF / 6 years to full absorption	20,000 SF / 6 years to full absorption	0 SF
Residential (units)	0 units	0 units	200 units / 3 years to full absorption	400 units / 5 years to full absorption
<b>Total Land Value (NPV at 6.0%)</b>	-	<b>\$4,007,628</b>	<b>\$8,767,100</b>	<b>\$11,108,142</b>

**Original Project Vision**

The original Project vision, which included an aggressive 1.1 million square feet of office, 379,000 square feet of industrial and 21,000 square feet of retail space, based on current absorption trends, would take approximately 60 years assuming no change in the real estate market, which is unlikely. While this vision most greatly meets the economic development goals of the County, its prolonged development is time prohibitive.

It is important to also note that significant office parks of this sort are not ‘in vogue’ among developers as they once were. Today, it is more likely to see an office component being most viable in a suburban context when delivered as part of a mixed-use town center that delivers amenities that will help court office users.

**Scenario 1 – Economic Development**

Scenario 1 is based upon the original Project vision, however it has been modified based on current market trends. The scenario assumes that one quarter of the original office product is developed, while one-quarter of the flex space is provided. Retail space is unchanged.

This scenario similarly meets many of the County’s economic development goals, however based on the current market dynamics and construction timelines, it would take approximately 30 years to fully build-out the site to this space upon project commencement.

**Scenario 2 – Balanced**

Scenario 2 provides a balance between pure near-term monetization of the land and the County’s economic development goals by balancing more modest commercial office, flex and retail development with 200 housing units, which have an almost immediate absorption rate. This scenario would provide full-time permanent employment for County residents in the commercial space, while also meeting more immediate monetization needs that the County may have.



Interestingly, the County’s Bryans Road Sub-Area Plan (adopted in 2001) conceptual land use plan mirrors Scenario 2 in that it proposes that the Bryans Road Town Center Boundary include a portion of the Site along MD-210 and be used for medium-density residential, while the remainder of the Site be used for employment (around the Maryland Airport) and open space.

**Scenario 3 – Near-term Monetization**

Scenario 3 would allow the County to monetize the Site in the shortest amount of time; because absorption for single-family residential product is almost immediate upon project delivery. Scenario 3 provides 400 housing units on approximately 200 acres of land, with project completion at the end of year five after commencement. This assumes that some land is not developable based on topography and other development constraints, as well as preserving land for open space.

**Disposition Timeframes**

Should the County decide to sell all or portions of the Site, the time it will take to dispose of the asset will depend on a variety of factors, including the asking price, acreage of land being offered for purchase, marketing and intended land use, among other factors.

The following are estimated timeframes that would be required for the County’s disposition by product type assuming fair market pricing. Our estimates are for the amount of time to list, market, tour/show, and close on the property, but excludes any subdivision processes:

Land Use	Estimated Time to Transaction Close
Residential	6 – 9 months
Office	Unknown; County will carry until a user is found
Industrial / Flex	Unknown; County will carry until a user is found
Retail	2 – 2.5 years
Innovative User(s)	Unknown; County will carry until a user is found

## Assumptions by Product Type

The cash flow analysis took into account market data for construction costs, which included estimates for on-site infrastructure, market revenue and absorption dynamics, as well as project capitalization assumptions. The pro forma model was used to assess the supportable land value under the assumption that the development return should be no less than 15%, which is a conventional private market levered internal rate of return (IRR).

The following tables summarize the key assumptions utilized in the pro forma models for each product type. These assumptions informed the three scenarios presented below.

	Office	Industrial / Flex	Retail
<b>Costs</b>			
Hard costs (construction, parking, site work, landscaping and cost escalation)	\$170 per gross SF	\$70 per gross SF	\$150 per gross SF
Soft costs (% of hard costs)	20.0%	20.0%	20.0%
All-in development cost (net of land value, including financing costs, fees and contingencies)	\$230 per gross SF	\$90 per gross SF	\$205 per gross SF
Developer fee (% of development cost)	4.0%	4.0%	4.0%
<b>Revenues</b>			
Rent	\$16.00 per SF per year (NNN)	\$8.50 per SF per year (NNN)	\$20.00 per SF per year (NNN)
<b>Financing and Valuation</b>			
Construction loan terms	70.0% LTC at 6.0% interest	70.0% LTC at 6.0% interest	70.0% LTC at 6.0% interest
Permanent loan terms	30-year amortizing at 6.0% interest, sized on 1.20 DCR	30-year amortizing at 6.0% interest, sized on 1.20 DCR	30-year amortizing at 6.0% interest, sized on 1.20 DCR
Lease-up (post-construction)	12 months	12 months	12 months
Stabilized vacancy	5.0%	5.0%	5.0%
Project disposition	Year 5	Year 5	Year 5
Terminal cap rate	6.0%	9.0%	7.0%

The single-family residential product type assumptions were as follows:

	Single-family Residential
<b>Construction type</b>	Two-story, stick built, brick façade with siding
<b>Density</b>	2 homes per acre (in line with surrounding medium-density residential zoning)
<b>Average home size</b>	3,000 SF
Hard costs (construction, parking, sitework, landscaping and cost escalation)	\$103 per gross SF
Soft costs (% of hard costs)	20.0%
All-in development cost (net of land value, including financing costs, fees and contingencies)	\$126 per gross SF
Developer fee (% of development cost)	4.0%
Construction loan terms	70.0% LTC at 6.0% interest
Sale price per unit	\$150 per SF or \$450,000 per home

