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Morris E. James, A.S.A. Lindell B. Younger

December 29, 2014

Deputy Mayor For Planning and Economic Development
The District of Columbia Government
1350 Pennsylvania Avenue, NW, Suite # 317
Washington, DC 20005

Attn: Mr. Marc Bleyer
Project Manager

Re: Appraisal
Square 2873, Lot 1102
965 Florida Avenue, NW
Washington, DC

Dear Mr. Bleyer:

In accordance with instructional guidelines outlined in the Scope of Services, we are submitting herewith our appraisal of the captioned property in two distinct components: (a) the original (initial) valuation of the property under the "as is" and proposed plan as submitted: and, (b) the alternative development scenario for the property - based upon the affordable housing criteria as outlined in the amended Scope of Services.

The Alternative Development Scenario valuation is presented after the original appraisal report. The reader is advised that all relevant property, neighborhood, site and market data applicable to the Supplemental Report is referenced in the original appraisal report.

Respectfully Submitted,

Morris E. James, A.S.A.
Certified General Real Property Appraiser
DC License #10022

Lindell B. Younger
Certified General Real Property Appraiser
DC License #10057

SUMMARY APPRAISAL REPORT

OF

SQUARE 2873, LOT 1102
965 FLORIDA AVENUE, NW
WASHINGTON, DC

VALUATION AS OF:

DECEMBER 1, 2014

PREPARED FOR:

OFFICE OF THE DEPUTY MAYOR FOR PLANNING AND ECONOMIC DEVELOPMENT
DISTRICT OF COLUMBIA GOVERNMENT
1350 PENNSYLVANIA AVENUE, NW, SUITE 317
WASHINGTON, DC

ATTN: MR. MARC BLEYER
PROJECT MANAGER

PREPARED BY:

MORRIS E. JAMES & ASSOCIATES
1234 MASSACHUSETTS AVENUE, NW
SUITE 128
WASHINGTON, DC 20005

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Morris E. James, A.S.A. Lindell B. Younger

December 4, 2014

Deputy Mayor For Planning and Economic Development
The District of Columbia Government
1350 Pennsylvania Avenue, NW, Suite # 317
Washington, DC 20005

Attn: Mr. Marc Bleyer, Project Manager

Re: Appraisal
Square 2873, Lot 1102
965 Florida Avenue, NW
Washington, DC

Dear Mr. Bleyer:

In compliance with your request, we have completed our appraisal of the captioned property and are submitting our findings herewith. The appraisal assignment entails preparation of a Summary Appraisal report as promulgated in Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP). The appraised property is a vacant unimproved/under improved parcel containing 63,418 square feet of land and is located in the CR zoning district.

In accordance with instructions outlined in the Scope of Services, the purpose of the appraisal is to estimate the Market Value of the property under the following valuation concepts:

(A) in the "as is" condition (under existing zoning); and,

(B) to estimate the Market Value of the site "under the proposed development plan.

A general overview of the proposed development for the assignment is presented in the Scope of Work, broadly summarized as follows:

- 361 Units (total) with 296 Market Rate Units
- 28 units at 80% AMI; 37 units at 30-80% AMI
- Approximately 40,000 square feet of retail; 35,291 square feet grocery store
- 309 parking spaces
- Local retail set aside 2,500 square feet; Small Business-1,500 square feet
- New Street Connection 8,625 square feet

Under the proposed development plan the Scope of Work mandates an affordable housing premise and a commercial retail grocery store component. Valuation instructions provided by the client dictate the allocation of 10 % of the units (37) to residents earning 30 and 80 % of the Area Median Income (AMI). Published reports indicate the AMI for the Washington Area MSA is $ 107,000. Instructions in the Scope of Work dictate rental rates for the affordable units at income levels of 30% to 80 % of the AMI. This premise restricts the rental rates of the apartment units and reduces the value of the site. There are 28 units subject to the 80% AMI of the Inclusionary Zoning mandate which minimally impacts the rental income of these units.

On the basis of our conducted analysis, the estimated Market Value of the subject property, under the valuation concepts as delineated, as of December 1, 2014, the effective date of valuation, is as follows:

MARKET VALUE "AS IS" – Highest and Best Use **$ 27,587,000**

MARKET VALUE "Proposed Development Plan" **$ 21,562,000**

Enclosed is our appraisal and accompanying photographs and graphics. Thank you for requesting our services.

Respectfully Submitted,

Morris E. James, A.S.A.
Certified General Real Property Appraiser
DC License #10022

Lindell B. Younger
Certified General Real Property Appraiser
DC License #10057

STATEMENT OF CONTINGENT AND LIMITING CONDITIONS

The Appraiser assumes no responsibility for legal matters, legal interpretations, or legal opinions.

The Appraisers assume title to the appraised property is good and marketable, without defects or encumbrances.

Information furnished the Appraisers by others is assumed to be correct; however, we assume no responsibility for the validity of such information.

The Appraisers assume there are no hidden conditions within the property, surface or subsoil, which would make the property more or less valuable. No engineering analysis has been provided the Appraisers, nor has one been initiated.

Building dimensions are reflected in this report as taken from "city" plans and assessment data made available to the Appraisers. Sketches and maps included herein are provided solely for the purpose of assisting the client in visualization of the property.

Possession of this report does not carry with it the right of publication, nor may it be used for any purpose by anyone other than the "client"; or without previous written consent of the Appraiser or the "client", and in any event only in its entirety. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media, without written consent and approval of the Appraisers.

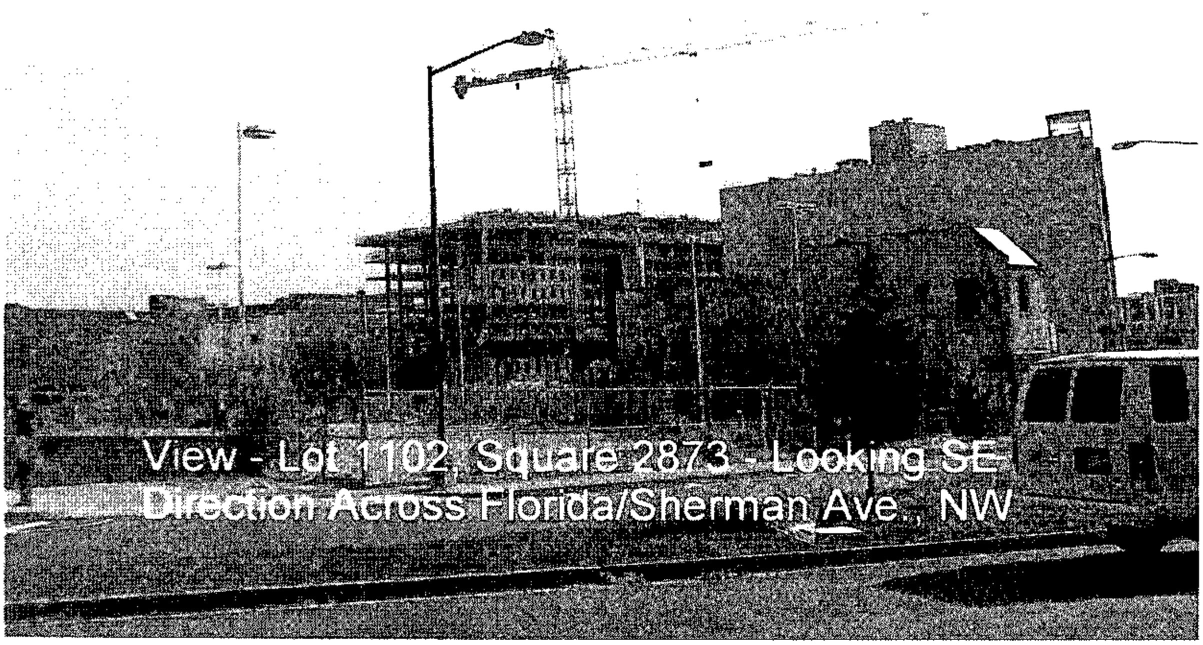
Preparation of this report does not carry with it the requirement of the Appraisers to give public testimony regarding its contents unless prior arrangements have been made thereof.

There has been no environmental impact studies requested, or made in conjunction with this appraisal, and the Appraisers hereby reserves the right to alter, amend, revise, or rescind any of the value opinions based upon any subsequent environmental impact studies, research, or investigation.

The appraisal is conducted to conform with the Uniforms Standards of Professional Practice (USPAP) and the Code of Ethics and Standards of the Appraisal Organizations with which the Appraisers are affiliated.

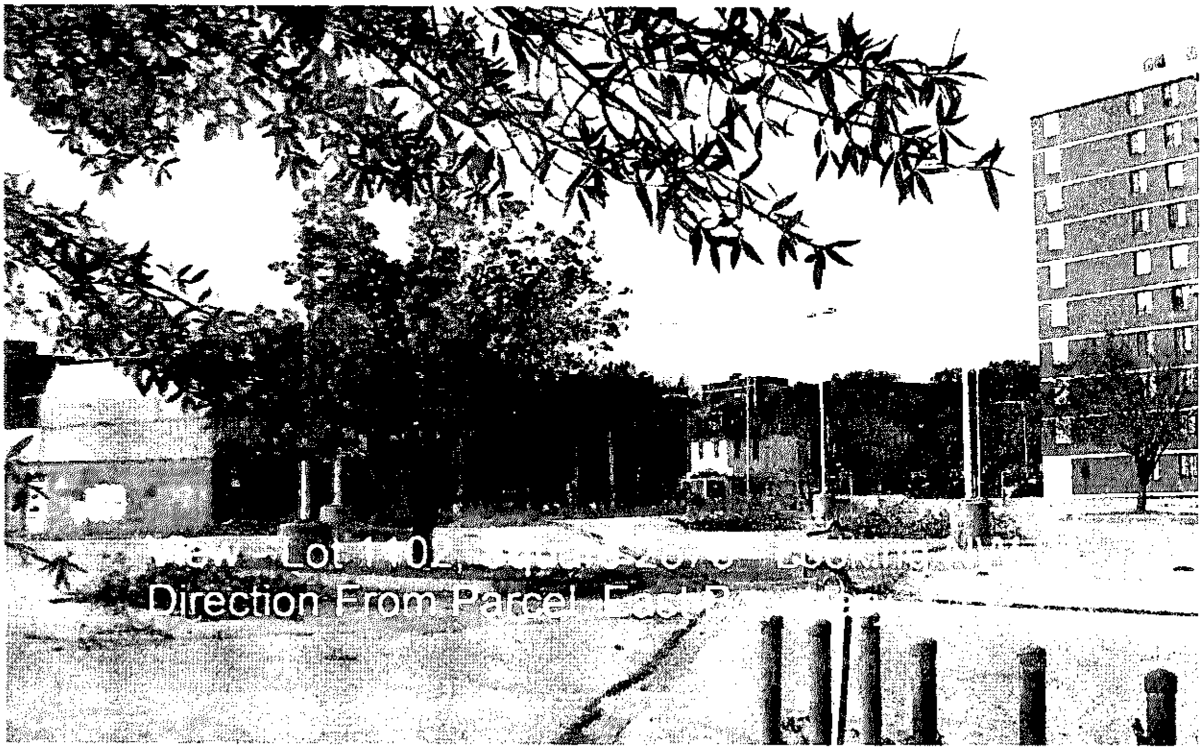
Photographs of Subject

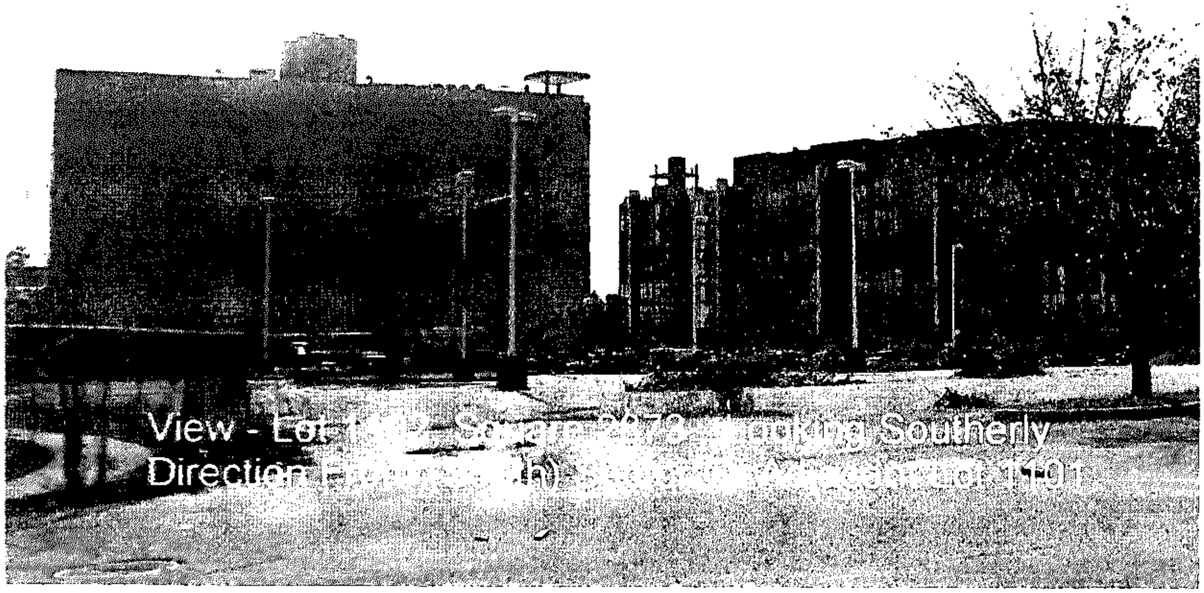
Front View - Lot 1102, Square 2873 (965 Forida Ave., NW)
Looking NE Direction Across Florida Avenue



View - Lot 1102, Square 2873 - Looking SE
Direction Across Florida/Sherman Ave., NW

Photographs of Subject





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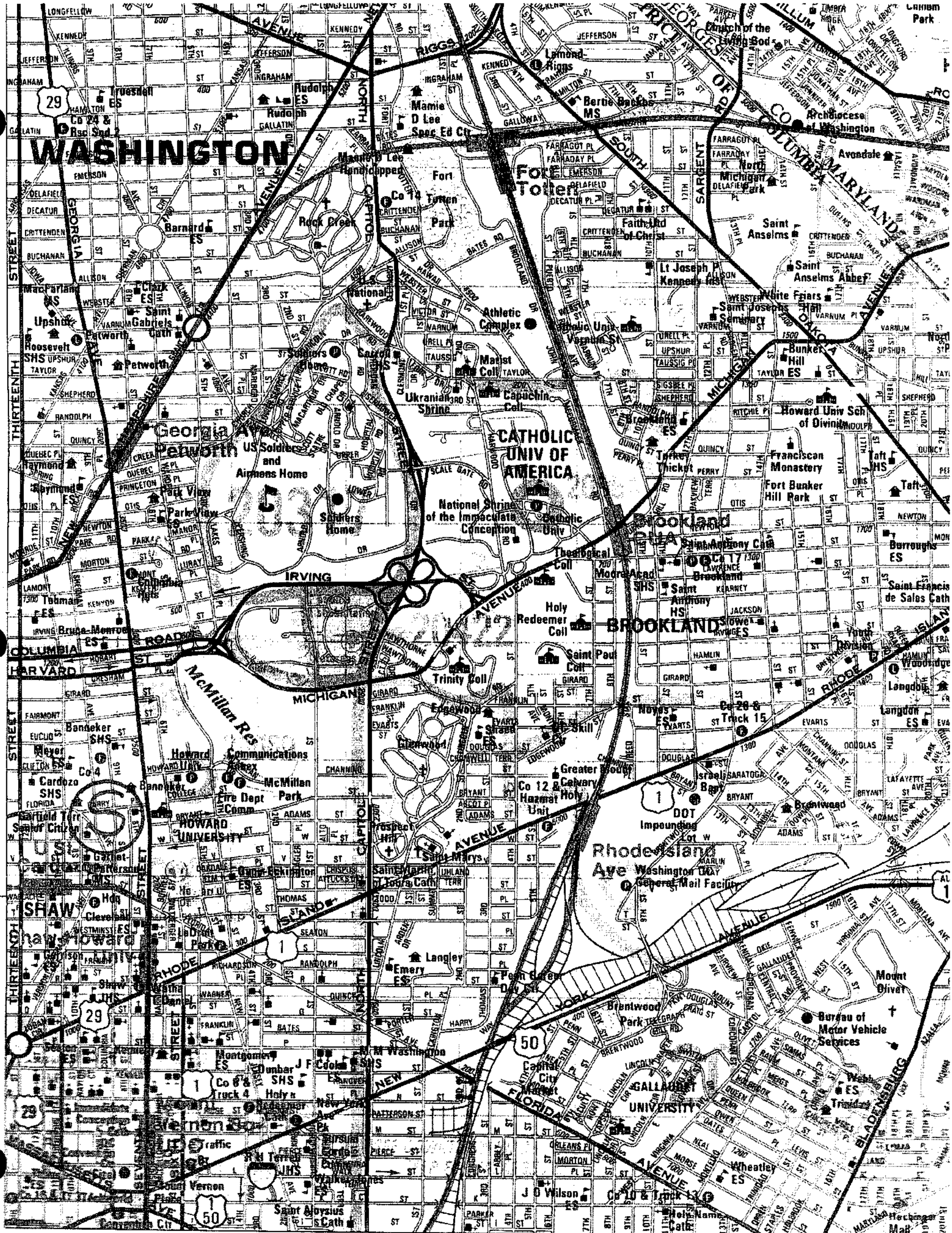
ADDENDA

38°57'30

Joins Map 9

400,000 FT

38°55'00"



77°00'00"

800,000 FT

Joins Map 16

THE APPRAISAL PREMISE

PROPERTY IDENTIFICATION

The appraised property is a vacant parcel of land comprising 63,418 square feet, located in the 900 Block of Florida Avenue in the Columbia Heights/Shaw neighborhood. The parcel is legally identified as Lot 1102 in Square 2873.

PURPOSE OF THE APPRAISAL

In accordance with instructional guidelines outlined in the Scope of Services submitted by the Contracting Agency, the purpose of the appraisal is to estimate the Market Value of the appraised property, under the following valuation concepts:

(A) to estimate the Market Value of the site in the "as is" condition (under existing zoning); and,

(B) to estimate the Market Value of each site in the "under the proposed development plan.

The property rights appraised are the fee simple rights of ownership. It is our understanding that the appraisal shall be utilized for disposition purposes. The client in this assignment is the District of Columbia Government's Office of the Deputy Mayor for Planning and Economic Development (DMPED). The intended users of the report are the clients, requisite agencies of the District of Columbia Government and public users deemed appropriate by the client.

"MARKET VALUE" DEFINED: The term "Market Value" is defined by the Uniform Standards of Professional Appraisal Practice (USPSP) as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair space, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not Affected by undue stimulus". Implicit in this definition is consummation of a sale as of a specified date and passing of title from seller to buyer under condition whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and acting in what they consider their own best interest;
- a reasonable time is allowed for exposure in the open market;
  payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and,
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

EFFECTIVE DATE OF VALUATION

The effective date of valuation is December 1, 2014.

OWNERSHIP AND SALES HISTORY

According to public records, ownership of the appraised property is vested in the name of the District of Columbia Government, 2025 "M" Street, NW, Suite 600, Washington, DC 20036. Based upon our research there has been no sale, offering or listing of the property during the past three (3) years.

SCOPE OF THE APPRAISAL

In accordance with instructional guidelines, the appraisal assignment dictates preparation of a Summary format as prescribed in Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP).

The assignment incorporates the use of a hypothetical condition as defined by USPAP. Hypothetical conditions are assumptions made that are contrary to fact. In this case, the proposed use is a hypothetical condition requiring the valuation of the property based upon the development plan and affordable housing requirements as specified in the Scope of Work.

The scope of the assignment entailed an analysis and study of economic, demographic and location attributes of the District of Columbia, the "in-city" Northwest residential market and the Shaw/Columbia Heights neighborhood in particular. In the development of the Sales Comparison Approach, the Appraisers have conducted a comprehensive review of the commercial and residential land sales market for the subject neighborhood and comparable locations in close proximity to the subject property. We have also reviewed market rentals of contemporary apartment projects in the study area. The appraisal assignment included the review of city records, multiple listing services, and published government reports concerning income levels and housing affordability. We have also reviewed numerous assignments our office has conducted in the immediate neighborhood concerning sales data and housing affordability.

The properties are to be evaluated under two distinct concepts which consider (in general) matter-of-right development i.e. "as is" under existing zoning (matter-of-right) and based upon the proposed development plan. Analysis of the property in the "as is" state of condition are predicated upon the development of the site based on a market rate concept, consistent with the highest and best use of the respective parcels. Under Premise B i.e. the proposed development plan, the project is evaluated based upon the approved use plan with a specified mixed-use development program. The development plan includes 296 units of market rate housing (82%), 28 units at the inclusionary housing income level of 80% AMI and 37 units (10%) at affordable housing rates of 30% to 80% of the Area Median Income (AMI). Published reports indicate the AMI for the Washington Area MSA is $ 107,000. The development plan also includes approximately 40,000 square feet of retail space with 35,291 square feet of grocery store space. This premise restricts the rental rates of the "affected" apartment units and the retail space, thus, reducing the value of the site.

In establishing the Land Value estimate for the project, the Sales Comparison Approach us the primary method. The value estimates as established by this approach will recognize physical/economic differences between the comparables and the subject property. The proposed value estimate will consider the diminution in rental income/value for the affected 10% of the rental units.

II. AREA AND NEIGHBORHOOD OVERVIEW

THE DISTRICT OF COLUMBIA

Washington, District of Columbia, the Nation's Capital, is the 'hub' of the Greater Washington Metropolitan Area, serving as the center of Federal Government and national/international business community for the region. The District of Columbia is bounded by the state of Maryland on the northwest, northeast, and southeast and the Potomac River on the south. In support of the Federal and local governments within the Washington Metropolitan area, private business entities provide contract goods and services. Tourism, retail and wholesale trades, diplomatic and legal/trade organizations and printing and food services are also significant to the city's economy.

The District of Columbia experienced a continuous and dramatic decline in population during the period between the late 1970's and early 2000's; a period that exhibited a pronounced drop in the working, middle-class population. An overall population decrease of approximately 25 percent was reflected during this period decreasing the population to approximately 540,000 persons. Resulting was city demographics to encompass an affluent upper class; a vastly reduced middle class and an underclass that continued to grow. However, it is noted that this depopulation trend slowed dramatically during the latter part of the 1990's and has slowly increased since the early 2000 era. According to the US Census Bureau, the 2012 Population Estimate for the District of Columbia is 632,000 persons representing an increase of approximately 60,000 residents since 2000.

The District of Columbia has clearly shed the pattern of a declining city exemplified by the exodus of citizens and financial instability of the 1980's through 2000. The revenue raising capacity of the city is at an all time high, being reflected in record real estate, business and sales tax and personal income tax. Despite the reduction of a large segment of the middle-class population of the city during that period, the per capita income in the District of Columbia remained among the highest of large urban areas in the country. As indicated by the city's increasing population and the burgeoning residential and commercial development throughout most sectors of the city, the District of Colombia has been one of the more financially stable metropolitan areas in the nation with surpluses achieved over the past five years. The Districts favorable financial picture has improved the city's municipal bond rating and allowed billions of dollars of investments in new or renovated schools, roads and bridges and massive urban renewal projects. Almost all of the city's public high schools have been renovated or replaced with new facilities such as the new Dunbar, Ballou and Woodson schools.

Washington, DC, is the center and economic base of the affluent Greater Washington Metropolitan area, ideally located between the industrial Northeast and the growing southeast. The city is served by a modern Metro rail system that functionally serves differing geographical areas of the city, extending into suburban Maryland and Virginia. Three major airports and twenty major airlines serve the city and the metropolitan area, as well as six major railroads. Four major interstate highways including I-495 (Capital Beltway), I-66, I-95/I-395 and I-295 assure easy access to other metropolitan areas. Washington, DC is historically recognized as the Federal Government town, the Capital City of the United States. However, the city can no longer be viewed in that isolated perspective, but rather a city with a focus on expanding hi-tech operational centers catering to the Federal Government and the military. Also contributing to its emergence and revitalization is an expansive private office center, major universities with teaching hospitals, cultural centers and embassies.

Notwithstanding, the broad socio-economic and fiscal problems the city has faced over the past two decades, the District of Columbia has historically ranked as one of the top ten cities in the United States. The District of Columbia has historically been one of the premier business/office building locations with vacancy rates among the lowest and rental rates among the highest in the nation. According to recent publications, the District records the lowest vacancy rate of any major office market in the country reporting a 9.5 % vacancy at year end. The City had the highest average rents in the region with a reported average of $ 55.00 per square foot, with "trophy" buildings in the East End reporting rents of $55-$60 per square foot.

During the period from 2001 to August of 2011, there were a total of 1,349 development projects in the city comprising a total of 268,887,006 square feet of building area. The District of Columbia has a current office building inventory of approximately 124 Million square feet with approximately 2.3 Million square feet of office space under construction (Development Report 2013/2014 edition Washington). This development boom consists of numerous signature projects in various sectors of the city including the East End Convention Center and Venison Center area, the Southwest Waterfront and Navy Yard/Ballpark Area, the Columbia Heights Metro Station Area and the NOMA area of "in-city Northeast Washington.

The District of Columbia, the Nation's Capital, is in the midst of a major renaissance with visible progress along several fronts since 1997-1998, to include a greater financial commitment of major programs and long-standing debt obligations by the Federal Government, the City's fiscal solvency, declines in crime rates in most major categories, the institution of tax incentives to spur home ownership and business development and an increase in home sales and residential property values during this period. These factors have stemmed the exodus of middle-class, taxpaying citizenry from the District of Columbia.

Development & revitalization is also reflected in the residential neighborhoods throughout the city, with record sales activity reported since 2000. Property values have generally doubled in most neighborhoods during this period. The revitalization of "in-city" areas such as Shaw, Logan Circle East and Columbia Heights has been well documented, as existing dwellings are being purchased, prices and renovated and land prices soared to record levels. Market demand is strong in the older stable neighborhoods of Northwest/Northeast Washington as shorter than "norm" marketing periods are experienced, with recorded sales prices being consistent with asking prices. Renewed interest is likewise being exhibited in the southeast and northeast sectors of the city where housing prices are still attractive to first time homebuyers and middle class residents.

The District of Columbia economy, while insulated to a degree by the presence of the Federal Government, experienced the effect of the economic downturn in the national economy and the financial markets during the 2007-2010 period. New projects were hampered by the inability to gain financing and numerous condominium projects have been reverted to a rental status. We note, however, that this value contraction and market slowdown during that period was not as dramatic in the District of Columbia as experienced in the abutting jurisdictions and outer suburbs. In fact, the closer to the District proper there was a less dramatic decrease in housing prices from the robust 2000-2006 period. The District's stability buttressed the District from the massive foreclosure and housing bubble experienced nationally and in neighboring jurisdictions of Maryland and Northern Virginia. The result of this was a city postured for the development renaissance the city is now experiencing.

This residential renaissance is reflective of the renewed confidence in the District and the various programs/tax incentives being offered to first time home buyers in the city and the aggressive efforts in general, being made by the District's Department of Housing and Community Development and the DC Housing Authority in ridding the city of non-suitable housing. According to Development Activity, an annual report of real estate development activity published by the DC Marketing Center, since January of 2001, 58,210 units of new or renovated residential housing has been completed (or planned) in the city. Residential (apartment) vacancy rates are reported by various publications in the 4% range. While property values contracted during the economic downturn, values stabilized and began to increase during the past four years. The District remains highly competitive relative to suburban districts and national markets. The single-family housing market is experiencing resurgence with well priced properties selling in the 30-45 day range. The biggest dilemma now facing city officials is the ability to provide affordable housing for its shrinking low and middle income residents.

The multi-family (rental) housing market, particularly in moderate income locations, has not experienced the contraction in rental rates or values similarly experienced in the single-family housing market and upscale condominium market. This factor is directly attributable to a number of factors, mainly the government influence through programs such as the LIHTC, Section 8, below market financing and the modest pricing levels impacting economies of scale. These programs create an insulated market which tends to stabilize development risk and prices.

APARATMENT MARKET ANALYSIS

The District of Columbia housing market has transgressed into one of the strongest markets in the country due in large part to the federal influence, the supply of well paying jobs in the public and private sector, the perceived status of the city as one of the hippest entertainment markets for young professionals and the general trend of demand for residential dwellings in the center city. The District housing growth attributable to the millennial, who desire an urban environment suitable to walk ability and neighborhood amenities and empty nesters and middle age upper income professionals desirous of upscale amenities with minimal maintenance.

According to city records, there are approximately 102,000 rental units in the District of Columbia with approximately 25,000 units to be completed or in the pipeline over the next two years. Published reports by Delta Associates for the second quarter of 2014 indicates that the apartment vacancy rate for the District of Columbia is 4.1% with the average effective rents for Class A and Class B apartments reported to be $2,394 per month. Lease up projections for new apartment projects in the District of Columbia are projected at 16-18 units per month based upon the Appraisers observations of new projects in competitive "in-city" locations.

Price Cooper Waterhouse Second Quarter investment survey indicates overall rates for apartment projects to range from 4.0 to 7.50 % with an average of 5.65 %. Summarizing the apartment building market on the District of Columbia, the overall outlook indicates that rental rates will remain relatively stagnant but there appears to be ongoing demand for competitive units and continued growth. Clearly, the biggest issue facing the city will not be the production of Class A and B inventory but market and political pressures to create affordable housing opportunities not only for the city's lower income population but young graduates grappling with excessive housing costs as relates to income.

NEIGHBORHOOD OVERVIEW

The subject property is located in the southern sector of the Columbia Heights neighborhood of Northwest Washington, District of Columbia. The general boundaries of the Columbia Heights neighborhood are broadly construed as Florida Avenue on the south; Sixteenth on the west; Upshur Street on the north; and Georgia Avenue on the east.

Columbia Heights is primarily a low-density residential neighborhood developed with a preponderance of row single-family dwellings, flats and walkup apartment buildings. During the past decade, the Columbia Heights neighborhood has experience cyclical levels of rejuvenation with substantial property improvements/renovations evidenced during the mid to late 1980's, neighborhood decline in the early 1990's and general stabilization/intense revitalization over the past 2-3 years. Property values tend to be highest along the western sector of the Columbia Heights neighborhood from 13th Street westward to 16th Street, N.W. Market evidence now reflect an upsurge in property values in the eastern sector of Columbia Heights also, as the supply of available properties diminish. A recent survey of the 13th Street corridor identified substantial single-family residential redevelopment within almost every block in the Columbia Heights neighborhood. Current research indicates sales of "shell" type single-family dwellings in the "prime" sector of Columbia Heights in the $400,000 to $500,000 range with "renovated buildings selling in the neighborhood of $650,000 – $ 1,000,000. Condominiums are being developed and marketed in the $300,000 to $800,000 range.

The principal commercial corridors serving the Columbia Heights neighborhood are the north/south arteries of Georgia Avenue and 14th Street. Both of the named arteries are major transportation streets extending from Downtown Washington to the Montgomery County/D.C. Boundary Line. There is a small "pocket" of commercial and industrial development along Florida Avenue. Public transportation is readily accessible to the subject neighborhood with 18hour Metro bus service available along the major commercial streets and the principal east/west residential arteries. Recent completion of the Green Line of the METRO Rapid Rail Transit Line has brought two (2) new stations – to the Columbia Heights neighborhood, a station at Georgia and New Hampshire Avenues and one at Fourteenth and Irving Streets, N.W.

The Columbia Heights neighborhood is experiencing the level of revitalization rivaling that of the "U" Street commercial/residential district. One of the prominent landmarks within the defined neighborhood is the Clifton Terrace Apartment Complex, a large mid-rise project redeveloped as a condominium and rental property. Earlier projects (during the mid 1990's included the Nehemiah Shopping Center, located along 14th Street between Belmont and Chapin Streets, a multiple store shopping center completed in 1996. Those projects have now been razed and replaced with modern luxury hi-rise residential buildings. Redevelopment throughout the Columbia Heights neighborhood has gained substantial momentum with virtually every block experiencing some degree of apartment house or numerous single-family developments.

The Columbia Heights neighborhood is being greatly influenced by the redevelopment of the District Government owned parcels in and around the Columbia Heights Metro Station. Development of these parcels which was decades in the making have transformed this once blighted area to a vibrant commercial and residential hub. These plans included complete renovation of the Tivoli Theatre into a retail and theater facility with an accompanying Giant supermarket and townhouses. Several mid-rise apartment condominiums have been completed along Park Road and Irving Street along with the recently completed Urban League building at 14th and Harvard Streets. The crowning jewel of the 14th Street/Columbia Heights Metro Station Area is undoubtedly the large "mixed-use" project (bounded by 14th Street, Park Road and Irving Street) developed by DCUSA. The project contains approximately 500,000 square feet and is anchored by national retailers such as Target, Best Buy, Staples, and Bed Bath and Beyond, Washington Sports Club and Marshalls. The Tivoli and larger apartment/condominium projects include ancillary retail and entertainment establishments.

.Vacancy rates within the subject neighborhood approximate five (5) percent for rental units with commercial vacancy rates in the 5-10 % range. While the economic downturn and slowdown in the real estate market has caused contraction in the single-family housing market, the multi-family rental housing market remains viable and continues to serve a community need in moderate income locations throughout the city. In summary, the overall outlook for the Columbia Heights neighborhood is definitely positive with development/values projected to continually increase in the coming years.

The immediate area has experienced an influx of mid-rise upscale residential projects with approximately 6-7 new complexes either complete or under construction between Florida Avenue and Georgia Avenue. The project is also favored by its close proximity to the Shaw Metro Station (on the Green Line) which s approximately one to two blocks southwest of the subject property. There are also several complete or near complete condo projects in the immediate neighborhood including 2030 8th Street, NW (Atlantic Plumbing Condo), a 62 unit, six-story condo building, to be marketed in the $300,000 to $2,000,000 range. There is also a new project in the 1900 Block of 9th Street/8th Street and Florida Avenue, that is slated for delivery early next year.

Considering neighborhood amenities and the demand for in-city competitive dwellings, the overall outlook for the neighborhood is definitely positive.

DISCUSSION OF ZONING

As a result of an amendment to the District of Columbia Zoning Ordinance (Zoning Order No. 632, Case 87-7), the appraised property was rezoned from C-M-1 to CR (Commercial/Residential) effective February 23, 1990. The zoning change was enacted as part of the Howard Gateway/Uptown Arts Overlay District initiative, an effort to spur commercial, residential, arts and recreational uses within the northwestern sector of the Shaw neighborhood. Numerous parcels under ownership of Howard University, which were originally industrially-zoned, were included in the Overlay District. In the original CM zoning district, new residential development was not permitted.

The CR zoning district permits a myriad of mixed-uses to include residential, commercial (office, retail and certain service uses), arts, recreational, light industrial and special purpose uses. Community oriented uses such as youth residential homes and child development centers are also permitted as a "matter of right". Heavy industrial/manufacturing uses are prohibited in the CR zoning district.

Within the CR zoning district, the maximum permitted FAR (Floor-Area-Ratio) is 6.0, not more than 3.0 of which may be used for other than residential purposes. Building height is restricted to ninety (90) feet with lot occupancy limited to 75 percent of the total lot area. Ground level, public space, an area equivalent to ten (10) percent of the total lot area is required for new development in the CR zoning district. An area equivalent to fifteen (15) percent of the gross floor area devoted to residential usage must be provided as private residential space. Rear yards must be provided for each residential building at a minimum depth of three (3) inches per foot of building height. Parking requirements consist of one (1) space for each three (3) dwelling units (for residential usage) with arts and commercial uses providing for one (1) space for each 300-750 square feet of Gross Floor Area (above the initial 3,000 square feet)

INCLUSIONARY ZONING APPLICABILITY

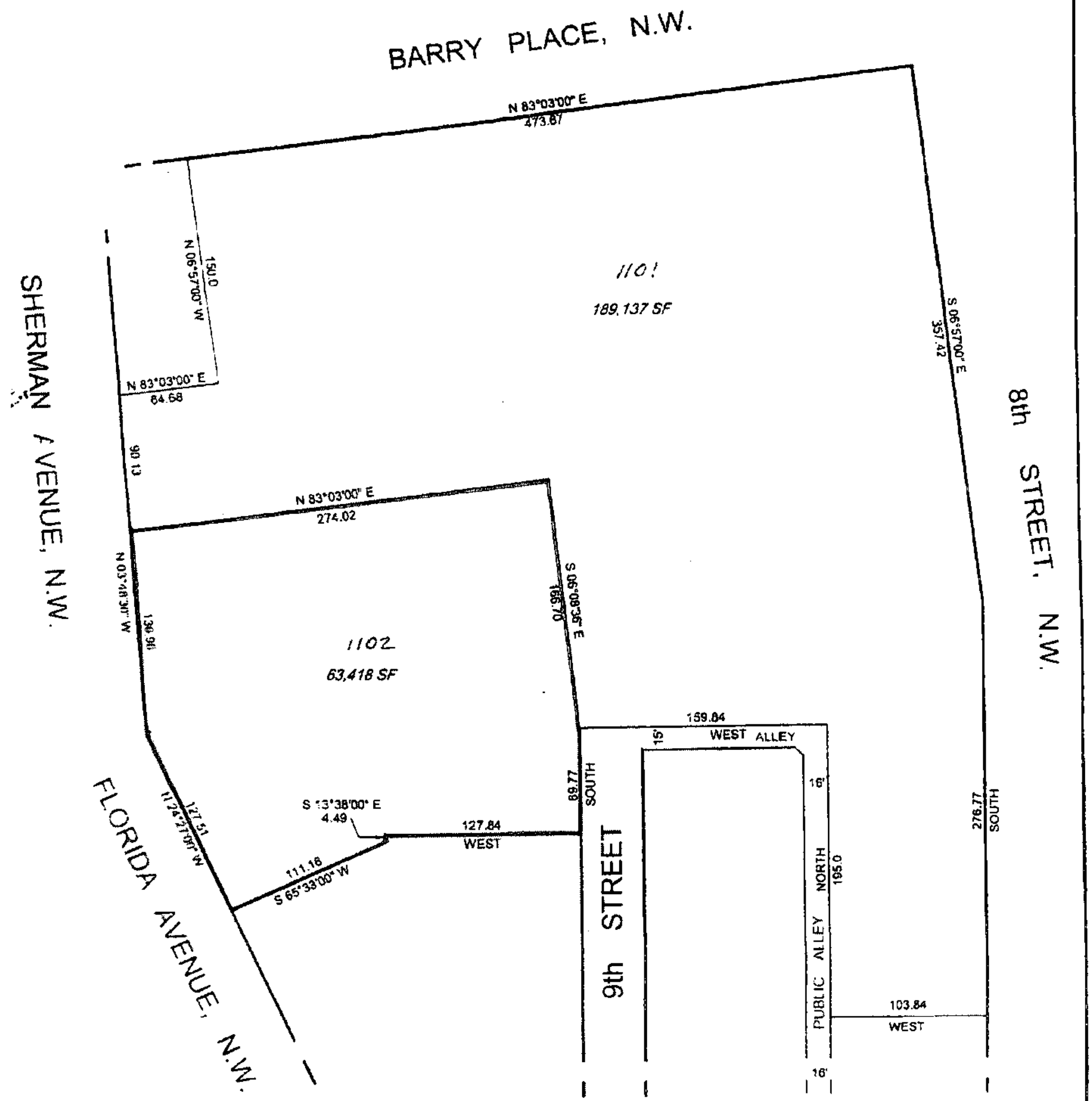
In February of 2006, the District of Columbia's City Council passed a mandatory inclusionary zoning (MIZ) ordinance that required developers to set aside a percentage of the units in new buildings for affordable housing. Under the Inclusionary Zoning regulations, any new development with more than 10 residential units would be subject to the IZ provisions for affordable housing. Existing development in which a new addition will increase the gross floor area of the entire development by 50% or more.

The IZ ordinance allows for a bonus density of 20 % of the maximum permitted density. The rentals for the affected units are based on actual income of household with no more than 30% of annual household income expended on rent and utilities. Maximum rental levels are set by the District of Columbia Government. In the case of for sale properties, sale prices of the affected units are set by the Mayor as well.

The Inclusionary Unit Set Aside Requirements is the greater of 10% of gross matter of right density or 75% of bonus density. The Mayor/District Government has the right to purchase 25% of Inclusionary Units in a for-sale development prior to issuance of certificate of occupancy. The housing affordability requirements target households at 50% to 80% of Area Median Income (AMI). Exemptions from the IZ requirements allows for a. reduction in requirements for each square foot of achievable bonus density that cannot be assessed due to: a. site conditions such as shape, slope or other similar physical conditions, or development restrictions imposed on the property by the District or federal government agencies.

Design standards mandates that the proportion of studios and one bedrooms cannot exceed the market-rate proportion. Interiors may be comparable but may be of less expensive materials. Units most not be overly concentrated on a single floor.

SUBDIVISION
SQUARE 2873



III. PROPERTY OVERVIEW AND DESCRIPTIVE ANALYSIS

SITE DESCRIPTION

The appraised property is legally identified as Lot 1102 in Square 2873, containing 63,418 square feet square feet of land area. The parcel has frontage of approximately 265 feet along Florida Avenue/Sherman Avenue. The rear of the lot fronts a portion of the 9th Street right-of-way which has been closed and transferred to Lot 1101, owned by Howard University. The north boundary extends 274 feet from Sherman Avenue to the northern boundary of the original 9th Street.

The site is basically level and on grade with all street frontages. Florida Avenue and Sherman Avenue are approximately 80 and 100 feet rights-of-way. 9th Street, which has partial frontage along the east boundary of the site, is an approximate 60 foot right-of-way

All public utilities i.e. municipal sewer and water, natural gas, telephone service etc. are available to the site. The site appears to have adequate drainage and is not located within a designated Flood Zone.

REAL ESTATE ASSESSMENT AND TAXES

Real property is assessed for tax purposes by the District of Columbia Assessor's Office at 100 percent (100%) estimated "Fair Market Value". ". The property is classified as a Class II i.e. commercial property and is taxed at the rate of $ 1.65 per $100.00 assessed valuation (applicable to the first $3,000,000 of assessed valuation). However, as government owned property, the parcels are exempt from real property taxes. The Tax Year 2015 Real Estate Assessment(s) for the appraised property, covering the period from October 1, 2014 to September 30, 2014, is as follows:

LAND ASSESSMENT	IMPROVEMENT ASSESSMENT	TOTAL ASSESSMENT
$ 17,122,860	--------------------	**$ 17,122,860**

Note: The Land Assessment Rate for the property is $270.00 per square foot.

<u>**DEVELOPMENT PLAN/VALUATION CONCEPTS**</u>

The property is to be evaluated under the approved development concept which is generally consistent with the matter-of-right development i.e. " the highest and best use of the site., As a matter of right, the project/site would be developed predicated upon market rate rentals with minimal street level retail. Under the approved (proposed) development plan, 10 % of the residential units are set-aside for affordable housing for residents earning 30 and 80 percent of the Area Median Income (AMI).

Under Premise B i.e. the proposed development plan, the project is evaluated based upon the approved use plan with a specified mixed-use development program. The development plan includes 296 units of market rate housing (82%), 28 units at the inclusionary housing income level of 80% AMI and 37 units (10%) at affordable housing rates of 30% to 80% of the Area Median Income (AMI). Published reports indicate the AMI for the Washington Area MSA is $ 107,000. The development plan also includes approximately 40,000 square feet of retail space with 35,291 square feet of grocery store space. This premise restricts the rental rates of the "affected" apartment units and the retail space, thus, reducing the value of the site.

The development proposal is summarized as follows:

- 361 Units (total) with 296 Market Rate Units
- 28 units at 80% AMI; 37 units at 30-80% AMI
- Approximately 40,000 square feet of retail; 35,291 square feet grocery store
- 309 parking spaces
- Local retail set aside 2,500 square feet; Small Business-1,500 square feet
- New Street Connection 8,625 square feet

Development of the site consistent with the site will include new street and infrastructure extending the present street network along the north boundary. Published reports indicate .the joint venture firm consisting of MRP , Fundrise and JBG have won development rights to the project. Pictorial representations indicate the building will be of eight and nine stories.

We have also included in the Addenda, the Income Levels and Rental limitations specified for various federal affordable housing programs. Briefly summarizing the data, the Area Median Income for the District of Columbia for 2014 is reported to be $107,000 with 60 % of the AMI for a four person family reported as $64,200. 30 % of the AMI for a four person family is reported as $ 32,100. 80 % of the AMI for a family of four is $ 85,600.

Based upon the submitted development plan, the 37 affordable units will include set asides at the following income levels.

30 % AMI	-	9 Units
60 % AMI	-	18 Units
80 % AMI	-	10 Units

The rent levels for affordable units are reported as follows:

Max. LIHTC Rents	**STUDIOS**	**1 BR**	**2 BR**
30 %	**$ 561**	**$ 601**	**$ 722**
60%	**$ 1,123**	**$1,203**	**$1,444**
80%	**$ 1,498**	**$1,712**	**$1,926**

Market Rentals for renovated or new units in the immediate neighborhood range from $1,500 to $1,700 for the studios, $1,900 to $ 2,300 for one bedrooms, and $2,500 to $3,400 for two. The impact of the affordability requirement in the project creates a significant decrease in the rental income for the 27 units that are to be leased at the 30% and 60 % income levels.

These units constitute only 7.5% of the total unit count. The affordable units are being leased for approximately 30 to 65 % less than market rates. This among other factors will be addressed in the valuation section of the report as relates to the proposed development plan.

HIGHEST AND BEST USE

The term "Highest and Best Use", as applicable to real property valuation, refers to that legal utilization of property that will produce the greatest "net" return over a predictable period of time. Alternatively, "Highest and Best Use" may be defined as that use from among reasonable probable and legal uses found to be physically possible, financially feasible, legally supported and results in the highest present value of the property.

The subject parcel is comprised of a vacant parcel containing 63,418 square feet of land area. The subject is located in the CR zoning district, essentially a mixed-use zone with specific height and occupancy requirements that impact the overall development density. Predominant development in the CR district is for medium/high density residential apartment use with complimentary ground level retail. The development plan for the project entails a project with 361 units with approximately 40,000 square feet of ground floor retail proposed. The parcel will be developed to an FAR of approximately 5.855 which is consistent with the zoning requirements of the CR zoning district.

In consideration of the foregoing analysis, we conclude that the highest and best use of the subject parcel to be for the construction of a medium density mixed-use commercial/residential building apartment building to comply with the underlying CR zone. The highest and best use differs slightly from the proposed development plan in that the project would be at market rate (with the exception of the Inclusionary Zoning Units) and would have a lesser degree of retail. The proposed grocery store would not generate (without subsidy) a rental rate consistent with that as found for competitive residential units that are found in the Shaw/U Street market area.

IV. VALUATION SECTION

THE APPRAISAL ASSIGNMENT

The appraisal assignment in this instance is summarized as follows:

(A) to estimate the Market Value of the site in the "as is" condition (under existing zoning); and,

(B) to estimate the Market Value of the site "under the proposed use plan. The proposed plan includes a mixed use project with 10 % of the residential units set aside for residents earning 30% and 80 % of the Annual Median Income (AMI). The project will also include approximately 40,000 square feet of retail with a 35,000 square foot grocery store

METHOD OF APPRAISAL

Consistent with generally accepted appraisal methodology, vacant land is most appropriately established by application of the Sales Comparison Approach. The Sales Comparison Approach encompasses direct comparison of the property under appraisal with recent sales of properties having physical, use and location attributes similar to the appraised property. This approach is the most valid indicator of value in the appraisal of vacant land. In concluding a value estimate by the "Comparative" Approach, adjustment factors are considered to reflect basic value contributing differences (between the comparables and the subject) such as location, time (date of sale), condition and utility.

In developing the land value estimate for the subject property we have initially established a "base" land rate for the property predicated upon the "as is" i.e. highest and best use value for the principle lot. The assignment also includes valuation of the sites under differing use scenarios and income restrictions to the hypothetical site development. Under the valuation scenarios as prescribed, the land value estimates for the property will require adjustments to the "base" land rate to reflect the impact of the land on the restrictions to the end price of the hypothetical development. The hypothetical scenarios will be discussed in greater detail under the individual valuation headings to follow.

(A) MARKET VALUE ESTIMATE – "As Is"

LAND VALUATION

Consistent with generally accepted appraisal methodology, the land value of the subject property is estimated as though vacant, free and clear of improvements. In estimation of the market value of vacant, unimproved land, the Market Data, approach is considered the most valid method.

In developing the land value estimate for the appraised property, the Appraiser's have conducted an extensive review of the residential land markets within the subject Shaw market area, and comparable locations of Northeast and Northwest Washington. Our study included the zoning districts that permit medium-high density residential building development to include the CR, C-2-A, C-3-A and C-2-B zoning districts, all zoning categories that apartment and mixed-use development.

Based upon our analysis of the market, the Appraiser's have selected eight (8) sales within the defined market area considered to have greater comparability to the appraised site. These sales conveyed from the beginning of 2010 to the present and are considered valid value indicators (with adjustments) for the subject. In our analysis of the selected sales comparables, the Appraisers have recognized the permitted development rights within the respective zoning districts, as well as, the development potential of the respective sites. The units of comparison applicable in this analysis are the respective unit prices having been paid (A) Per Square Foot of Land Area and (B) Per Square Foot of Floor Area Ratio (FAR). These sales are profiled in the Addenda of the report.

Following our Comparable Sales Listing, applicable adjustment considerations are discussed prior to developing our final land value estimate for the appraised site.

COMPARABLE LAND SALES

Sale # 1

Property Address: 945 Florida Avenue, NW

Legal Description: Square 2873, Lot 799

Date of Sale: December 23, 2010

Sales Price: $ 8,977,000

Grantee: JBG Companies

Land Area: 37,402 square feet; zoned CR

Comments: A slightly irregular shaped interior parcel located in the old Atlantic Plumbing Site. The site extends eastward to 8^{th} Street, NW

Sales Price Per Square Foot of Land Area:	**$ 240.00**
Sales Price Per Square Foot of FAR:	**$ 43.63**

Note: The parcel is an older sale but is located adjacent to the subject property.

Sale # 2

Property Address: 900 Block Barry Place & 2300 Block- Sherman Avenue, NW

Legal Description: Square 2882, Lots750,752, 754, 755,1034

ASSEMBLY SUMMARY	LOT #	SIZE	Date of Sale	Sales Price
	750	934 SF	July 2, 2014	$ 575,000
	752	934 SF	July 2, 2014	$ 725,000
	754	934 SF	Sept. 3, 2014	$ 725,000
	755	934 SF	June 2, 2014	$ 600,000
	1034	17,071 SF	May 23, 2014	$8,200,000
			TOTAL	**$10,825,000**

Grantee: 907 Barry Place LLC

Land Area: 20,807 square feet; zoned CR

Comments: The parcel is part of an ongoing assembly by Ambling Management Company along the northeast corner of Sherman Avenue and Barry Place, across from the Howard University Towers. The main lot is improved with a one-story industrial building with the small lots improved with small single-family residences. The project is proposed to be named 907 Barry Place to contain 319 market rate apartment units. The project will lease a segment of the site from Howard University, who owns the majority of the land in the northern sector of the Square. The proposed PUD will contain 11,500 square feet of retail space and will have 145 underground parking spaces. Published reports indicate that this project will be a joint venture between Howard and the grantee in this transaction.

Sales Price Per Square Foot of Land Area: **$ 520.30**
Sales Price Per Square Foot of FAR: **$ 86.70**

Sale # 3

Property Address: 3118-3120 Georgia Avenue, NW

Legal Description: Square 2891, Lots 826 & 827

Date of Sale: September 23, 2013

Sales Price: $ 1,200,000

Owner: 3118 Georgia Avenue LLC

Land Area: 5,370 square feet;
2,230 square feet;
7,600 square feet: zoned C-2-A

Comments;

The sale is an assembly of two lots improved with low density commercial/retail buildings. The site fronts 50 feet along Georgia Avenue and extends to a depth of approximately 152 feet.

Sales Price Per Square Foot of Land Area:	**$ 157.89**
Sales Price Per Square Foot of FAR:	**$ 70.17**

Note: A developed FAR of 2.0-2.5: SAY: 2.25 is assumed for valuation purposes.

Sale # 4

Property Address:	3210-3218 Georgia Avenue, NW
Legal Description:	Square 2892, Lots 102,103 &104 (Sale#1) Square 2892, Lot 879 (Sale#2) Square 2892, Lot 910 (Sale#3)
Date of Sale:	April 15, 2013 (Sale #1) April 22, 2013 (Sale #2) November 11, 2013 (Sale #3)
Sales Price:	$ 1,050,000 (Sale # 1) $ 585,000 (Sale # 2) $ 1,975,000 (Sale # 3) $ 3,610,000
Owner:	ZP Georgia Avenue LLC
Land Area:	4,205 square feet; (Lots 102,103 &104) 2,153 square feet; (Lot 879) 7,639 square feet; (Lot 910) 13,987 square feet: zoned C-2-A

Comments;

The sale is an assembly of multiple lots improved with low density commercial/retail buildings. The site fronts approximately 117 feet along Georgia Avenue and extends to a depth of approximately 129-152 feet. The site is slated for redevelopment with a PUD including a zoning change for the site to C-2-B. There is a small rear city owned lot (Lot 105) which is being negotiated for as part of the development project.

Sales Price Per Square Foot of Land Area:	**$ 257.91**
Sales Price Per Square Foot of FAR:	**$ 73.69**

Note: A developed FAR of 3.5 is assumed for valuation purposes.

Sale # 5

Property Address: 3930-3936 Georgia Avenue, NW

Legal Description: Square 2906, Lot 846

Date of Sale: July 11, 2012

Sales Price: $ 1,600,000 (Sale # 1)

Owner: 904 LLC

Land Area: 6,788 square feet: zoned C-2-A

Comments;

The sale is located at the southwest corner of Georgia Avenue and Shepherd Street, NW. At the time of conveyance, the site was improved with a three-story/four story apartment building that has been demolished/razed. The site is slated for redevelopment with a PUD including a zoning change for the site to C-2-B. Demolition costs of $150,000 is added to reflect land/acquisition costs

Sales Price Per Square Foot of Land Area:	**$ 257.80**
Sales Price Per Square Foot of FAR:	**$ 73.66**

Note: A developed FAR of 3.5 is assumed for valuation purposes.

<u>**Sale # 6**</u>

<u>Property Address</u>: 320 Florida Avenue, NE

<u>Legal Description</u>: Square 3587, Lot 4

<u>Date of Sale</u>: June 7, 2014

<u>Sales Price</u>: $ 8,800,000

<u>Grantee</u>: Level 2

<u>Land Area</u>: 28,394 square feet; zoned C-M-1

<u>Comments:</u>

The site is basically a rectangular-shaped parcel currently improved with a Burger King restaurant. The lot has frontage of approximately 250 feet along Florida and extends to a depth of approximately 105 feet. The lot abuts the Amtrak & Metro Rail Bridge along the west boundary.

<u>Sales Price Per Square Foot of Land Area</u>:	**$ 309.92**
<u>Sales Price Per Square Foot of FAR:</u>	**$ 61.98***

<u>Note:</u> Based upon a 5.0 FAR.

<u>Sale # 7</u>

<u>Property Address</u>: 4TH Street & Florida Avenue NE

<u>Legal Description</u>: Square 3587, Lot 8

<u>Date of Sale</u>: May 27, 2014

<u>Sales Price</u>: $ 13,000,000

<u>Grantee</u>: Gateway Market LLC

<u>Land Area</u>: 38,452 square feet; zoned C-3-C (PUD Rezoning)

<u>Comments:</u>

The site is basically a rectangular-shaped parcel bounded by Florida Avenue, Fourth Street and Morse Street, NE. The site fronts 213 feet along the north side of Florida Avenue, 195 feet along the west side of Morse Street and extends approximately 124 feet along Morse Street. Development plans are reported to include a 188 apartment unit with 40,000 square feet of ground floor commercial.

Sales Price Per Square Foot of Land Area:	**$ 338.08**
Sales Price Per Square Foot of FAR:	**$ 56.54***

Note: Based upon a 6.0 FAR.

Sale # 8

Property Address: 8th Street, 9th Street & Florida Avenue NW

Legal Description: Square 3587, Lot 8

Date of Sale: October, 2012

Sales Price: $ 19,750,000

Grantee: JBG

Land Area: 47,416 square feet; zoned; Arts/C-2-B

Comments:

The site is comprised of three (3) non-contiguous sites developed with two mid-rise apartment buildings identified as the Florida Avenue Apartments. Development plans are reported to include 245 apartment units with approximately 230,000 square feet of gross floor area.

Sales Price Per Square Foot of Land Area:	**$ 416.53**
Sales Price Per Square Foot of FAR:	**$ 85.90**

Note: Based upon a 4.85 FAR.

PROPERTY VALUATION

The valuation assignment in this instance entails a land appraisal of the subject parcel for development to a density consistent with that permitted in the CR Zoning district. As stipulated in the preceding Highest and Best Use section, the Appraisers conceive optimum usage of the parcel to be the development of a medium density "mixed-use" residential building with complimentary first floor commercial (retail) usage and residential usage above. An overall developed FAR of 6.0 is considered applicable to the subject, which is permitted as a "matter of-right" in the CR zoning district.

In the preceding Comparable Land Sales Listing in this report, we have compiled a listing of nine (9) land sales considered to be most applicable on the appraisal of the subject property. Adjustment factors are considered to reflect basic value contributing differences between the comparable sales and the property under appraisal. In this instance, the sale properties are of diverse physical attributes and are not afforded direct comparability to the appraised properties. Accordingly, traditional "paired sales" application in the Sales Comparison Approach is not valid given the high degree of subjectivity necessary in formulating individual adjustments for particular factors. We have conducted a generalized analysis recognizing basic physical/economic differences such as "time" i.e. date of sale, location, condition and utility.

The principle adjustments applicable in our analysis are bracketed into three (3) basic categories:

(A) **Location** - to recognize the general inferiority/superiority of the compared location with the comparable. The sales are located predominantly in the Shaw/Columbia Heights neighborhood with the exception of Sales 6 and 7, which are located in the NOMA/Florida Avenue Market Area. These sales are two of the most recent conveyances of medium/high density apartment zoned sites with comparable highest and best uses to the subject property.

(B) **Site Utility** - adjustments based upon development potential attributable to configuration, topography, size, zoning and site costs.

(C) **Conditions of Sale/Time**- recognized for those transactions that were negotiated for significant periods prior to the transfer date and/or were acquired under duress i.e. foreclosure.

COMPARABLE SALES ANALYSIS

Sale #1, identified 945 Florida Avenue, NW, is a 37,402 square foot site that conveyed in December of 2010. The parcel is located next door to the subject property. A major upward adjustment for time is applied to the sale. An overall upward adjustment of 50 percent is applied to the sale for time.

INDICATED UNIT VALUE: $ 43.83 per sq. ft. x 1.50 = $ 64.45 per sq. ft –FAR

Sale # 2, located at Sherman Avenue and Barry Place, NW, is a 20,807 square foot site that conveyed in May - September of 2014 at the rate of $86.70 per square foot . The parcel is located one half block north of the subject property. A downward adjustment for time and utility are applied to the comparable An overall downward adjustment of 15 percent is applied to the sale for time.

INDICATED UNIT VALUE: $ 86.70 per sq. ft. x .85 = $ 73.70 per sq. ft –FAR

Sale #3, identified as 3118-3120 Georgia Avenue, NW, is a 7,600 square foot interior parcel located along Georgia Avenue (between Irving and Kenyon Street, NW). The sale was recorded in September of 2013 at the rate of $ 70.17 per square foot of FAR. Sale location is inferior; general utility is vastly superior (due to size). No adjustment is applied.

INDICATED UNIT VALUE: $ 70.17 per sq.ft.–FAR

Sale # 4, identified as 3210-3218 Georgia Avenue, NW, is an approximate 14,000 square foot interior parcel located adjacent to the subject parcel. The sale was recorded in April and November of 2013 at the rate of $ 73.69 per square foot of FAR. Sale location is inferior; general utility is vastly superior (due to size). No adjustment is applied.

INDICATED UNIT VALUE: $ 73.69 per sq.ft. -FAR

Sale # 5, identified as 3930-3936 Georgia Avenue, NW, is an approximate 6,788 square foot interior parcel located adjacent to the subject parcel. The sale was recorded in November of 2012 at the rate of $ 73.66 per square foot of FAR.. Sale location is inferior; general utility is vastly superior (due to size). No adjustment is applied.

INDICATED UNIT VALUE: $ 73.66 per sq.ft. FAR

Comparable Sale # 6, located at 320 Florida Avenue NE, contains 28,394 square feet of land area and conveyed at the rate of $ 61.98 per square foot. The general location of the comparable is slightly inferior to the subject's location. The sale has inferior utility to the subject. The site is inferior due to the externalities as discussed. An overall upward adjustment of 20 % is applied to the sale.

INDICATED UNIT VALUE: $ 61.98 per sq. ft. x 1.20 = $ 74.37 per sq.ft.- FAR

Comparable Sale # 7, located at Florida Avenue and 4th Street NE, contains 38,452 square feet of land area and conveyed at the rate of $ 56.54 per square foot. The general location of the comparable is inferior to the subject's location. An overall upward adjustment of 20 % is applied to the sale.

INDICATED UNIT VALUE: $ 56.54 per sq. ft. x 1.20 = $ 67.85 per sq.ft.- FAR

Comparable Sale # 8, located at Florida Avenue, 8th Street and 9th Street NW, contains 38,452 square feet of land area and conveyed at the rate of $ 85.90 per square foot. The multiple lots conveyed in October of 2012. The general location of the comparable is superior to the subject due to its Florida Avenue/U Street frontage. he overall utility is superior as well. An overall downward adjustment of 15 % is applied to the sale.

INDICATED UNIT VALUE: $ 85.90 per sq. ft. x .85 = $ 73.01 per sq.ft.- FAR

LAND VALUATION CONCLUSION

The "adjusted" unit value estimates reflected by the comparable sales reflect a range of $ 64.45 to $ 74.37 Per Square Foot. Sale # 1 (the outlier at $64.45 Per Square Foot) is an older sale and is not considered a primary comparable in this analysis. This sale is germane because it abuts the subject property. There was an additional transaction in December of 2010 for the property located at 8th Street & V Streets NW. This sale was for approximately 53,000 square foot of land that conveyed at the rate of $285 per square foot.

Excluding Sale # 1 form the array, the unit values are closely bracketed reflecting unit rates of $ 67.85 to $ 74.37 Per Square Foot or an average of $ 72.35 Per Square Foot Each of the sales is considered to provide general indicators of the subject's market value and is afforded equal weight in this analysis. Thus, we conclude a unit land rate applicable to the subject property of $ 72.50 per square foot of FAR.

According to public records, the subject parcel contains 63,418 square feet of land area. Considering the underlying zoning and the subject's Florida Avenue location, a developed FAR of 6.0 is applicable to the site. Thus, on the basis of our analysis, the market value of the subject property in the "as is" state of condition, as of December 1, 2014, the effective date of the appraisal, is as follows:

$ 72.50 per sq. ft. of FAR x 6.0 FAR = $ 435.00 P/SQ.FT.
63,418 square feet x $ 435.00 per sq. ft. = $ 27,586,830

ROUNDED:

TWENTY SEVEN MILLION FIVE HUNDRED EIGHTY SEVEN THOUSAND DOLLARS ($27,587,000.00)

(B) LAND VALUE - "PROPOSED DEVELOPMENT PLAN"

This premise entails valuation of the land, under the proposed development plan, as an affordable housing project. Referencing the Scope of Work for this assignment, the "Proposed Development" seeks to build rental apartments with 10 % affordability at 30 to 80 % of the AMI. The plan indicates that there will be one level of underground parking. This premise essentially mirrors the "as is" valuation estimate from a development/use standpoint; however, the land value would be adjusted to reflect the restricted income potential of the hypothetical development under the affordability program and the lessened rental attributable to the large retail space. Only 7.5 % of the 361 units are actually impacted by the affordable housing guidelines i.e. the 30 to 60 % affordability criteria.

The development plan includes 296 units of market rate housing (82%), 28 units at the inclusionary housing income level of 80% AMI and 37 units (10%) at affordable housing rates of 30% to 80% of the Area Median Income (AMI). Published reports indicate the AMI for the Washington Area MSA is $ 107,000. The development plan also includes approximately 40,000 square feet of retail space with 35,291 square feet of grocery store space. This premise restricts the rental rates of the "affected" apartment units and the retail space, thus, reducing the value of the site.

The development proposal is summarized as follows:

- 361 Units (total) with 296 Market Rate Units
- 28 units at 80% AMI; 37 units at 30-80% AMI
- Approximately 40,000 square feet of retail; 35,291 square feet grocery store
- 309 parking spaces
- Local retail set aside 2,500 square feet; Small Business-1,500 square feet
- New Street Connection 8,625 square feet

In the Addenda of this report, we have included the 2014 Adjusted Income Levels and Housing Program Rent Levels as published by the United States Department of Housing and Urban Development (HUD). Referencing the exhibit, the Rent Levels for the studios, one and two-bedroom unit at the 30% income level is $ 561, $602 and $722 per month, respectively. The Rent Levels for the studios one and two-bedroom unit at the 60% income level is $ 1,123, $1,203 and $ 1,444 per month, respectively. The units at the 80 % criteria are minimally impacted with rent levels for the studios, one bedrooms and two bedrooms at $ 1,498, $1,712 and $1,926.

In concluding the land value estimate for the property under this premise, we have examined market rents for comparable rental projects along the Florida Avenue and U Street corridor, to determine a basis for our adjustment to the market value estimate. Our review of projects in the defined market area would indicate that a typical two bedroom apartment in the hypothetical subject building would rent for approximately $ 2,500 to $ 3,400 per month. One bedrooms would rent for $1,900 to $2,400 per month

The adjustments applicable to the site to reflect the requirements of the Proposed Development Plan are categorically described to include:

(A) **Loss of Income** -Due to affordable rents (principally for the 37 units set aside for 30 to 60 % of the AMI. An overall adjustment of 15 percent is applied for this factor.

(B) **Loss of Income** -Due to lessened marketability of large grocery store and commercial set aside space.. An overall adjustment of 5 percent is applied for this factor.

An aggregate adjustment of 20 % is applied to the established land rate under the "As Is/By Right" land value estimate for the site.

Recalling our preceding analysis, we have concluded a unit land rate for the subject property in the "as is" state (based upon the highest and best use) of $ 72.50 per square foot of FAR. Applying an adjustment of 20 % to recognize the impact of the restricted income stream, indicates a unit rate for the site under the aforementioned valuation premise is $ 72.50 per square foot x .80 or $ 58.00 per square foot of FAR.

The development plan as approved entails the development of a mixed-use project to contain approximately 371,000 square feet of land area. The development will reflect a developed FAR of approximately 5.855. Thus, on the basis of our analysis, the estimated market value of the appraised parcel under the proposed development plans and the affordable housing guidelines as mandated, as of December 1, 2014, the effective date of the appraisal, is as follows:

$ 58.00 per sq. ft. of FAR x 5.855 FAR = $ 339.59 P/SQ.FT. (SAY: $ 340.00 P/SQ.FT

63,418 square feet x $ 340.00 per sq. ft. = $ 21,562,120

ROUNDED: $ 21,562,000

VALUATION SUMMARY

On the basis of our conducted analysis, the estimated Market Value of the subject property, under the valuation concepts as delineated, as of December 1, 2014 the effective date of valuation, is as follows:

MARKET VALUE "AS IS" – Highest and Best Use **$ 27,587,000**

MARKET VALUE "Proposed Development Plan" **$ 21,562,000**

Enclosed is our appraisal and accompanying photographs and graphics. Thank you for requesting our services.

Respectfully Submitted,

Morris E. James, A.S.A.
Certified General Real Property Appraiser
DC License #10022

Lindell B. Younger
Certified General Real Property Appraiser
DC License #10057

SUMMARY APPRAISAL REPORT

OF

SQUARE 2873, LOT 1102
965 FLORIDA AVENUE, NW
WASHINGTON, DC

SUPPLEMENTAL VALUATION
(Alternative Development Proposal- Affordable Housing Criteria)

VALUATION AS OF:

DECEMBER 1, 2014

PREPARED FOR:

OFFICE OF THE DEPUTY MAYOR FOR PLANNING AND ECONOMIC DEVELOPMENT
DISTRICT OF COLUMBIA GOVERNMENT
1350 PENNSYLVANIA AVENUE, NW, SUITE 317
WASHINGTON, DC

ATTN: MR. MARC BLEYER
PROJECT MANAGER

PREPARED BY:

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Morris E. James, A.S.A. **Lindell B. Younger**

January 6, 2015

Deputy Mayor For Planning and Economic Development
The District of Columbia Government
1350 Pennsylvania Avenue, NW, Suite # 317
Washington, DC 20005

Attn: Mr. Marc Bleyer, Project Manager

Re: Supplemental Appraisal Report
Square 2873, Lot 1102
965 Florida Avenue, NW
Washington, DC

Dear Mr. Bleyer:

In compliance with your request, we have completed our supplemental appraisal of the captioned property and are submitting our findings herewith. The appraisal assignment entails preparation of a Summary Appraisal report as promulgated in Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP). The reader is advised that all relevant aspects of the appraisal are included in the initial (original) report with respect to property, neighborhood and market analysis. The assignment includes a hypothetical condition with the valuation predicated upon the alternative development and a specific affordable housing plan.

In accordance with the Scope of Services outlined in the Amendment of this assignment submitted by the Contracting Agency, the purpose of the appraisal is to estimate the Market Value of the appraised properties under an alternative" development scenario to include 30 % of the residential units leased under affordable housing criteria. Valuation instructions provided by the client dictate the allocation of 30 % of the units (107 units) to residents earning 30 and 50 % of the Area Median Income (AMI). The alternative proposal is summarized as follows:

- 353 Units (total) with 246 Market Rate Units and107 affordable units
- Unit Mix of 40 Studios, 215 One bedrooms/den and 98 Two bedrooms
- 80 Units @ 30% AMI and 27 Units @ 50% AMI
- Approximately 371,338 square feet of GBA; 275,706 square feet -RSF
- Approximately 39,291 square feet of retail; 25,000 square feet RSF
- 309 parking spaces - below grade
- Local retail set aside 2,500 square feet; Small Business-1,500 square feet
- New Street Connection 8,625 square feet

The Affordable Housing Programs typically mandate a long term contract set aside of approximately 50 years. Accordingly, the Appraisers have calculated the Rent Loss/Deficit due to the rent levels as prescribed by the Affordable Housing Program mandated by the District of Columbia. Referencing the analysis, the 30% and 50 % AMI levels result in a discount to market of 70 to 77 % (@30% AMI) and 51 to 60 % (@50% AMI). The Affordable Unit set aside results in an aggregate (annual) rent loss of $1,985,456. The magnitude of the loss on an aggregate and individual unit basis is such that the income is insufficient to cover operating expenses (in some cases) and debt service attributable to financing/construction. The net effect is that the costs of the units are subsidized wholly or in part by the Market Rate units. The resulting costs to develop/carry the affordable units would result in an overall diminution of the land value for the project.

Attributable to the affordability clause in the development plan the Land Value estimate is computed by application of a modified Land Residual Method. The Land Residual Technique establishes land value by estimating the value of the property as "hypothetically improved" and subsequently deducting the projected development costs for the project.

On the basis of our conducted analysis, the estimated Market Value of the subject property, under the alternative development scenario as defined, as of December 1, 2014, the effective date of valuation, is:

SEVEN MILLION FOUR HUNDRED SIXTY SIX THOUSAND DOLLARS
($7,466,000.00)

Note: The land value estimate does not include environmental remediation (if necessary) and additional community related development proffers included in the project proposal.

Thank you for requesting our services.

Respectfully Submitted,

Morris E. James, A.S.A.
Certified General Real Property Appraiser
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Lindell B. Younger
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(C) LAND VALUE - "ALTERNATIVE DEVELOPMENT PLAN"

This premise entails valuation of the land, under an alternative development plan, to include a more aggressive affordable housing component of the proposed mixed-use project. Referencing the Statement of Work in Amendment 1 for this assignment, the "Alternative Development" plan seeks to build rental apartments with 30 % affordability at 30 and 50 % of the AMI. The affordability covenant mandates the set aside units be leased at the LIHTC rates for a 50 year period. The plan indicates that there will be one level of underground parking. This premise essentially mirrors the initial "proposed" valuation plan in terms of the commercial component and from a development density standpoint. However, the land value would be adjusted to reflect the restricted income potential of the hypothetical development under the affordability program. Published reports indicate the AMI for the Washington Area MSA is $ 107,000.

DEVELOPMENT/PROJECT SUMMARY

The alternative development plan will entail the construction of individual free-standing, 110 foot building. The alternative development proposal is summarized as follows:

- 353 Units (total) with 246 Market Rate Units and 107 affordable units
- Unit Mix of 40 Studios, 214 One bedrooms and 98 Two bedrooms
- 80 Units @ 30% AMI and 27 Units @ 50% AMI
- Approximately 39,291 square feet of retail; 35,291 square feet grocery store
- 309 parking spaces
- Local retail set aside 2,500 square feet; Small Business-1,500 square feet
- New Street Connection 8,625 square feet

Development of the site consistent with the site will include new street and infrastructure extending the present street network along the north boundary. Published reports indicate .the joint venture firm consisting of MRP and Ellis Development have won development rights to the project. Pictorial representations indicate the building will be of eight and nine stories. Building costs are estimated to be approximately $92,500,000 with unit costs of $230,500 for the affordable units and $238,000 for the market rate units. It is assumed that there would be general comparability to the finish and amenities of the affordable and market rate units. The unit mix for the residential component of the project will entail 353 units with 246 Market Rate Units and 107 affordable units. The unit mix is summarized as follows:

Type	Unit Size	Total	Market Rate Units	Affordable (30 & 50% AMI)
Studio	500SF	40	27	13 (3& 10 Units each)
1BR	725SF	168	117	51 (13 & 38 Units each)
1BR & Den	820SF	47	33	14 (4 & 10 Units each)
2BR	975SF	98	69	29 (7 & 22 Units each)

Note: The affordable unit total includes both 30 and 50 % AMI set aside units. 27 of the units are slated for rent at 30% of the AMI with 80 units slated for rent at 50% of the AMI.

Deficit Income

The 2014 Adjusted Income Levels and Housing Program Rent Levels as published by the United States Department of Housing and Urban Development (HUD) and in concert with Rent Levels provided by DMPED are provided in the exhibit to follow. The Rent Levels for the units at the 30% and 50 % income levels are as follows:

Max. LIHTC Rents	STUDIOS	1 BR	2 BR
30 %	$ 562	$ 642	$ 722
50%	$ 936	$1,070	$ 1,203

In concluding the land value estimate under this premise, we have examined market rents for comparable rental projects in the extended area, to determine a basis for our adjustment to the market value estimate. Our review of projects indicates market rents for the respective unit types in the hypothetical subject building are as follows:

Studios:	$1,800 to $ 1,950 per month
One Bedrooms:	$2,200 to $2,700 per month
Two Bedrooms:	$2,800 to $3,200 per month

The most applicable method to quantify the reduction in value of the Florida Avenue Site due to the affordable housing criteria is to analyze the reduction in rental income. In the preceding paragraphs, the affordable housing rates at the respective levels of 30 and 50 % for the one two and three bedroom types are depicted. Market rentals for the units are concluded to be $1,925, $ 2,300, $2,700 and $3,100 per unit. The resulting loss (deficit) income due to the affordable housing rents are as follows:

	@ 30 AMI Rent Levels		% Difference
Studios:	Market Rent	$ 1,925	70 %
	Less: Affordable Rate	- 561	
	Income Loss	$ 1,464	
One Bedroom:	Market Rent	$ 2,300	72 %
	Less: Affordable Rate	- 642	
	Income Loss	$1,658	
One Bedroom/Den:	Market Rent	$ 2,700	76 %
	Less: Affordable Rate	- 642	
	Income Loss	$2,048	
Two Bedroom:	Market Rent	$ 3,100	77 %
	Less: Affordable Rate	- 722	
	Income Loss	$ 2,378	

	@ 50% AMI Rent Levels		% Difference
Studios:	Market Rent	$ 1,925	51 %
	Less: Affordable Rate	- 936	
	Income Loss	$ 989	
One Bedroom:	Market Rent	$ 2,300	56 %
	Less: Affordable Rate	-1,070	
	Income Loss	$ 1,230	
One Bedroom/Den:	Market Rent	$ 2,700	60 %
	Less: Affordable Rate	-1,070	
	Income Loss	$ 1,630	
Two Bedroom:	Market Rent	$ 3,100	60 %
	Less: Affordable Rate	- 1,203	
	Income Loss	$ 1,897	

AGGREGATE DEFICIT INCOME

30% AMI

3 Studios x $ 1,464 per month x 12 Months	=	$ 52,704	
13 One Bedrooms x $ 1,658 per month x 12 Months	=	$258,648	
4 One Bedroom w/den x $ 2,048 per month x 12 Months	=	$ 98,384	
7 Two Bedrooms x $ 2,378 per month x 12 Months	=	$ 199,752	
TOTAL RENT DEFICIT			**$ 609,488**

50% AMI

10 Studios x $ 989 per month x 12 Months	=	$ 118,680	
38 One Bedrooms x $ 1,230 per month x 12 Months	=	$ 560,880	
10 One Bedroom w/den x $1,630 per month x 12 Months	=	$ 195,600	
22 Two Bedrooms x $ 1,897 per month x 12 Months	=	$ 500,808	
TOTAL RENT DEFICIT			**$ 1,375,968**
TOTAL (ANNUAL) RENT DEFICIT			**$ 1.985,456**

LAND ADJUSTMENT FOR AFFORDABILE HOUSING MANDATE

In the preceding analysis, the Appraisers have calculated the Rent Loss/Deficit (Below Market) due to the rent levels as prescribed by the Affordable Housing Program mandated by the District of Columbia. The Affordable Housing Programs typically mandate a long term contract set aside of approximately 50 years. Referencing the analysis, the 30% and 50 % AMI levels result in a discount to market of 70 to 77 % (30% AMI) and 51 to 60 % (50% AMI). The Affordable Unit set aside results in an aggregate (annual) loss of $1,985,456. The magnitude of the loss on an aggregate and individual unit basis is such that the income is insufficient to cover operating expenses (in some cases) and debt service attributable to financing/construction. The net effect is that the costs of the units are subsidized wholly or in part by the Market Rate units. The resulting costs to develop/carry the affordable units would result in an overall diminution of the land value for the project.

Attributable to the affordability clause in the development plan the Land Value estimate is computed by application of a modified Land Residual Method. The Land Residual Technique establishes land value by estimating the value of the property as "hypothetically improved" and subsequently deducting the projected development costs for the project. This approach has greater applicability in "Re-Use" assignments where a specific development plan is analyzed or when development costs/values can be realistically estimated and in cases where insufficient comparable data is available to develop a valid opinion of value by the Comparative Approach. In this case, there are general development and cost parameters provided for this assignment, sufficient to estimate a land value estimate by the approach. Definitive plans are not provided resulting in general assumption regarding unit finish/design and the particulars regarding the commercial usage and below grade parking.

PROJECT DEVELOPMENT COSTS

Referencing the Project Summary, the proposed project will contain approximately 371,338 square feet of Gross Building Area (GBA) with 275,706 square feet of Rentable Square Feet (RSF) in the residential component of the development. The commercial sector to contain a small grocery store will contain approximately 39,291 square feet with 25,000 square feet of RSF. The parking area will contain 309 parking spaces presumably within two levels below grade. The parking area is estimated to contain approximately 115,000 square feet (375 feet per space). The Appraisers assume approximately 250 spaces will be designated for the building residents and the remaining 59 to be used by customers to the grocery store and building staff. Preliminary estimates indicate unit costs of $230,500 for the affordable units and $238,000 for the market rate units. The total project costs under the original development concept was estimated to be approximately $96,000,000 which reflected an overall unit rate of $258.00 per square foot of Gross Floor Area. Based upon our review of construction costs for similar projects and published cost estimates, the projected costs are consistent with a rate of $250.00 per square foot as evidenced by the market. Accordingly, we have concluded Total Project Development Costs as follows:

371,338 square feet x $250.00 per square foot = $92,834,500: SAY: $ 92,835,000.

Operating expenses for the affordable units are estimated at $7,750 per unit (due to decreased tax lode) and $8,500 per unit for the market rate spaces. The commercial space represents a "triple net" leasing basis.

PROJECTED GROSS ANNUAL INCOME

Summarizing our analysis heretofore, the Projected Gross Annual Income for the subject property is estimated as follows:

MARKET RATE UNIT INCOME

UNIT TYPE	UNIT #	MARKET RENT	ANNUAL RENT	TOTAL INCOME	
STUDIO	27	$ 1,925 p/month	$ 23,100	$ 623,700	
1BR	117	$ 2,300 p/month	$ 27,600	$ 3,229,200	
1BR/DEN	33	$ 2,700 p/month	$ 32,400	$ 1,069,200	
2 BR	69	$ 3,100 p/month	$ 37,200	$ 2,566,800	
	246				$ 7,488,900

AFFORDABLE UNIT INCOME- 30% AMI

UNIT TYPE	UNIT #	AFFORD. RENT	ANNUAL RENT	TOTAL INCOME	
STUDIO	3	$ 561 p/month	$ 6,732	$ 20,196	
1BR	13	$ 642 p/month	$ 7,704	$ 100,152	
1BR/DEN	4	$ 642 p/month	$ 7,704	$ 30,816	
2 BR	7	$ 722 p/month	$ 8,664	$ 60,648	
	27				$ 211,812

AFFORDABLE UNIT INCOME- 50% AMI

UNIT TYPE	UNIT #	AFFORD. RENT	ANNUAL RENT	TOTAL INCOME	
STUDIO	10	$ 936 p/month	$ 11,232	$ 112,320	
1BR	38	$1,070 p/month	$ 12,840	$ 487,920	
1BR/DEN	10	$1,070 p/month	$ 12,840	$ 128,400	
2 BR	22	$1,203 p/month	$ 14,436	$ 317,592	
	80				$ 1,046,232

PARKING (250 Spaces-59 Retail Space Allocation)

250 x $150p/space (Net) x 12 = $ 450,000

COMMERCIAL = 25,000 Square Feet x $30.00 Per Square Foot = $ 750,000

GROSS POTENTIAL INCOME **$ 9,946,944**

ESTIMATED PROPERTY VALUE (Alternative Development Plan)

Potential Gross Annual Income		$ 9,946,944
Less: Vacancy & Collection Loss @ 5.0 %		- 497,347
Effective Gross Annual Income		$ 9,449,597
Less: Operating Expenses - 107 Units x $7,750 =	$ 829,250	
246 Units x $8,500 =	$ 2,091,000	
		- 2,920,250
NET ANNUAL OPERATING INCOME		$ 6,529,347

ESTIMATED PROPERTY VALUE

$ 6,529,347 (NOI) ÷ by .0650 (Cap. Rate) = $ 100,451,492

ROUNDED: $ 100,451,000

(C-1) VALUATION CONCLUSION - Alternative Development Plan

Summarizing our analysis heretofore, the project "as complete - under the affordable housing scenario is estimated to have a market value of $100,451,000. Project costs are estimated at $92,835,000. There are nominal demolition costs estimated at approximately $100,000. Thus, on the basis of our analysis, the estimated market value of the subject parcel under the "alternative development plan", under the affordable housing guidelines as mandated, as of December 1, 2014, the effective date of the appraisal, is as follows:

Project Value – As Complete	**$100,451,000**
Less : Development Costs	**- 92,835,000**
Demolition/Excavation Costs	**- 150,000**
ESTIMATED RESIDUAL LAND VALUE	**$ 7,466,000**

Note: The land value estimate does not include environmental remediation (if necessary) and additional community related development proffers included in the project proposal.

Respectfully Submitted,

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