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DISTRICT EQUITIES

The Buchanan Retail Strategy Proposal

Prepared for:

Dweck Management

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Dear Nora,

We appreciate the opportunity to work with you and Dweck Management on the study and positioning of the retail at the Buchanan. We've spent the last month studying the various components that affect the retail at the Buchanan. We will begin with a macro overview of the DC retail market, zooming into the relavant submarkets, competitive markets, a micro level study of the Crystal City market, and merchandising overview. Our overview is meant to provide the context for our recommendations for the highest and best use of your retail space moving forward, without it we are making decisions in a vacuum. With multiple large scale and small scale changes happening in the type and quality of retail across the DC area as well as the various moving pieces within Crystal City, this overview will provide the baseline and guidance for maximizing retail value at the Buchanan.

SCOPE OF SERVICES PHASE ONE

Phase One Contents

People **Place** **Value**

1: MACRO MARKET TRENDS

The DC Metropolitan area underwent a development boom with mixed-use and multifamily being the major real estate drivers. Through this cycle, shopping centers and malls have stagnated and declined, and office space generally remained flat and shifted out of suburban office parks into closer metro-centric areas. Development in Washington, DC has swiftly pushed eastward and is now active within all four quadrants of the city, engendered by continued neighborhood revitalization, federal government stability, and foreign investment. There are nearly 159.9 million square feet of development completed in the District, 27.6 million under construction, and 18.8 million in the development pipeline within the confines of the District, 78% of which will be built adjacent to a Metrorail station.

Following the financial recession of 2008, the DC area saw categorical shifts in living patterns inward toward urban environments. The current development cycle accommodated and invigorated this influx. After close to ten years, District Equities feels that we have reached a peak in this cycle and are due for a variety of changes. We will analyze and outline these changes throughout our deliverable, and make recommendations for The Buchanan retail strategy based on our findings and subsequent analysis.

The largest trends we see in our current cycle due for correction regard large-format restaurants and multi-family rents. We believe both offer opportunities and limitations, and our retail strategy will advise how to not only protect against a market correction but to also position the retail space at The Buchanan to maximize value in the retail and residential portions of the Property.

1A: DC TRENDS

MAJOR TRENDS (2015-2016)

Washington, DC Residential Market Snapshot:

- Total DC Households: 295,362
- Market Rate Rental Units: 132,869
- Market Rate Apartment Vacancy: 5.3%
- Residential Units Under Construction: 14,847

Washington, DC Office Market Snapshot:

- Office RBA Inventory: 124.5 million square feet
- Net Absorption: 258K square feet
- Office Vacancy Rate: 11.8%
- Overall Average Asking Rate: $52.68 per square foot

Washington, DC Retail Snapshot:

- 2015 Taxable Retail & Restaurant Sales: $12.7 billion (28% increase since 2010)
- 1.5 million square feet of retail under construction
- 11.1% population growth (2010-2015)
- DC Retail/Restaurant Incubators: 6

1B: ARLINGTON TRENDS

MAJOR TRENDS (2015-2016)

Arlington County Residential Market Snapshot:

- 9,536 residential units approved, 2,014 residential units under construction, 915 residential units completed

Arlington County Office Market Snapshot:

- Office RBA Inventory: 40.6 million square feet
- Net Absorption: (31,383)
- Office Vacancy Rate: 20.3%
- Overall Average Asking Rate: $39.24 per square foot

Arlington County Retail Snapshot:

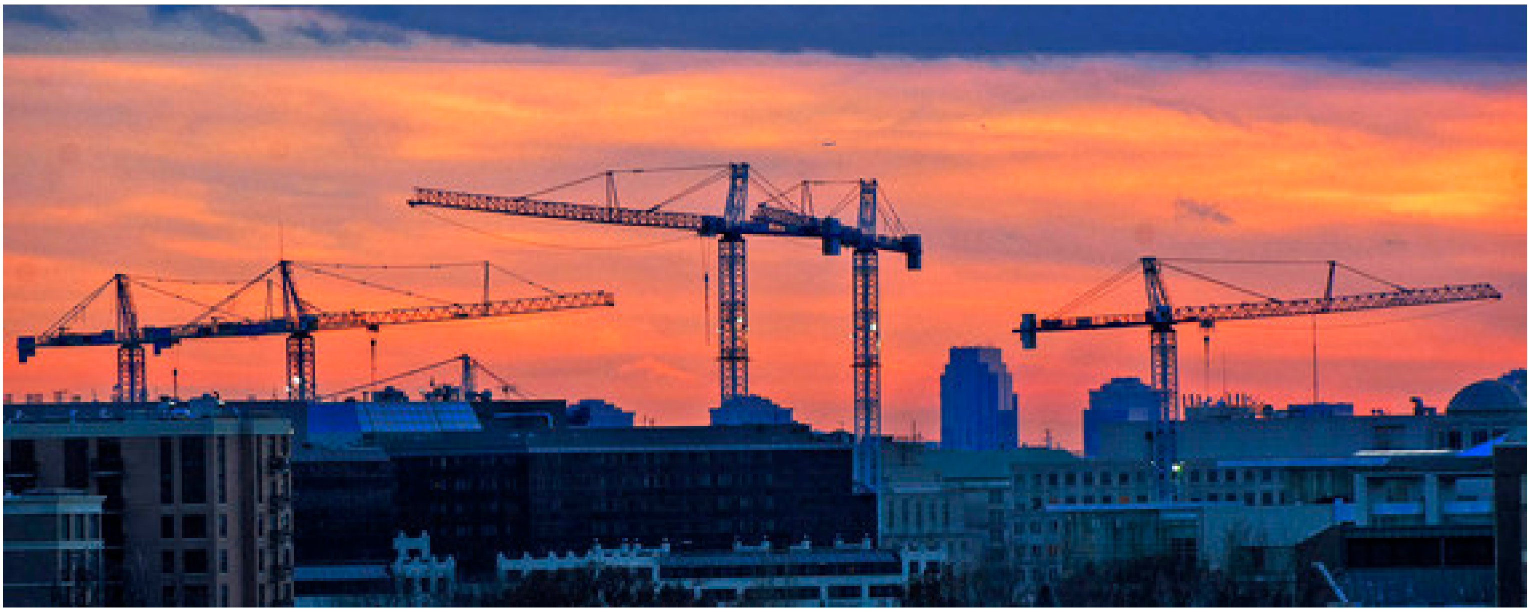
- 999,514 square feet of new retail approved, 60,323 square feet under construction, and 98,501 square feet completed (YTD Q3 2016)
- In July 2015, the Arlington County Board approved the Arlington County Retail Plan, an initiative to spread retail and disperse it throughout the County and away from typical, mall-centric areas onto the street.

1: MACRO MARKET TRENDS: CONCLUSION

Conclusion: The DC Metropolitan area is due for a correction in large-format restaurants. An unprecedented number of restaurants opened as they were the most viable retail tenants for Landlords following the recession of 2008. Developers and Landlords across the city have pursued an ever growing number of these restaurants to fill the large quantities of retail space being developed across the city in new mixed-use projects.

While we haven't seen a major correction yet, with the number of major new submarkets coming online and the amount of large restaurants within them, the operators, concepts, and service staff are wearing thin. We expect to see closures beginning in the summer of 2017, peaking through the summer of 2018.

In a similar vein, multi-family was the focus of most major development in the face of a weak office market. With more residential units delivering in 2017 than in any other year in DC Metropolitan area history, we see vulnerable buildings susceptible to this massive multi-family supply. Market fundamentals are strong, and urbanism as a major demographic shift is here to stay, but there is a finite number of people moving into the city with spending power to support high rental rates. We see core markets, well-amenitized buildings, and buildings that have differentiation of unit mix faring well, but under-amenitized buildings with large concentrations of small format 1-bedroom units are vulnerable. Buildings that offer good fundamentals, Metrorail access, upgraded amenities, complimentary retail, and those whom are at or below top of market rents are well positioned against new expensive unit buildings.



2: SUBMARKETS: MAJOR RETAIL

Following the macroeconomic overview of the DC Metropolitan area market, we will will assess and outline major retail submarkets of note. The majority of growth in the DC Metropolitan area is occurring in submarkets with direct access to Metrorail - Tysons Corner, the Arlington villages, or Downtown DC. Much of this growth occurred in traditionally core-centric markets which were downtrodden for the past 50 years and have seen explosive rebirth - 14th/U Street Corridor, Shaw, City Center. Other submarkets riding this wave have developed in new areas that were never highly populated - The Capitol Riverfront, Union Market and others that will be covered in the Competitive Submarkets in section three. We see key takeaways in the context of analyzing these submarkets which will subsequently impact our thinking, merchandising and recommended leasing for The Buchanan.

2A: 14TH STREET

MAJOR TRENDS

- Washington, DC has seen the proliferation of retail development throughout the city in historically non-retail driven neighborhoods over the last 3-5 years. The revitalization of the 14th Street corridor has added nearly 1.5 million square feet of new retail, with 100,000 square feet per block on either side along the 13 block stretch. Much of the greater 14th and U Streets corridor is dedicated to restaurants and bars, with a select albeit growing number of non-food retailers lining the thoroughfare (Shinola, Filson, Redeem, Palace5five/Federal, Marine Layer, relocation of Lululemon's P street store, J. Crew Men's, Madewell, Soul Cycle)

- Home Furnishings have historically located along the corridor with Room & Board bowing in 2010 and a subsequent cluster of like-kind concepts lining the street to the south to Logan Circle West Elm, Ann Sacks, Mitchell Gold + Bob Williams, Urban Essentials, HomeRule, & Timothy Paul. Rents have pushed well above the $100 per square foot threshold, limiting the opportunity for non-food, local and regional retailers to thrive and be ultimately sustainable and successful.

- The 14th and U Street corridor is driven primarily by food and beverage and is primarily a bedroom-community, with limited office density or substantial daytime population.

ANALYSIS

- 14th and U Streets have seen an exponential proliferation of new retail development over the past 5 years. This revitalization of these two thoroughfares has focused primarily around full-service restaurants, bars, and recently a select number of national retailers

KEY TAKE AWAY

- The saturation of full-service restaurants along the corridor coupled with national retailer desire to be on the street resulted in a spike in rental rates that make it challenging for local and regional retail to thrive. The corridor is limited in terms of uses, and has become a destination for food and beverage. These restaurants struggle to maintain volumes without the assistance of alcohol covers, which skews their business toward nightlife.

2B: SHAW

MAJOR TRENDS

- Traversing eastward, Shaw has also seen tremendous retail growth in the last 2 years with the introduction of The Shay and Atlantic Plumbing projects. Nestled along Florida Avenue where it meets U Street, The Shay houses approximately 30,000 square feet of retail between two residential buildings between 9th and 7th Streets. Non-food retail includes Steven Alan, Warby Parker, Kit & Ace, Chrome, Frank & Oak, Lettie Gooch, Bucketfeet, Le Labo, and Aesop. To the north, the respective Atlantic Plumbing residential parcels house a boutique, 6-screen Landmark Theatre and a cluster of full service restaurants along with accompanying subsidized art studio space in collaboration with Washington Project for the arts along 8th Street.

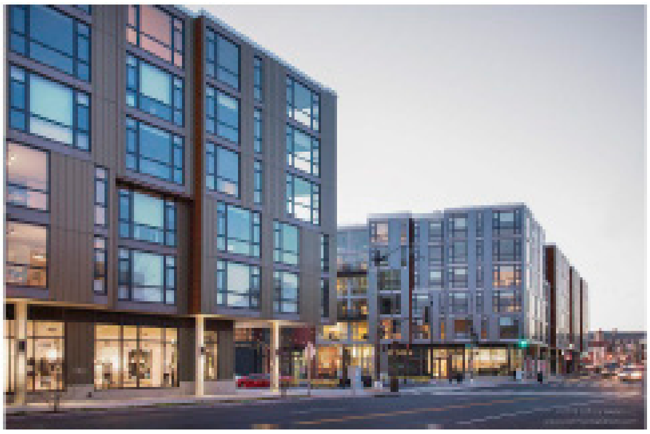
- A Whole Foods is slated for the Atlantic Plumbing C Parcel directly to the north along 9th Street. Pockets of retail stretch southward in Shaw along 7th and 9th Streets (Progression Place, City Market at O) with large swathes of each thoroughfare in redevelopment transition.

ANALYSIS

- As development pushed eastward beyond the 14th/U Street Corridor, Shaw saw a tremendous amount of development take place over the past 2 years, resulting in over 80,000 square feet of new retail delivered and another 130,000 square feet set to deliver by 2019. The retail mix at The JBG Companies' developments The Shay and Atlantic Plumbing projects led the way for soft-goods to enter the market. Development in the southern section of Shaw extending from City Market at O to the Convention Center continues to pull retail - primarily restaurant-focused retail down 7th and 9th Streets.

KEY TAKE AWAY

- As a new destination for retail, it will be curious to see how non-food retail fares in Shaw. Many of the retail deals struck at The Shay are new-to-market and structured with a mutual termination clause predicated upon sales volumes. As development continues to trek down 7th and 9th, a critical saturation point will occur - development will shift to other neighborhoods as the submarket stabilizes.



2C: CITY CENTER

MAJOR TRENDS

- City Center is another bastion of new retail growth in the District, at approximately 2 million square feet encompassing 5 city blocks, bounded by New York Avenue, 9th, 11th, and H Streets NW.

- City Center is comprised of two condominium buildings, two rental apartment buildings, two office buildings, a forthcoming boutique Conrad hotel, and activated park and community space.

- The retail at City Center is primarily a luxury/high street mix, including Burberry, Carolina Herrera, Vince, David Yurman, Dior, Gucci, Hermes, Louis Vuitton, Longchamp, Arcteryx, Zadig & Voltaire, and Tumi. The target demographic for City Center is well-monid, destination-drive suburbanities and international tourists. Designed to emulate Rockefeller Center/Madison Avenue, City Center is accretive to the retail story of the District and adds a unique retail mix that is drawing retailers and attention away from the Chevy Chase retail collection in Friendship Heights and equally providing easier access to consumers to luxury brands over Tysons Galleria in Northern Virginia.

ANALYSIS

- City Center is accretive to the retail story of the District and adds a unique retail mix that is drawing retailers and attention away from the Chevy Chase retail collection in Friendship Heights and equally providing easier access to consumers to luxury brands over Tysons Galleria in Northern Virginia.

KEY TAKE AWAY

- Developers and consumers alike will look to see how City Center fares and if the DMV consumer shops City Center enough to drive volumes for luxury brands. Luxury retail is fickle in the District, and the consumer who shops luxury brands does not always buy in-store in DC, but rather in other markets. The success of City Center will be a boon for DC development on a macroeconomic level.

2D: GEORGETOWN

- Georgetown has historically been the cornerstone retail destination within the District, with approximately 2 million square feet of retail lining M Street and Wisconsin Avenue. Georgetown suffers some limitations, including a limited number of parking spaces and indirect accessibility via public transportation inclusive of a lack of a Metro station. Georgetown also suffers from topography issues in that the slope of Wisconsin Avenue heading northbound becomes quite steep. Individual landlords (often locked in dispute) operate B and C level retailers out of these 'lost blocks'.

- National retailers generally do 70% of their normal volumes out of their Georgetown stores, and there is very little in the way of vacancy. National retailers also must adhere to strict historic preservation laws to many of the buildings, creating a limited number of larger format spaces.

- Georgetown's lift of its liquor license moratorium is a positive development for the neighborhood. Many chefs and restaurateurs are now looking to tap into the market as a result to bring new concepts online.

- The recent overhaul by Vornado/Charles E. Smith of The Shops at Georgetown Park and its subsequent disposition to Jamestown Properties created several 'bix-box' opportunities in Georgetown that previously did not exist. Pinstripes Bowling Alley, TJ Maxx/Homegoods, and DSW joined existing street-facing tenants in the space. Jamestown's plans to clear Dean & Deluca from their building and redevelop the space as a Chelsea Market-styled food hall continue to move forward.

- In the past year, several local operators have bowed along Grace Street, including the Grace Street Collective space, home to Grace Street Coffee, South Block Juice Company, and Sundevich. At the intersection of Grace and Wisconsin, Dog Tag Bakery, Chaia Tacos, Soul Cycle, and Tuckernuck all recently opened to round out the block.

- The Georgetown BID continues its exploratory plans for a gondola connection between Rosslyn and Georgetown.

ANALYSIS

- Analysis: Georgetown has historically been the cornerstone retail destination within the District, with approximately 2 million square feet of retail along M Street and Wisconsin Avenue. A number of limitations, including indirect accessibility via public transportation, limited parking, historic preservation laws, and topography play in Georgetown's disfavor. A number of positive developments, including the lift of the liquor license moratorium and the proliferation of local retail along Grace Street and southern Wisconsin Avenue has breathed new life into Georgetown in the past year.

KEY TAKE AWAY

- Georgetown will continue to exist as a major retail focal point in the DC Metropolitan area market, but will need to continually adapt to remain competitive with other emerging markets (14th/U Street Corridor, Shaw, Union Market) looking to garner new-to-market retailers out of the gate.

2E: UNION MARKET

MAJOR TRENDS

- The Union Station corridor north to Rhode Island Avenue will see increased new development in the coming years as other sub-markets fully redevelop. Over 40 million square feet of development is slated between the Union Station and Rhode Island Avenue Metrorail stations.
- The Union Market District is a 45-acre urban redevelopment project that calls for over 8 million square feet of development.
- Developers note that the Union Market area (historic wholesaling and distribution warehouses) represent a unique opportunity to create a mix-used district with an existing street grid while limiting displacement of existing residents.
- Union Market is currently centered around The Market, which was renovated by EDENS in 2012 and operates as a marketplace with 40+ vendors. The Market was open to the public in 2012 3 days a week and was 50% leased – it now is open 6 days a week and did $20 million in volume in 2015.
- The accompanying event space upstairs at the Market (Dock5) hosts a variety of events, including concert series, pop-up retail activations, corporate events, weddings, and fitness classes. Dock5 rental fees are currently at around $20,000/day depending on the event, size, and logistics.
- EDENS and other developers (including JBG/Gallaudet, Douglas/Kettler, Foulger Pratt, and Level 2) see the Union Market District neighborhood as an opportunity to create a unique mix of retail within the constructs of a warehousing neighborhood.
- EDENS recently executed a lease with Trader Joe's to take 15,000 square feet in the Edison building, currently under construction along Florida and 4th Streets NE. Estimated completion of the Edison is slated for Q2 2017.
- The next phase of retail in the Union Market District will deliver in 2017 and include The Edison, shops along 5th Street between Morse and Neal Place NE for a total of 60,000 square feet. EDENS is currently hosting a West Elm pop-up in an incubator space along 5th Street called Lab 1270.
- EDENS focus will then shift to 4th Street, where they executed a lease with Jose Garces to do a 20,000 square foot Latin food hall.
- Douglas's recent completion of the ULine arena redevelopment and the bowing of REI in the space in 51,000 square feet signals a shift in national retailers taking active stances within the sub-market.

ANALYSIS

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KEY TAKE AWAY

- The future success of Union Market is hinged upon high-risk, low return development. Many developers with major vested interests in the submarket are moving in a slow and methodical fashion when approaching development timelines. Many look to EDENS to set the tone for the development and the nature of the retail mix (in a similar fashion to Forest City with The Yards in the Capitol Riverfront) and will wait until market factors are more clear before they begin to pull development triggers.

2F: NAVY YARD/BALLPARK DISTRICT:

MAJOR TRENDS

- Located in the Southeast quadrant of the District, the Navy Yard/Ballpark District represents another section of the city with ongoing redevelopment dominated by several large-scale, mixed-use, multi-phase projects.
- The largest development in Navy Yard is Forest City Washington's The Yards, which includes a 45-acre site comprised mainly of formerly historic Navy Yard warehousing buildings coupled with new-build, mixed-use residential and slated office buildings running south of M Street SE to the edge of the Anacostia River, buffered to the east by the Navy Yard, and to the west by the Washington Nationals ballpark.
- Outside of Forest City's development, several other developers have vested interests in the Navy Yard area, including The JBG Companies, Monument Realty, WC Smith, PN Hoffman, Skanska, and Urban Atlantic – with the majority of development focused in and around the Nationals ballpark in the blocks south of M Street SE. The majority of this development is mixed-use with a focus on residential, given the relatively high vacancy of office space in the sub-market.
- A 35,000 square foot Whole Foods Market is slated to open in Q2 2017 in along New Jersey Avenue SE, further bolstering the sub-market.

ANALYSIS

- Located in the Southeast quadrant of the District, the Navy Yard/Ballpark District represents another section of the city with ongoing redevelopment dominated by several large-scale, mixed-use, multi-phase projects. The largest development in Navy Yard is Forest City Washington's The Yards, which includes a 45-acre site comprised mainly of formerly historic Navy Yard warehousing buildings coupled with new-build, mixed-use residential and slated office buildings running south of M Street SE to the edge of the Anacostia River, buffered to the east by the Navy Yard, and to the west by the Washington Nationals ballpark.

KEY TAKE AWAY

- The Capitol Riverfront/Navy Yard presents a submarket that has many of the recipes for success (Metrorail accessibility, entertainment drivers - the Nationals ballpark, the forthcoming adjacent DC United Stadium, lower residential rents, large parcels of land free to develop) but also suffers from high vacancy in their existing office developments. Development in the Capitol Riverfront will be steady and slow-burn. Forest City has historically set the tone for development in the submarket, and many developers with vested interests are moving in a similar fashion, releasing and developing projects in a methodical and strategic fashion. Consumers should expect Capitol Riverfront to remain a work-in-progress for the next 5 years.

2: SUBMARKETS: MAJOR RETAIL CONCLUSION

While strong growth occurred out of the recession of 2008 along the 14th/U Street Corridor and in downtown submarkets like City Center, some of the new "super-projects" in neighborhoods that never had as much growth or existing density are vulnerable.

These large-format, mixed-use, multi-phase developments are vulnerable in 2017 due in large part to leasing strategies focused on trends that peaked in 2013-2015, among most prominent being a focus on high volume food operators. We find development with large-format restaurants in emerging markets concerning. The 14th/U Street Corridor has seen restaurant sales volumes level off or decline, and while restaurants generally haven't closed we anticipate closures in the near future. However, in well-established markets like the 14th/U Street Corridor, City Center, or Georgetown, a restaurant vacancy very well can be backfilled by a better concept or an alteration of use - a Soul Cycle, clothing retailer, or home accessories shop that can make profits through other means given that consistent traffic patterns have been established.

We do not believe these new development projects, which have large TI outlays and dependence on the restaurant uses serving as residential amenity will fare as well if these restaurants close. When Mike Isabella opened Kapnos on 14th street as a cog in the wheel of the DC Metropolitan area's current primary food destination in 7,000 square feet at $60 per square foot, the concept is viable. However, when that same Kapnos concept is now open in Arlington, Bethesda, Tysons, 14th street and the Wharf, we believe that destination consumer desire's thin due to oversaturation. Mike Isabella is not the exception but rather the rule, and developers across the region are saddled with chefs/restaurateurs looking to duplicate and scale large-format concepts. The silver lining is that brick-and-mortar retail, while initially considered to be a dying breed, is beginning to figure out the nuances and major advantages of well-placed urban units. The opportunity to open strategically placed urban stores to capture a highly valuable demographic in concentrated submarkets remains a primary growth vehicle.

We see examples of this phenomenon of strategically placed stores in creative, dense submarkets with EarthTreks coming to Crystal City, REI opening in U-Line in NoMa/Union Market, Warby Parker going to Shaw at The Shay, J. Crew Men's and Madewell opening on 14th Street, and others.

While we have seen what District Equities believes is the peak of large-format restaurants opportunities and subsequent growth in the market, there are creative opportunities for smaller format restaurants, and a resurgent growth of service and retail companies creatively positioning in the urban market to capture this new consumer demand.

3: SUBMARKETS: COMPETITIVE

The following sections outline key competitive retail submarkets in the context of Crystal City that are helpful to examine when assessing the merchandising for The Buchanan. These submarkets vary in size and scope, but all include pertinent retail developments that neighbor Crystal City and provide competitive retail drivers away from Crystal City.

3A: BALLSTON QUARTER

- Redevelopment of Ballston Common Mall slated for a September 2018 re-opening.

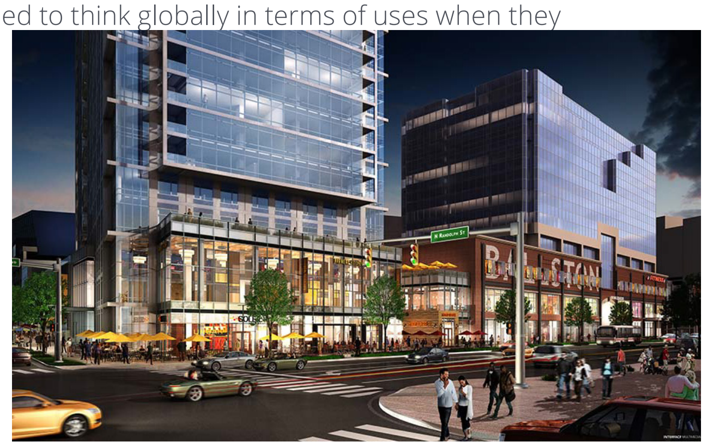
- Redevelopment will include the demolition of the vacant Macy's furniture box (underway), a complete revamp of the interior common areas of the mall that will be 65% open to the elements, upgrades to the exterior façade along Wilson Boulevard and the introduction of a new 5,000 square foot 'sunken' plaza, a 20,000 square foot food hall on the lower level, and a 409 rental unit residential tower in place of the former Macy's Furniture box. Existing tenants in Ballston including Regal Theatres, Sport & Health, Macy's, CVS, Capital One Bank, and a handful of select others will remain through the redevelopment. Forest City recently executed a Lease with Punch Bowl Social for 25,000 square feet to occupy several levels of the redevelopment. PBS offers bowling and old-school arcade games along with a full-service dining experience and accompanying bar. Ballston Quarter shares an Arlington County-owned parking deck in which the Kettler IcePlex sits atop. Kettler serves as the primary practice facility for the Washington Capitals.

ANALYSIS

- The ongoing redevelopment efforts by Forest City of the Ballston Common Mall into Ballston Quarter coupled along with other redevelopment and development projects sprouting along Wilson Boulevard (Shooshan, Dweck) may shift the pivot point of retail in the Rosslyn-Ballston Corridor away from Clarendon over the next 3 years. Forest City's redevelopment of Ballston has been a 15 year endeavor, which has the potential to be ultimately successful or suffer challenges. The company is receiving TIF financing from the County in efforts to further bolster the project, but Forest City is faced with incorporating several existing tenants and anchors in the mall with term through the redevelopment (and engendering them to upgrade and renovate their

KEY TAKE AWAY

- The demographics of Ballston are promising and provide an even spread of daytime and residential communities, more than any other village in the Rosslyn-Ballston Corridor, making the opportunity to redevelop Ballston a potentially lucrative endeavor. However, Forest City has yet to sign a non-food retailer (slated for a 2018 re-opening) and will need to think globally in terms of uses when they lease and merchandise the full three levels of space. Ballston Quarter is also in competition with the newly renovated Pentagon City, forthcoming redevelopment efforts of Market Common Clarendon, Springfield Town Center, and the redevelopment of Landmark Mall by Howard Hughes for larger form at, national non-food retailers. Ballston's redevelopment also calls for several large-format restaurants to fill the space, which they are having difficulty leasing given the saturation of the submarket and market as a whole.



3B: MARKET COMMON AT CLARENDON

- Clarendon's retail thoroughfare runs along Clarendon and Wilson Boulevards. Clarendon's primary retail focal point is Market Common, which was developed by McCaffrey Interests and opened in 2001, running along Clarendon and Wilson between primarily North Fillmore and North Edgewood Streets.
- Market Common's recent disposition by TIAA in May of 2016 to Regency Centers and Avalon Bay Communities for $406 million included 300,000 square feet of retail, 100,000 square feet of office, and 300 Class A apartments and 1,179 parking spaces.
- Market Common is styled in a typical lifestyle center format, nestled along Wilson and Clarendon Boulevards, and accompanying horse-shoe turn-around featuring a section of small-shop retail with entry to Clarendon Boulevard and mirrored across from Whole Foods Market complete with surface parking, surrounded by affluent, bedroom Arlington communities between the Courthouse and Clarendon neighborhoods.
- Market Common is 2 blocks from the Clarendon Metro Station (Orange, Silver lines).
- Clarendon currently serves as the most diverse retail hub for all of the Arlington villages in the RB Corridor (Rosslyn, Courthouse, Clarendon, Virginia Square, and Ballston) though it does not have the same density or office presence as Ballston or Roslyn. Roslyn suffers from the inherent challenges of its topography and comparatively limited residential density. Ballston displays an even split of both daytime and residential density, and with the continued redevelopment of Ballston Quarter and the introduction of new residential and office buildings alike along Wilson Boulevard, Market Common may very well see a shift of retailers.
- Existing tenants include Whole Foods Market, Apple, Crate & Barrel, Williams-Sonoma, Pottery Barn, The Container Store, Washington Sports Club, Blue Mercury, Sephora, Lululemon, and South Moon Under.
- Regency's focus for maintenance of MC will be to continue to strike complimentary small-shop deals for existing tenant mix and to combat potential poaching by Forest City to push retailers to Ballston Quarter.
- Regency recently put together plans to revamp the outdoor common areas that dominate the horseshoe along Clarendon Boulevard and potentially add additional place-making food concepts to the space (either full or quick-service). There are also plans to potentially revamp exterior facades, deepen retail at the rear of the horseshoe, and develop a new building along Wilson Boulevard and North Edgewood with accompanying retail.

ANALYSIS

- The acquisition of Market Common at Clarendon by Regency Centers and AvalonBay Communities represents an opportunity for redevelopment and refurbishment of the property. This renovation is integral to Market Common's continued success, as the property is representational of an early 2000s lifestyle center and does not best utilize its public space or density for new retail opportunities.

KEY TAKE AWAY

- For nearly 16 years, Market Common served as the primary retail focal point of the Arlington villages in the Rosslyn-Ballston Corridor. With incoming redevelopment of Ballston Quarter and continued ongoing development in Rosslyn and Courthouse, Clarendon stands to lose the consumers interest and dollars in Arlington. Clarendon's demographics are primarily residential in nature, and its inherent "bedroom community" makeup spells lopsided volumes for restaurants looking for even spreads between meal business. Clarendon is in dire need of revitalization efforts, with several of their marquee tenants up for renewal looking at other projects in the RB Corridor (primarily Ballston). Regency and AvalonBay must make it enticing for these tenants to remain.

3C: FASHION CENTRE AT PENTAGON CITY

- The Fashion Centre at Pentagon City is a 985,000 square foot conventional, enclosed shopping center that bowed in 1989. Pentagon City is the largest enclosed mall in Arlington and features Nordstrom and Macy's as department store anchors. Pentagon City is also directly linked to the Pentagon City Ritz-Carlton hotel and includes a 12-story office tower. Fashion Centre at Pentagon City has engendered a series of off-shoot mixed-use developments over the years in the neighborhood, including Federal Realty's Pentagon Row (300,000 square feet, lifestyle center featuring Harris Teeter, Bed, Bath, & Beyond, Sur La Table, and TJ Maxx), and Pentagon Centre

- FC is home to over 170 specialty stores, 4 feature full-service restaurants, and a newly rebranded food court (Dining Pavilion) featuring 18 eateries. The development includes a six-level parking deck adjacent to the project.
- Fashion Centre at Pentagon City enjoys the benefit of being in close proximity to the Pentagon, the world's largest office building with 6.5 million square feet and 23,000 employees.
- The estimated daytime population of the trade area of FC (inclusive of Ballston, Rosslyn, Crystal City, and the Pentagon is 1,075,126 in 22 million square feet of office space.
- FC sits directly atop the Pentagon City Metro station (Blue & Yellow lines), allowing for ease in access.

- In 2015, Fashion Centre at Pentagon City underwent a $70 million, multi-phase 50,000 square foot expansion and accompanying renovation. The extensive renovation included upgrades to common areas and entrances, a revamped food court on the lower level, and additional cosmetic upgrades to vertical transportation throughout the development.
- The 50,000 square foot expansion along Hayes Street includes a new feature entrance to the project, an accompanying new office lobby, and two levels of new street-facing retail with outdoor seating. New tenants added to the project in the expansion included Zara, Kiko Milano Cosmetics, Matchbox, Shake Shack, Honeygrow, and Sugar Factory.

ANALYSIS

- Simon's recent renovation of Pentagon City is imperative to the enclosed mall's future. In dire need of a facelift and upgrades to its common areas, Simon's decision to include the 50,000 square foot expansion along Hayes Street in efforts to "open the mall up to the street" speaks to a larger issue concerning the future of enclosed malls, which are on the decline. The revamp to Pentagon City's food court also speaks to a larger trend in the way that consumers experience food while shopping – they desire unique experiences in a format that is more meaningful and genuine, less commoditized.

KEY TAKE AWAY

- Pentagon City's refurbish by Simon will allow for it to maintain its place as a solid "B" level enclosed mall serving the immediate trade-area, but it will not in its existing iteration ever become competitive with larger-format enclosed malls in the area like Macerich's Tysons Corner. Simon's move also comes at a time where like-kind enclosed malls in the same region have undergone or are in the process of redevelopment to evolve to reflect consumer's needs (Ballston Quarter, Springfield Town Center, Landmark Mall). Pentagon City reaps the benefit of being built directly on top of a Metrorail station, further solidifying its existence and continued use by consumers. Pentagon City's spill-over development in Pentagon Row, Pentagon Centre, and other smaller retail developments will remain status-quo. The stability of the guaranteed office population at The Pentagon coupled with the area's proximity to major thoroughfares into the District will ensure that the area remains stable.

3D: POTOMAC YARD

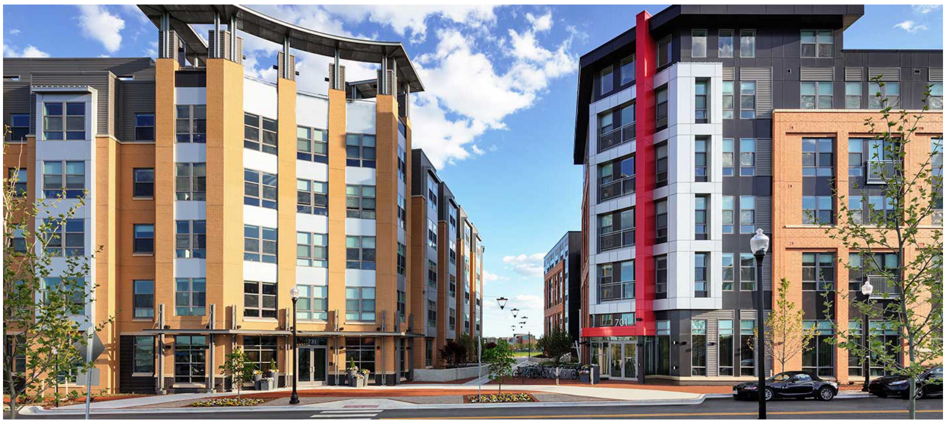
- Potomac Yard is a 589,930 square foot power center owned by JBG-Rosenfeld/The JBG Companies and developed by Commonwealth Atlantic Properties Inc. in 1997 located along Jefferson Davis Highway in Alexandria, VA.
- Potomac Yard presented an early opportunity for 'big box' national retailers to located in an area with direct adjacency to the District in along a highly visible thoroughfare into the city.
- Potomac Yard Center features primarily 'big box' retailers – anchored by Shoppers Grocery Store, Regal Cinemas, Target, Best Buy, Petsmart, TJ Maxx, and Sports Authority.
- Potomac Yard has very little in the way of vacancy and will continue to maintain its merchandising mix targeting national full-servive and quick-service restaurant groups, service uses, and economy-tier tenants.
- The Exchange at Potomac Yard (The JBG Companies) is a slated 14-acre mixed-use development project comprised of a town center with approximately 46,000 square feet of future retail facing an activated plaza, 973,00 square feet of office space comprised of 6 buildings (signed tenants include the National Industries for the Blind and Institute for Defense Analysis) and a 170 key boutique hotel.
- The JBG Companies delivered two residential buildings, Alric and Notch 8 (756 units), as well as a 68,000 square foot Giant Grocery store. Future plans for The Exchange at Potomac Yard are currently on hold with the impending merger of The JBG Companies and Vornado/Charles E. Smith

ANALYSIS

- The impending merger between The JBG Companies and Vornado/Charles E. Smith will most likely result in little impact to the current Potomac Yard as a shopping center, which is a stable NOI producing asset. Potomac Yard's power-center format with national quick-service and service use tenants will remain, with virtually no vacancy to lease. Potomac Yard's small-shop space is indicative of an economy-lens leasing strategy, with very little place-making. Plans for large format

KEY TAKE AWAY

- JBG's future developments around Potomac Yard (Exchange at Potomac Yard) may be heavily impacted by the forthcoming merger, development completion will most likely be pushed beyond the next 5 years. Potomac Yard in its current iteration will have little to no impact on Crystal City as it does not directly compete for uses and is not mixed-use or office heavy in nature.



3E: THE WHARF

- The Wharf is a 3.2 million square foot, mixed-use, multi-phase development project spearheaded by Madison Marquette and PN Hoffman along one mile of Potomac River entry in Southwest Washington, DC.
- The Wharf includes 14 buildings on a total of 24 acres at an estimated $2 billion in investment, with 945,000 square feet of Class A office space slated, 335,000 square feet of retail, 1,375 residential units in a mix of both rentail and condo, 550 boat slips, 4 public piers, 2,500 below-grade parking spaces, and 690 keys in three hotels.
- The Wharf has attracted many new restaurants headlined by notable chefs and restaurateurs. Del Mar, a Spanish seafood restaurant operated by Fabio & Maria Trabocchi signed a lease for a two-story, indoor/outdoor pace totaling 11,500 square feet in September 2016. Additional restaurants in the first phase of The Wharf include the 9,800 square foot La Vie and 4,000 square foot Requin. In addition to restaurants, CVS, Taylor Gourmet, District Hardware & Bike, and Dolcezza have all signed leases at The Wharf. Nick Steffanelli

ANALYSIS

- The multi-phase development of The Wharf presents an opportunity to enliven a section of District waterfront that has fallen into disrepair. However, the retail leasing strategy for The Wharf focused on large-format restaurants, which now dominate the bulk of the square footage. These restaurants (whose operators and subsequent staff are stretched thin in the market) will require tremendous volumes for continued success and viability. There was little thought given to the balance of the retail and prime space was leased to restaurants by outside brokers who looked for maximized financial gain as opposed to merchandising. The Wharf's development team is struggling to gain the attention of non-food based retail for the remainder of its retail space within the first phase of the development.

KEY TAKE AWAY

- The Wharf's retail leasing strategy (or lack thereof) calls into question the longevity of the retail mix in the development. After noting the peak of large-format restaurants and subsequent saturation by chefs and restaurateurs with many duplicate or like-kind concepts, there is concern over whether or not these concepts will ultimately drive the volumes they need to survive given the amount of product open or in the development pipeline in the District. The Wharf will need to rely on entertainment and tourism traffic to create these volumes. The Wharf will continue to struggle to attract non-food retailers without a significant anchor retailer signing on or critical mass of smaller, like-kind retail to congregate together.

3: SUBMARKETS: COMPETITIVE CONCLUSION

These major competitive submarkets and each market's leading developments generally do not cause any direct interference with development in Crystal City. The projects in the Rosslyn-Ballston Corridor are geographically separate and do not draw tenants away from a merchandising standpoint that they would interfere with the large format redevelopment plans for Crystal City. The retail offerings in the submarkets the RB corridor will remain the strongest retail and multi-family market outside of DC, and will likely experience an office boost via similar lifestyle metrics in the coming years.

The three most proximate developments: the Wharf, Pentagon City Mall and Potomac Yard have different but ultimately positive implications with regard to Crystal City.

The Wharf will likely be a nice destination and entertainment draw, allowing an opportunity for the residents of Crystal City to bike, drive, or metro over on the weekends. However, because of its limited service offerings and high residential prices it will not be a major competitor to Crystal City. The Wharf's dependence on large-format restaurants is a detriment to its longterm success, something that District Equities advises against in our merchandising strategy for The Buchanan.

Simon's renovation and expansion of Fashion Centre at Pentagon City is accretive to the mall's continued longevity. By creating external retail that opens the mall to the street along with continuing to be a strong regional mall is similarly accretive for Crystal City in that it provides a positive boost to the general Crystal City/Pentagon submarket. The addition of Whole Foods in The Bartlett building in Pentagon City on the border with Crystal City is an attractive and demonstrates an urban highly amenitized connectivity is being established. With the slated, positive large-scale development planned for Crystal City, this connection could become realized greatly improving the submarkets regional status.

The JBG Companies/JBG Rosenfeld's Potomac Yard and its subsequent offshoot development projects had ambitions of redevelopment which could have been a competitive redevelopment against Crystal City Our current understanding is JBG as a REIT will seek to maintain this asset instead of redevelopment and focus their efforts on Crystal City after the merger with Vornado/Charles E. Smith. We see this as a major benefit as the large redevelopment of Potomac Yard was one of the biggest factors working against Vornado's efforts to redevelop Crystal City.

4: CRYSTAL CITY SUBMARKET ANALYSIS

Any mention of Crystal City starts and ends with the JBG and Vornado merger. Any cursory overview of Crystal City reveals two immediate conclusions; Crystal City is geographically well positioned but has suffered from BRAC and a flawed post-urbanism landscape designed in the 60s with underground retail, and Vornado's high stake in repositioning the submarket with high office vacancies and the need to do so.

Now that JBG has entered the picture, the prospect for a large-scale master plan is even greater, with two of the leading development firms in the region dependent on the success of repositioning of Crystal City. Crystal City has made strides in its recent past to overcome its deficits by turning Crystal Drive into a two-way street, creating street fronting retail along Crystal Drive, the formation of the Crystal City BID, and the recent efforts involving programming and bringing innovation-focused companies into the submarket. Adjacent efforts by Simon's Fashion Centre at Pentagon City and the new Whole Foods in The Bartlett bolster this story, however, in order for Crystal City to make a sincere turn-around, sweeping master planned development and retail efforts must be made.

4A: CRYSTAL CITY BY THE NUMBERS

POPULATION

32,000 (resident population)

41,000 (daytime population)

24,000 daily Metro riders

More than 60,000 people live, work, or visit Crystal City every day

GROWTH

11% growth projected in the next 5 years

DEMOGRAPHICS

Median Age: 33 (within 1 mile)

Average HH income: $133,209 (within 1 mile)

RESIDENTIAL

Residential Units: 15,993

More than 21,723 households within a 1-mile radius with an average annual household income of $133,209.

RETAIL AND HOSPITALITY

Retail: 2 million square feet

Hotels: 5,500 keys

OFFICE

11.5 million square feet

Home to more than 350 corporations

4B: CRYSTAL CITY SUBMARKET OVERVIEW

With its proximity to Ronald Reagan Washington National Airport, the Pentagon and Washington, DC, Crystal City was a prime location for commercial and residential growth. Beginning as a private-sector development in the 1960s to meet the demand for office space outside of Washington, DC, Crystal City became an urban center of mixed-use development with office, apartment and hotel buildings connected with an internal retail spine (referred to as Crystal Underground).

Crystal City is a confluence of transportation options: the Metrorail station with the Yellow and Blue lines (over 13,000 boardings on an average weekday); the Virginia Railway Express (VRE) station; access to the Mount Vernon and Four Mile Run trails; and proximity to the Ronald Reagan Washington National Airport. To address concerns with the 2005 Base Realignment and Closure Commission (BRAC) recommendations and implications of significant job relocation from Arlington (primarily from within the Crystal City area), the County Board adopted the Crystal City Sector Plan (2010). The sector plan provides for the preferred vision for the future of Crystal City with a reconfigured street network, enhancements to existing public open spaces, proposals for new public open space, sites for new and/or redeveloped buildings and numerous urban design components. This updated vision will continue to enhance Crystal City as a premier place to work, live, stay and play.

New activity nodes have been planned in Crystal City and include retail-oriented public open spaces. Appropriate programming of these open spaces will be critical for the success of the retail. Today, almost 50 percent of the retail space in Crystal City is internal space within Crystal Underground with limited to no visibility from the street. Redevelopment will increase the amount of external space (up to 75 percent) with street frontage and visibility. The Crystal City Sector Plan was the first sector plan to incorporate a detailed retail analysis to project retail demand. The retail demand in Crystal City will become more balanced between residents, employees and visitors and place a new emphasis on convenience and services and food and beverage-driven categories. The changes in tenancy due to BRAC and an increase in residents, will require Crystal City to recognize the possible shift in the demographics and psychographics of its population.

Ground floor uses must accommodate this trend with additional third places (such as maker- spaces) and live entertainment. Additionally, cultural and civic uses will be particularly important as more residents move into Crystal City. Synetic Theater, located in Crystal City, has earned 92 Helen Hayes Nominations and received 24 Helen Hayes Awards. The theater draws audiences from the entire Washington DC region. Guests to the theater often dine before or after shows providing customer demand for the restaurants in Crystal City. The Crystal City Business Improvement Service District, established in 2006, promotes and markets Crystal City through numerous activities, events and improvements focused around four key tenets: Crystal City is a place that is active, artful, accessible and green.

4C: BID FORMATION AND COMMUNITY ACTIVATION

The Crystal City BID was created in response to the Base Realignment and Closure (BRAC) legislation by a group of key stakeholders in efforts to change the public's perception of the neighborhood, to give it new energy, and to give it a soul. The BID's first success was their efforts to alter the course of the Marine Corps Marathon in 2006, where more than 50,000 people ran through or visited the new heart and main street of Crystal City along Crystal Drive, enjoying an all-day festival.

THE CRYSTAL CITY BID IS A SOUNDING BOARD FOR CRYSTAL CITY:

1.64 MILLION FACEBOOK IMPRESSIONS
990,000 TWITTER IMPRESSIONS
200+ ANNUAL EVENTS
1,000 INSTAGRAM FOLLOWERS
3,000+ EMAIL SUBSCRIBERS.

Over the past 10 years, the Crystal City BID has done a tremendous job in the visioning, application, and execution of dynamic community activations and initiatives. Some highlights include:

2007: The Art Walls Program
2007: Temporary Home for Arena Stage during renovations of their permanent home in Southwest DC.
2007: Artomatic's first exhibition in Virginia
2007: Crystal Screen Film Series
2007: Vintage Crystal: Sip & Salsa Event
2007: Crystal City Cycling Classic
2008: Crystal Market
2008: Introduction of 500 Crystal Flight statues throughout the neighborhood in partnership with Boeing, Northrup Grumman, and Lockheed Martin.
2008: Introduction of Twighlighter 5K Race
2009: Introduction of Crystal Couture annual fashion show supporting local DMV designers and retailers
2009: 5K Race Fridays
2009: Crystal Free Wi-Fi
2009: Outdoor Yoga & Zumba
2009: Introduction of the FotoWalk
2009: Introduction of Crystal City FRESHFARM Farmer's Market
2009: Introduction of Sparket, a Crystal City Artisan Market
2010: Synetic Theatre joins Crystal City
2010: Bike to Work Week
2010: Capital Bikeshare Stations installed
2010: G40 Art Summit and ArtJamz sessions
2011: 1K Wine | Beer Walk
2011: Introduction of Street Hockey League
2011: Opening of Long Bridge Park
2012: The Diamond Derby Cycling Race commences
2012: Collaboration with Arlington Artists Alliance
2012: Crystal City Art Underground commences
2012: Introduction of Food Truck Thursdays
2014: Partnership with PBS to wrap their office building in 10-story Downton Abbey celebration banner
2014: TechShop opens
2014: Crystal Wynwood artists murals are unveiled

The Crystal City BID has done a tremendous job in attracting innovative business to locate and thrive in Crystal City. The adoption of Crystal City as a home by 1776, TechShop, WeWork, WeLive, Synetic Theatre, and countless artist collaboration and initiatives allow for asset holders in the market to build the creative class in Crystal City. The Buchanan could become a destination for a COVE workspace, Make Offices, an educational facility like General Assembly in the GDIT space, or have retail/marketing/management offices for Car2Go, ZipCar, or Airbnb. A more in-depth discussion with stakeholders should involve these types of innovation businesses and how to best

4D: TENANT SALES & EXISTING MARKET

- Sweetgreen does $2 million in annual sales volumes
- Good Stuff Eatery does $2.5 million in annual sales volumes
- We, The Pizza does $1.5 million in annual sales volumes
- The Noodles & Company space may be recaptured by JBG Smith by the end of 2017. Quoted rent would be $50 NNN with no Tenant Improvement Allowance.
- Cosi and Vornado are in the midst of a bankruptcy case. Cosi is in the market for a potential buyer. Starbucks has an exclusive for coffee limited only to the Crystal Park building. Sales are estmiated at $2.1M

4E: MERGER AND FUTURE PLANS

The JBG Companies and Vornado/Charles E. Smith merger is the biggest event to impact the future of Crystal City since BRAC. District Equities believes the merger will signal significant investment in Crystal City. Two years ago, JBG commenced its explorations to go public, transforming its investment structure for senior partners to cash out on the past funds and provide a new consistent equity source.

As part of this discovery, JBG and Vornado had in-depth discussions and negotiations, much of which involved a deep dive by the JBG team into the Crystal City submarket to gain an understanding of how this asset could be repositioned. While original discussions fell through, the end result is after two years each party came together in the hope that the amalgamation of their respective portfolios and teams would be stronger together.

For Vornado, it allows them to isolate the beleaguered Crystal City portfolio from their higher-valuated New York City based assets. For JBG, it provides the opportunity to take their private fund-based model and shift it into a REIT classification. JBG brings significant retail and placemaking expertise to Crystal City, which will be applied with multiple development teams positioned on the property.

District Equities has renewed optimism in the development plans for Crystal City following the merger. JBG is the market expert in place-making and will have a positive impact on the retail development plans for Crystal City. While it may be delayed as the new teams catch up, get on board, and provide new ideas and insights, in the long run it will be significantly better outcome.

As previously mentioned in the Competitive Markets section, JBG's new public status will likely cause them to hold onto Potomac Yard as an operating asset and focus all development activity toward Crystal City in the market. This is another big win as the redevelopment of Potomac Yard was the most significant competition for new large-format retailers in the submarket and the biggest hurdle to prospective leasing plans for Crystal City. Another benefit of the merger is both major companies now have their largest asset in Crystal City and in order for this merger to be considered positive they must turn around the high office vacancy. District Equities believes the only way they will achieve this goal is significant investment in public space and retail development.

4:CRYSTAL CITY SUBMARKET: CONCLUSION

District Equities is encouraged and excited about the changes taking place and future developments to come. While all signals are pointing in the right direction for Crystal City, our recommendation is not for The Buchanan to sit idly by and watch the neighborhood evolve.

A number of steps must be taken in order to maximize the investment being made by JBGSmith and ride their collective coat-tails. We recommend a new merchandising plan for the spaces to best suite the new incoming residents and office tenants, while keeping a close eye on existing uses which served a different audience than the new arrivals for potential closure. We also recommend a strategic assessment of new deals so they do not lock in rates or terms which will not be favorable over the course of 5-10 years when the market is expected to shift and benefit from large investments by JBGSmith.

While part of the strategy concerns future flexibility to capitalize on the JBGSmith investments, additional strategy involves the marketing and leasing of the retail at The Buchanan today. The retail marketing and sales positioning must keep in mind the bright future ahead.

Simultaneously, as the 23rd street side is currently the most active street facing area in Crystal City, we must be cognizant that the first phases of new development will occur on the North end of Crystal Drive. We do not want all merchandising and leasing efforts to be delayed and potentially outweighed by the first phases of JBGSmith leasing.

There are two clear immediate leasing strategies that should be employed for The Buchanan - the marketing and merchandising with pitches regarding the large investments now, and the careful management to ensure flexibility in the 5-10 year timeframe on the completion. We believe all the investment is good, but how good it can be for the Buchanan is sensitive and requires a strategic merchandising and leasing path.

5: MERCHANDISING: OVERVIEW

The following six categories will make up the basis for our final merchandising scenario which will include space planning, infrastructure analysis, and a final budget and pro-forma for leasing guidance. While many factors contribute to effective merchandising we always keep in mind what will create not only more value in the retail space but also how it will positively impact the residents of the building. We are excited to present the below uses which we believe are viable alternatives to the present leasing strategy.

5A: BOUTIQUE FITNESS (1,000-3,500 SF)

Boutique Fitness in Crystal City and the surrounding sub-markets is limited. Orange Theory Fitness opened in the Bartlett building in 2015, creating new opportunities for like-kind boutique fitness to cluster in the sub-market. Boutique fitness operators generally look for an even-spread of daytime office workers and a residential base, but have the ability to do well with day-time heavy markets. Demographic and discretionary spending factors are right for boutique fitness to flourish in Crystal City, specifically focused in and around Crystal Drive, where a critical mass of office spells full classes and memberships for operators. Boutique fitness generally does well when clustered near quick-casual and full-service restaurant concepts, daily service uses, and other boutique fitness or similar demographic-targeted retail. There are several types of boutique fitness concepts that do well in adjacent markets (Old Town Alexandria, the villages of Arlington, and in the District) that could serve as a point of place-making within the context of the merchandising for The Buchanan. Boutique Fitness is accretive to residential in that it provides an amenity for residents and a driver for accretive best-in-class retail. The success of indoor and outdoor related initiatives and events put forth by the Crystal City BID (Wednesday Night Spins, Street Hockey League, Twilighter 5K, Marine Corps Marathon, increased access to biking trails) denotes that the population that lives or works in Crystal City is active and is willing to spend time and money in their free time dedicated to fitness-focused activities. The success of EarthTreks and their recent opening in Crystal City further bolsters the notion that fitness can pull from a larger trade area and also become a destination for consumers in Alexandria and Arlington proper. Traditional format gyms like Sport & Health continue to be present in the market, but are not competitive with boutique fitness in the ability to offer customized classes and techniques. The following list displays examples of boutique fitness prospects for The Buchanan:

BOUTIQUE FITNESS PROSPECTS

- [solidcore]
- Elevate Interval Fitness
- Flywheel
- Zengo Cycle
- Soul Cycle
- BikerBarre
- CorePower Yoga
- Barry's Bootcamp
- VIDA Sweatbox
- BLAST Fitness
- Cut Seven
- Potomac Crossfit
- Patriot Crossfit
- Crossfit Adaptation
- Barre3 Pilates
- 305 Fitness

5B: QUICK-CASUAL CONCEPT (1,500 – 3,500 SF)

Quick-Casual Concepts in a similar vein to boutique fitness search for locations where they have an opportunity to catch consumers in an even-spread between lunch and dinner or breakfast, lunch, and dinner. The ideal site for quick-casual restaurants generally has an active daytime population with added residential or the opportunity for future residential growth. Access to parking, public transportation, and like-kind, complimentary food and retail uses are important to QSR users. The market demand for best-in-class, cross-meal quick-casuals is growing as daily schedules become truncated and consumers search for meals that are healthy, accessible, and economical. The following list displays examples of quick-casual concepts for The Buchanan:

QUICK SERVICE FOOD PROSPECTS

- Cava Mezze Grill
- Beefsteak
- Honeygrow
- Nandos Peri Peri
- Modern Market
- Luke’s Lobster
- The Little Beet
- South Block Juice Company
- Le Pain Quotidien
- G Sandwich Shop
- Chopt’ Salad Works
- Devon & Blakely
- Melt Shop
- Shophouse

5C: COFFEE (1,000 – 2,500 SF)

The coffee options for both the daytime population in Crystal City and the residential base are limited. Consumers in Crystal City are well-educated, affluent, and well-traveled. Many are well-versed in coffee, and will seek out coffee opportunities that are sought-after and unique. We would like to explore the idea of potentially carving out space out from the residential lobby to The Buchanan to create value with a coffee operator. Several coffee operators are interested in coming into the market and are actively seeking sites in Alexandria and Arlington. The following list displays examples of coffee concepts for The Buchanan:

COFFEE PROSPECTS

- Compass Coffee
- La Colombe
- Commonwealth Joe
- Peet's Coffee & Tea
- A Baked Joint

5D: SMALL FORMAT GROCER (5,000 – 15,000 SF)

There is substantial opportunity for a neighborhood-serving small-format grocer to make a foray into the Crystal City sub-market. The trade area includes a new Whole Foods Market in the Bartlett building in Pentagon City along with Costco, and Harris Teeter in Pentagon Row. There are no active grocers in the neighborhood, and a small-format grocer would do well in terms of providing amenity to both the residential at The Buchanan and serving as an active destination for the retail mix, pulling from the full trade-area. The closest Trader Joe's is in Old Town Alexandria. The success of the FRESHFARM Crystal City Farmer's Market and the demographic makeup of the population of Crystal City spell success for a grocer. The following list displays examples of boutique grocer concepts for The Buchanan:

GROCERY PROSPECTS

- Yes! Organic Market
- Streets Market
- Union Kitchen Grocery
- Trader Joe's
- Glen's Garden Market
- Broad Branch Market
- Dean & Deluca (small format concept)

5E: DAILY SERVICE AMENITY RETAIL (900 – 5,000 SF)

There are several types of service uses that could be accretive in the retail remerchandising mix for The Buchanan. Pursuant to the lease term of Crystal Nails, there may be an opportunity to upgrade to a boutique nail salon. There is also a market given the daytime population for a blow-dry bar or med-spa. Given the rampant success of cycling-focused events and initiatives throughout Crystal City put on by private organizations and the BID (Wednesday Night Spins, Cycling Classic, access to Mount Vernon Trail), a bicycle shop is another type of service retail that could potentially be very successful in this new mix. Hardware and pharmacy are also equally under-represented in the sub-market, with CVS located across Jefferson Davis Highway (a challenging thoroughfare for pedestrians to traverse) and Rite Aid in the Crystal City shops, there is additional opportunity for this type of use to thrive in the neighborhood. The following list displays examples of daily service amenity retail concepts for The Buchanan:

DAILY SERVICE PROSPECTS

- COATROOM
- Nail Saloon
- Varnish Lane
- DryBar
- Cherry Blow Dry Bar
- Blush MedSpa
- Revolution Cycles
- Freshbikes
- Big Wheel Bikes
- Bicycle SPACE
- District Hardware
- Walgreens
- Ace Hardware
- Tru Value Hardware

5F: GDIT ANCHOR SPACE (50,000 SF)

The nature and marketplace for anchors in the DMV is in the process of evolving. There are several discussions concerning use and categories that need to be reviewed with Dweck Properties to best ascertain how lease this space. The GDIT space and leasing strategy will be given a full review in the second phase of this deliverable.

5: MERCHANDISING: CONCLUSION

The following six categories will make up the basis for our final merchandising scenario which will include space planning, infrastructure analysis, and a final budget and pro-forma for leasing guidance. While many factors contribute to effective merchandising we always keep in mind what will create not only more value in the retail space but also how it will positively impact the residents of the building. We are excited to present the below uses which we believe are viable alternatives to the present leasing strategy.

6: BUCHANAN PHASE ONE WRAP UP

6A: Conclusion:

The real estate environment is due for a change. The Buchanan is positioned well among these changes, but has vulnerabilities that need to be assessed. Two of The Buchanan's vulnerabilities are the oversupply of multifamily in the market, followed closely by the oversupply of large-format restaurants across the region.

While The Buchanan remains vulnerable to these macro-trends in the real estate market, there are positive implications in the development of Pentagon City and the connection with the re-urbanization of Crystal City, the JBG/Vornado merger, and the emergence of new retail trends. The biggest challenges facing the Buchanan are also some of its biggest opportunities. The effective re-positioning of the Property as a discount to the newest and most expensive residential properties is encouraging, but it must be done with a level of retail and amenity services that is comparable to more desirable submarkets.

To this end, our strategy recommends a solution that will solve two problems at once -- over saturation of large-format restaurants and an under-amenitized retail platform of the building.

By taking the existing vacancies and projecting the potential vacancies of the low performing restaurants in the building, we can re-merchandise the Buchanan to appeal to high amenity retailers and secure long-term retail stability. Providing a more secure and lucrative retail program coupled with upgrades to the residential units and common areas, District Equities can mitigate the worst effects of the multifamily market and the restaurant market while simultaneously upgrading the amenity position of the building.

6B: Next Steps:

District Equities will take the next thirty days to perform a thorough analysis on a space by space basis of the highest and best use merchandising, accounting for current vacancy, potential vacancy, value of the space in and of itself, and value of the space to the residents of the building.

This effort coupled with the merchandising overview will be applied to a strategic space design, size, and layout so that leasing efforts are targeted towards the most viable retailers with the dual considerations of retail value and impact on residential.

We will dig deep into the bones of the spaces to ensure that our merchandising and space planning recommendations are practical by conducting an infrastructure analysis of each space, and then making recommendations on delivery of new spaces including a work letter overview.

The retail spaces consist of most of the value, but the public space, wayfinding, and pedestrian experience is critical to a revitalized retail program. District Equities will make recommendations on these issues as well.

The final phase will wrap up the retail, amenity and public space analysis in the following thirty days. District Equities will analyze the marketing strategy of the retail as well as residential (to the extent a new amenity retail program should influence the residential marketing position), brand strategy, and importantly a final proforma with budget guidance, lease up time-frame, and spectrum of leasing economics on a five year plan.

BUCHANAN PHASE TWO

Phase one outlined the macro and micro market trends impacting the Buchanan with a focus on the ground level retail. District Equities outlined the strengths and vulnerabilities of the retail amongst market conditions and began a tenant mix based on a void analysis. Now that we've identified and targeted potential Tenants, phase two seeks to merchandise the ground level retail area. In this merchandising plan we maintain the market considerations from phase one, and prioritize our space planning based on economics, merchandising and residential amenity value.

Phase two will begin with an overview of the JBGS plans, what we believe will be implemented and what we believe may be changed. As the single largest external market condition it is important for us to closely monitor their plans as it will impact our leasing efforts and the strength of the Buchanan retail. Following an update on the JBGS plans we will present our master level merchandising overview with our top merchandising plan. We will then conduct a space by space analysis, including a Tenant and lease analysis of the existing users with a particular focus on GDIT.

We conclude phase two with an agreed upon vision for the retail in the Buchanan and will then make recommendations for implementable next steps. These include any architectural plans or infrastructure analysis, marketing strategy and a final proforma. We will also make recommendations for the pedestrian experience including way-finding and street-scape.

Concluding phase two our goal is to have an agreed upon merchandising plan so that we can proceed with the final phase and begin implementable steps. At the conclusion of phase three we will have a guidebook and vision for the project and will then begin targeted leasing.

PHASE TWO CONTENTS

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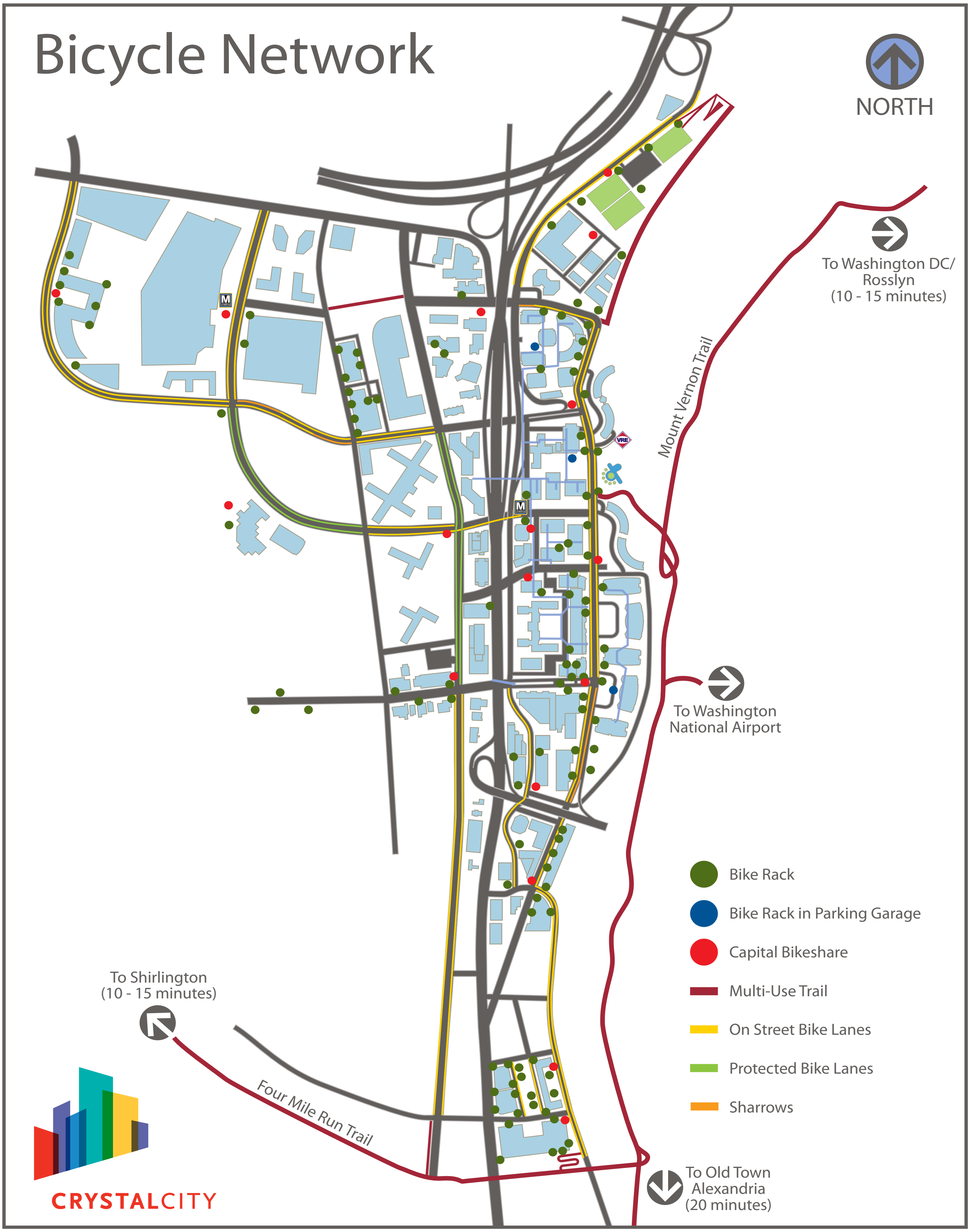
CRYSTAL CITY SUBMARKET MAP


Bicycle Network
NORTH
To Washington DC/
Rosslyn
(10 - 15 minutes)
Mount Vernon Trail
VRE
M
To Washington
National Airport
Bike Rack
Bike Rack in Parking Garage
Capital Bikeshare
Multi-Use Trail
On Street Bike Lanes
Protected Bike Lanes
Sharrows
To Shirlington
(10 - 15 minutes)
Four Mile Run Trail
To Old Town
Alexandria
(20 minutes)
CRYSTALCITY

7: JBGS DEVELOPMENT PLAN OVERVIEW

JBG/Smith Current Plans: How much of these are going to be gutted or reconsidered is not entirely known by JBGS or District Equities but we do know the general outlines for all development phases of the original Smith plan and know some of JBG's immediate intentions. JBGS is going to focus on bringing anchor uses into the Crystal City Sub-market. In the first phase of void analysis viable anchor Tenants are a major missing category for such a demographically strong sub-market. Coupled with the emergence of recent anchors such as Whole Foods showing interest/opening in the market shows tremendous promise as the first step of retail revitalization for Crystal City. Finally, anchor activity will necessarily draw other high quality retailers, this combination is the first step of reactivating Crystal City. With both District Equities and JBG/Smith marketing anchor space there will be a new focus from anchors on the sub-market, the Buchanan doesn't need all of the potential anchors that will be attracted to Crystal City, just 1 or 2 as our analysis will show. We also have the benefit of immediate delivery and potentially even a lower cost depending on JBG's development budget, that said, they will likely aggressively court anchor users and may factor in that "lost leader" rent into development plans. We believe we are targeting the same types of anchors and that we can create a compelling narrative to attract them to the Buchanan over future development. We'll take a look at the development plans most likely to move forward immediately under JBGS as they will impact our leasing and marketing strategy, and then look briefly at the Vornado Smith plans less likely to move forward as currently envisioned.

THE JBG COMPANIES®

VORNADO
CHARLES E. SMITH

7A: JBGS PLANS LIKELY TO MOVE FORWARD

While we expect deviations and changes to these plans over the nexdt 12 months our conversations with JBGS have indicated that they intend on moving forward with these parcels. They are the most viable plans Vornado developed and as the new portfolio heavily depends on Crystal City's successful redevelopment JBGS is focused on putting something into production quickly. These development plans all consider street facing retail with a focus on large format and anchor tenants. Much of the space utilizes areas that are currently parks/public space or underutilized areas and does not consider any major building demolition. For these reasons we believe the plans are both achievable and able to be put into development relatively quickly.

THE SQUARES ON CRYSTAL DRIVE

The square on Crystal Drive is the most significant and as we understand it, viable development plan from the Smith master plan, of the likely plans for JBGS to execute we believe it will be the Square on Crystal Drive. This largely retail plan is set to accomodate 1-3 anchor users, and as we understand JBGS is targeting Trader Joe's, Vida, and Landmark Movies. We will discuss our marketing and anchor outreach strategy in detail but we will market to the same Tenant as they will be inclined to focus on the submarket with JBGS' plans, and our newly positioned anchor space will be of high consideration. We will also target these uses in categories and have back-up options for each potential user. We are encouraged by JBGS plans as any anchor activity is positive for the submarket and will benefit our marketing. The only downside is a lot of the recent activity is focused on the northern end of the submarket. The negative effects of this are obviously the focus and activity isn't proximate to the Buchanan, on the positive side, the Buchanans distance allows us to merchandise towards similar categories without risk of overlap. I.e. full service grocery may have issue with being too close to Whole Foods, whereas at the Buchanan they can appeal to the same submarket without risk of direct overelap.

KEY STATISTICS

- 300,000 square feet of retail in several buildings running along 18th Streets and Crystal Drive, buffered by South Bell Street to the west and 15th Street to the north in addition to 80,000 square feet of existing retail on the Plaza block in the Crystal City Shops.
- Upon completion, 500,000 square feet of retail will exist along Crystal Drive.
- Retail space is slated for Q4 2018 delivery and 2019 opening.
- The Squares will feature an entertainment district – Vornado executed a lease with EarthTreks to take a 40,000 square foot space in the Crystal City Shops. EarthTreks offers a best-in-class indoor climbing experience.
- Vornado is at lease with a 50,000 square foot theatre operator to join the project as well (Showplace ICON).
- 500 dedicated retail parking spots
- Direct access to the new Crystal City Metrorail entrance
- Dedicated activated plaza space
- Prospective plans for a 'Metro Market' food hall between 10,000 and 20,000 square feet.

THE PAVILIONS AT 2121

Located directly across Crystal Drive from the Shops at 2100, The Pavilions will provide an indoor-outdoor experience with 23,000 square feet of retail dedicated to restaurant and entertainment usesrisk of direct overelap. Because this can be built quickly and creates retail facing retail we believe these plans will be altered but the general concept will move forward quickly.

7B: VORANDO PLANS LIKELY TO BE CHANGED

We are less interested in these plans as they are more conceptual and would require large scale demolition to produce. We beleive they are most subject to JBGS major restructuring and what we expect will eventually be developed will look significantly different. They are good to understand as we discuss future development with retailers and maintain focus on how and why they will change as their proximity to the Buchanan will certainly have an impact on our future efforts.

CONCEPT DEVELOPMENT HIGHLIGHTS

- **The Pavilions at 2121**
- Located directly across Crystal Drive from the Shops at 2100, The Pavilions will provide an indoor-outdoor experience with 23,000 square feet of retail dedicated to restaurant and entertainment uses
- **Plaza 5**
- Located at the corner of 23rd Street and Crystal Drive, across the street from The Buchanan, this project will include 3 residential towers with 60,00 square feet of slated retail
- 730 residential units
- **1900 Crystal Drive**
- Includes 70,000 square feet of slated retail
- 450 residential units and/or boutique hotel keys
- 381,000 square feet of Class-A office space

POTOMAC YARD

- In a very interesting turn of events JBG's JV partner asked them to stay on despite the apparent conflict of interest. While JBG made it clear their focus will be Crystal City, the JV partner prefered knowing JBGS was going to be heavily invested in the sub-market even if their "A" level investment was focused on Crystal City. Our understanding is the suburban retail team will work on Potomac Yard while Robin Mosle and the mixed use urban team will work on Crystal City with JBGS' development teams.

SQUARES BLOCK

A new retail experience in a dense, establishe
area. An iconic attraction easily accessed by a
sophisticated consumers from across the DC a

300,000 SF OF RETAIL

500 DEDICATED RETAIL PARKING SPOTS

DIRECT ACCESS TO NEW CRYSTAL CITY METRO ENTRANCE

5 HOTELS WITH DIRECT ACCESS TO CRYSTAL SQUARES

1,000 PEDESTRIANS PASSING EACH HOUR

9,000 EMPLOYEES ON THE BLOCK

MORE VORNADO PROPERTIES

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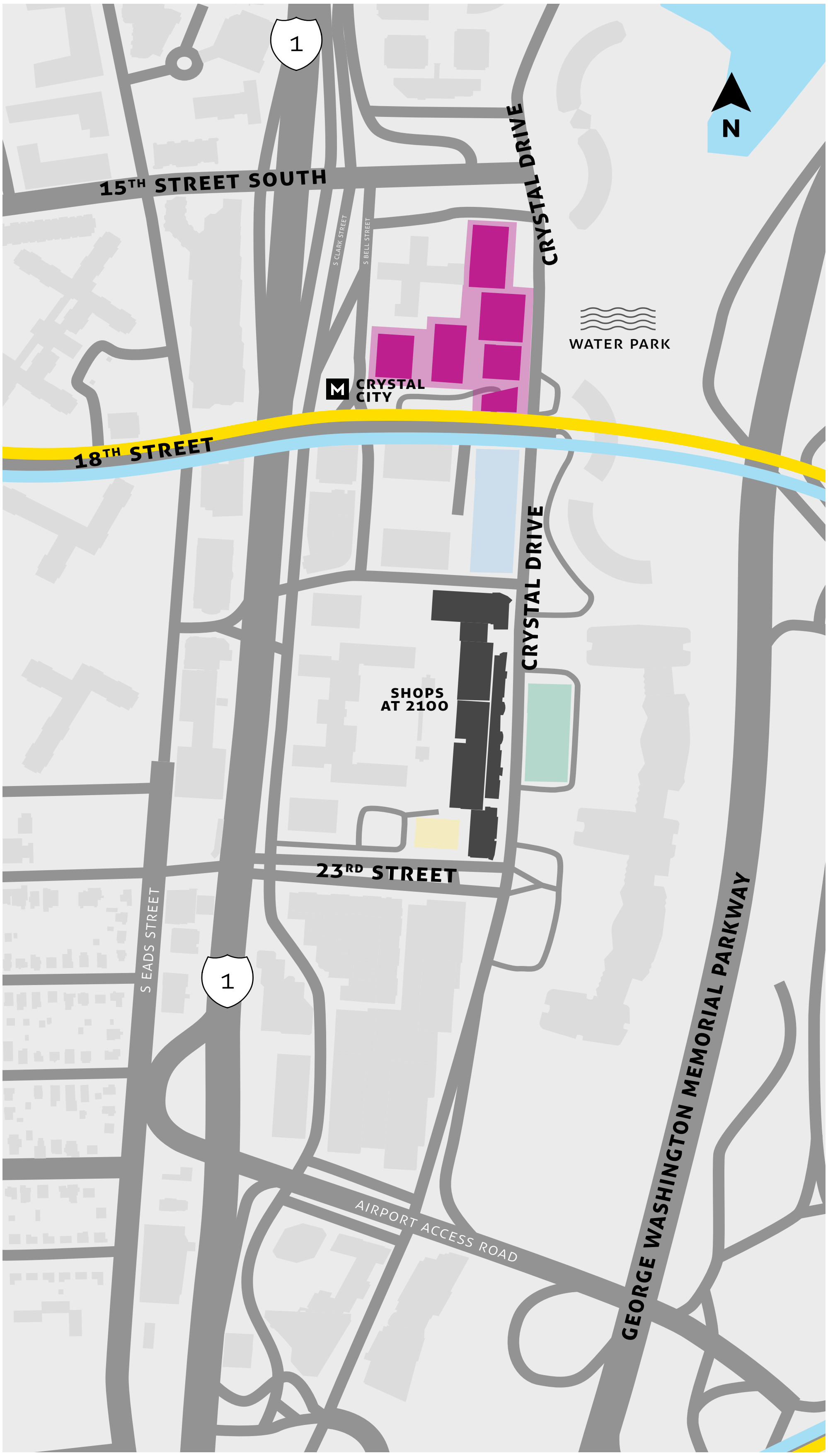
ed trade
affluent,
area.



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VIEW FROM WATER PARK

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ELEVATION OF ATRIUM + METRO CONNECTIVITY

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ATRIUM ON 18TH STREET

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METRO-LEVEL MARKET

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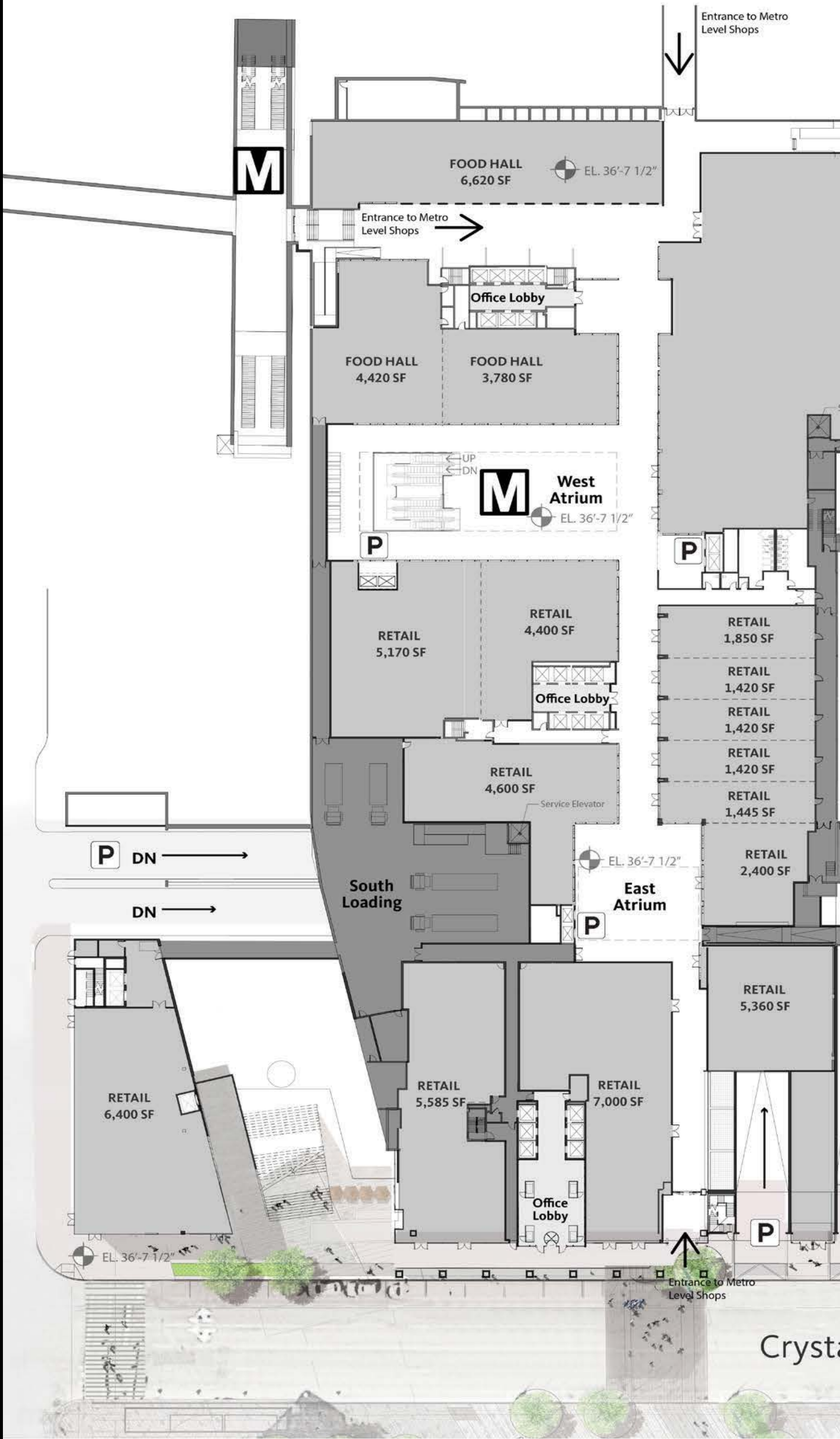
RETAIL METRO CONNECTION



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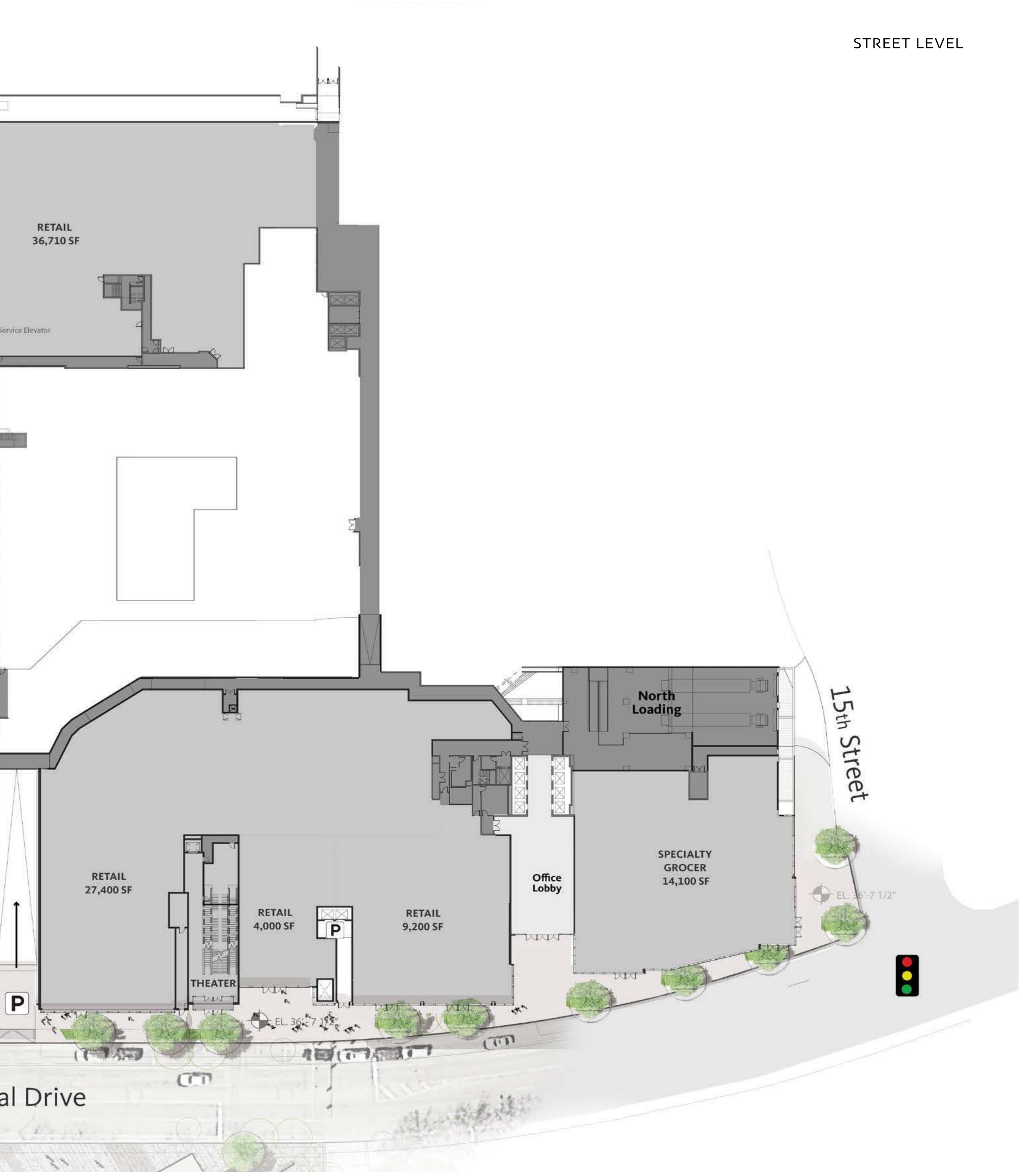
STREET LEVEL



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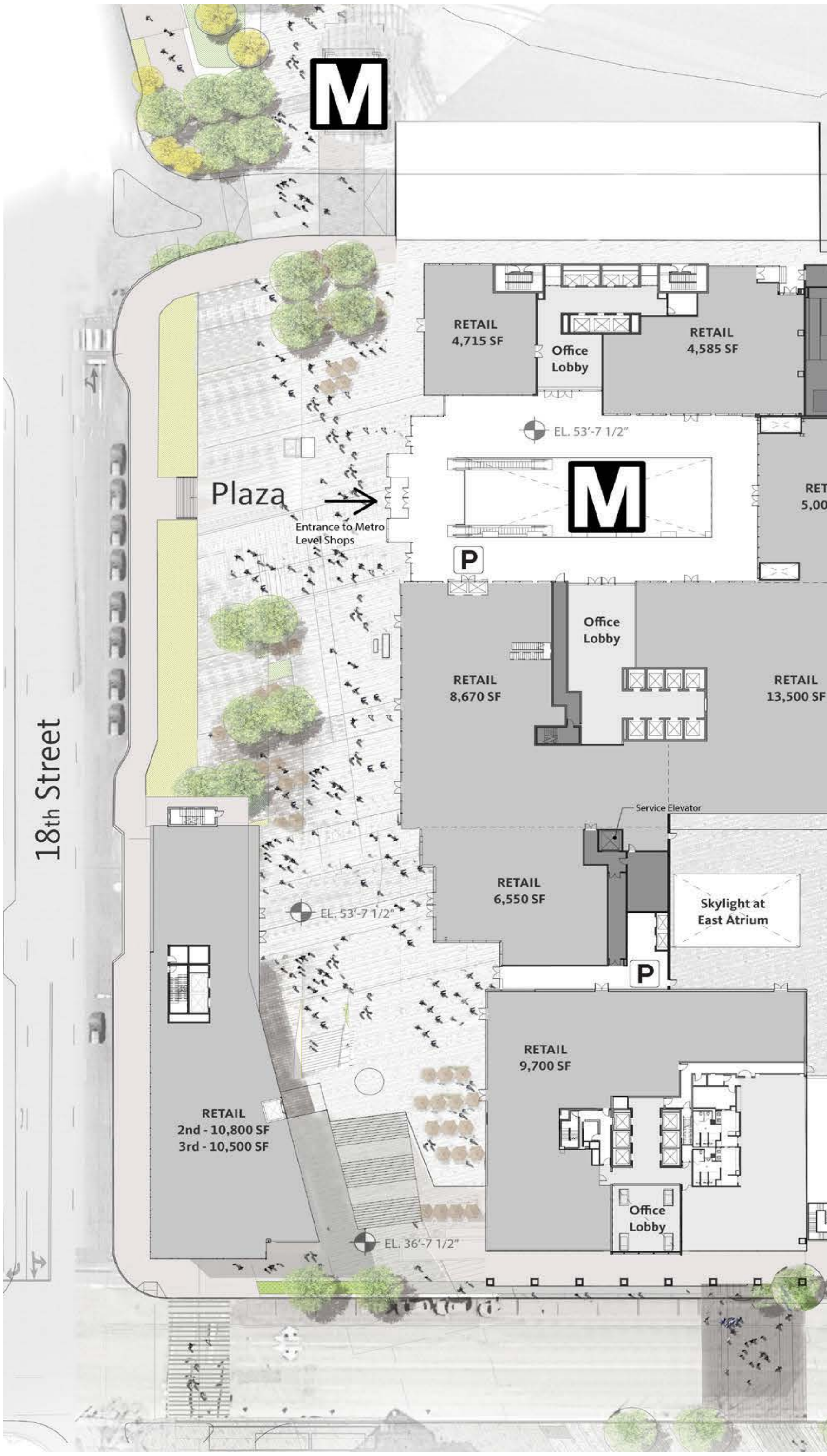

PLAZA LEVEL


Clark Street
West Loading
Service Elevator
EL. 53'-7 1/2"
North Loading
15th Street
THEATER
49,598 SF (total)
18,800 SF
Office Lobby
RETAIL OPEN TO BELOW
EL. 36'-7 1/2"
EL. 36'-7 1/2"
P
P
Crystal Drive

THE PAVILIONS AT 2121

A centrally located indoor-outdoor experience a diverse population of residents and workers canvas for innovative restaurant concepts.

23,000 SF OF RETAIL

RESTAURANT AND ENTERTAINMENT SPACE

PRIME CRYSTAL DRIVE LOCATION

MORE VORNADO PROPERTIES

VORNADO CHARLES E. SMITH

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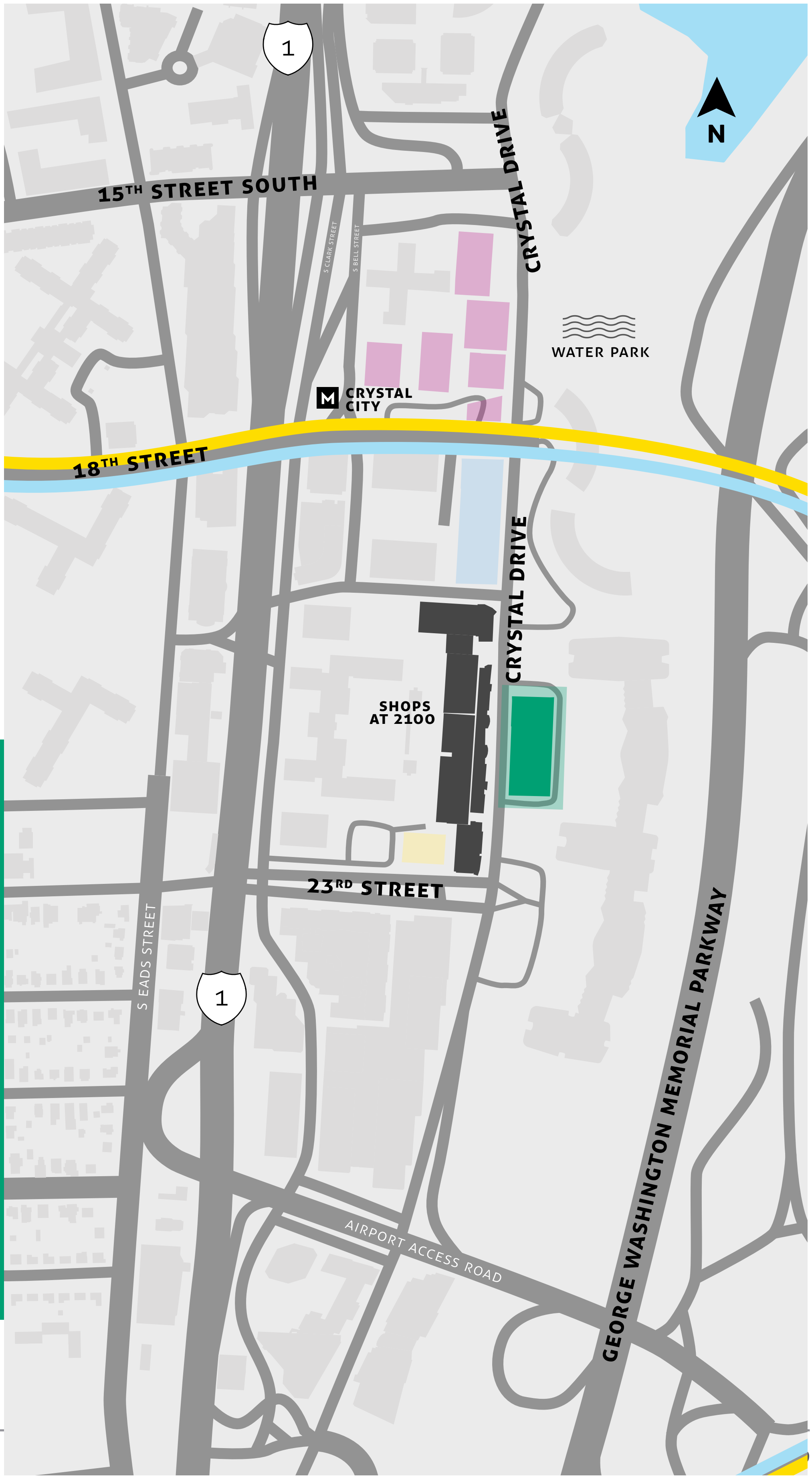
s—an exciting



VORNADO
CHARLES E. SMITH

VIEW FROM SHOPS AT 2100 CRYSTAL DRIVE

VORNADO
CHARLES E. SMITH

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CRYSTAL CITY

THE AREA

BY THE NUMBERS

THE COMPETITION

EXISTING NEIGHBORHOOD

THE NEW CRYSTAL CITY

PROPERTIES

Squares Block

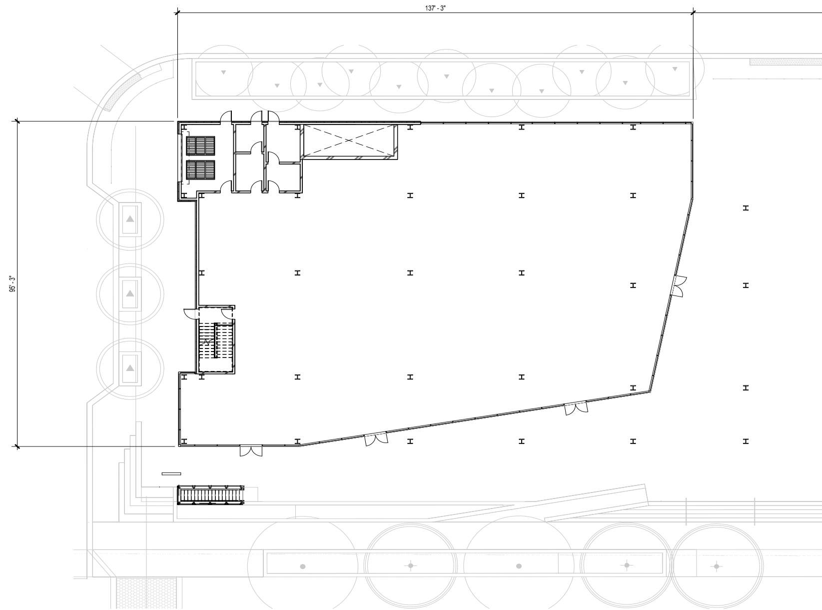
The Pavilions at 2121

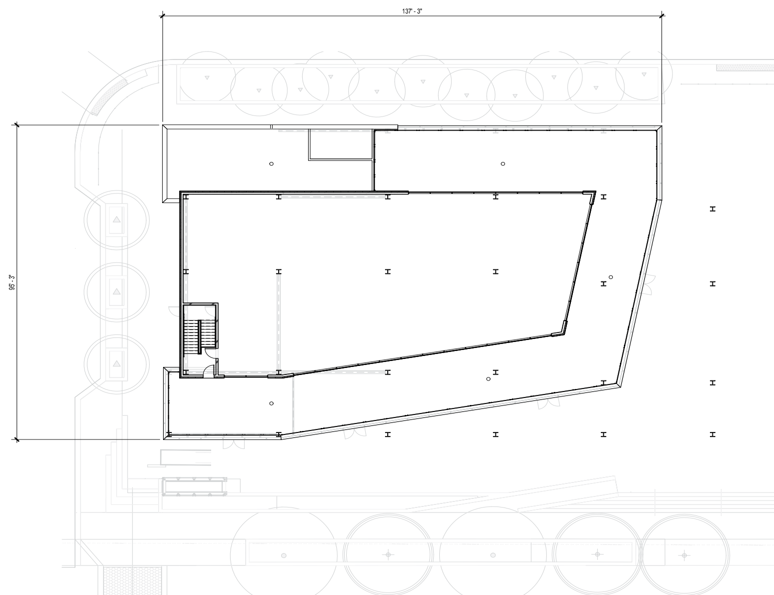
Plaza 5

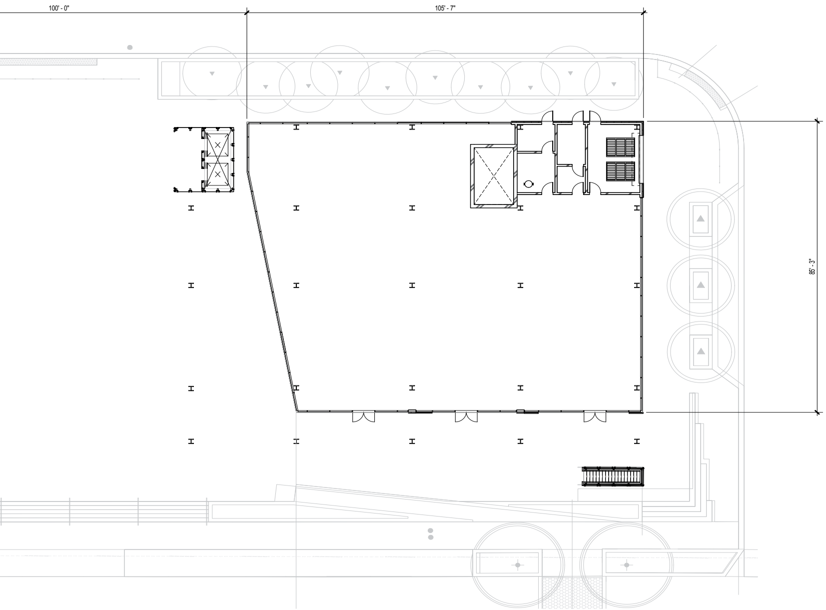
1900 Crystal Drive

MORE VORNADO PROPERTIES

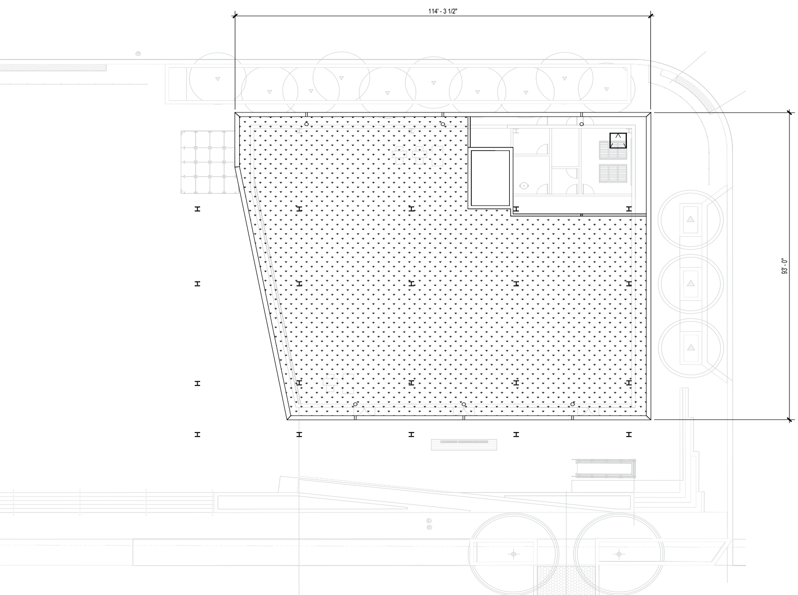
VORNADO
CHARLES E. SMITH







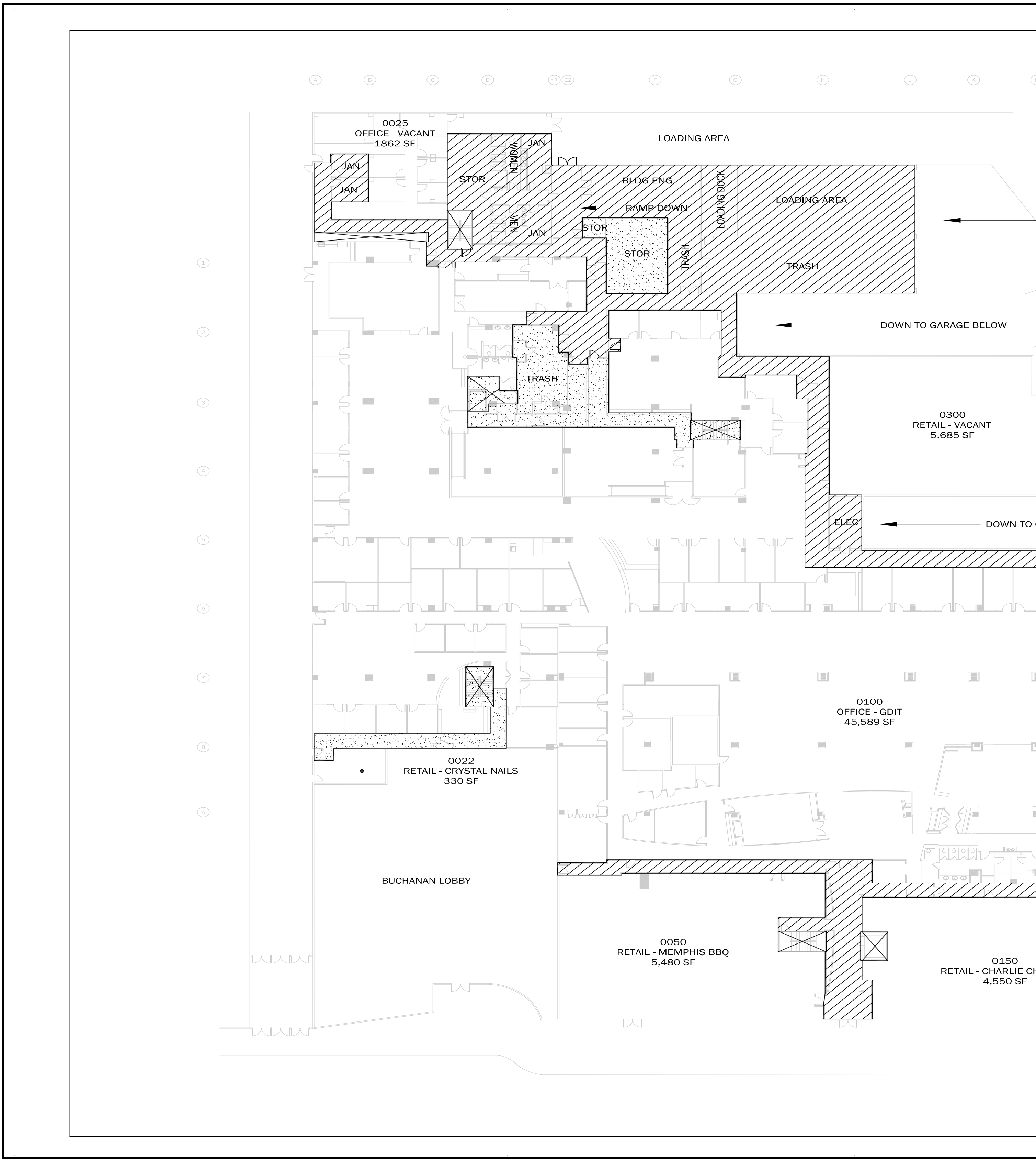
LEVEL 1

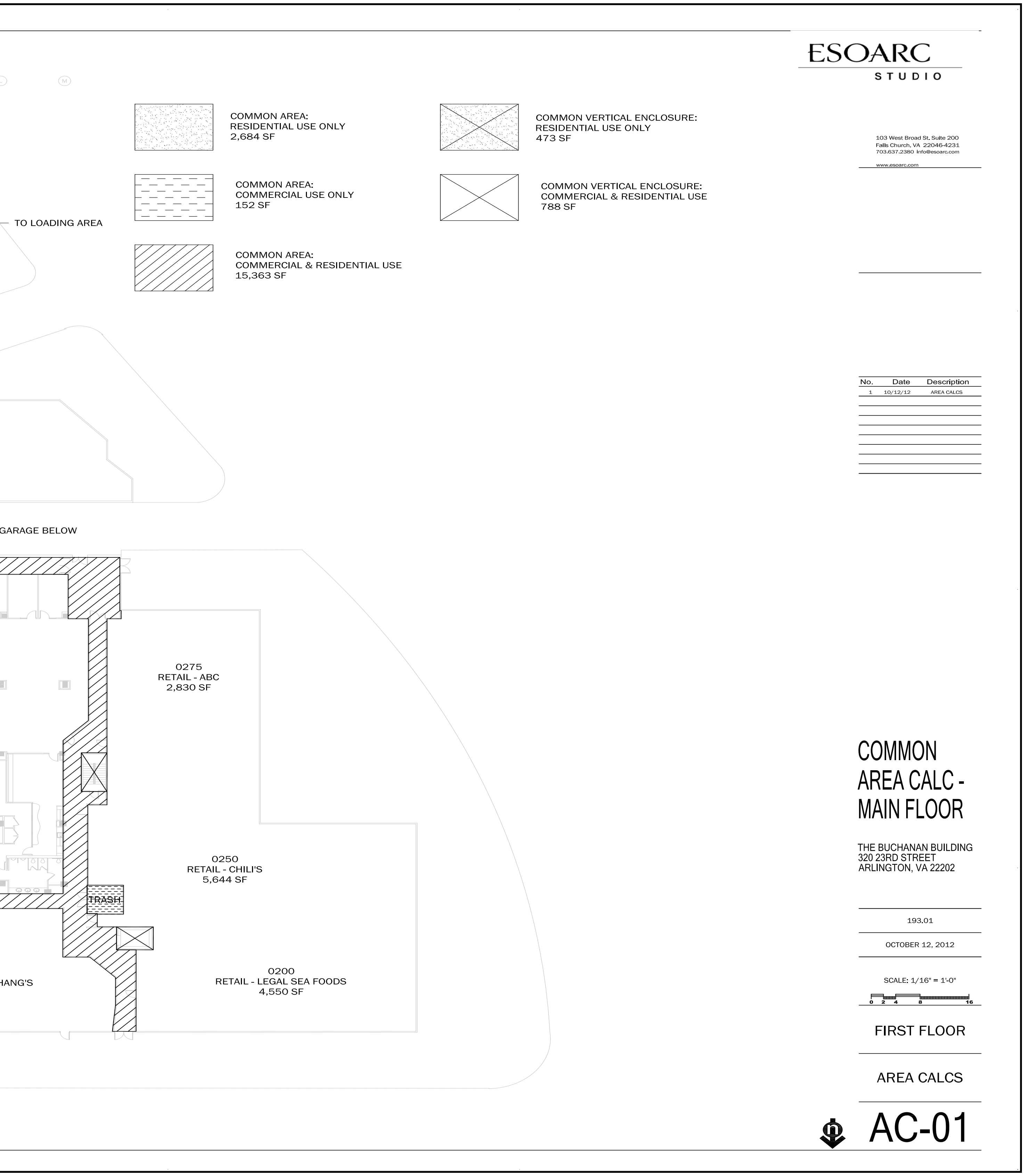


LEVEL 2

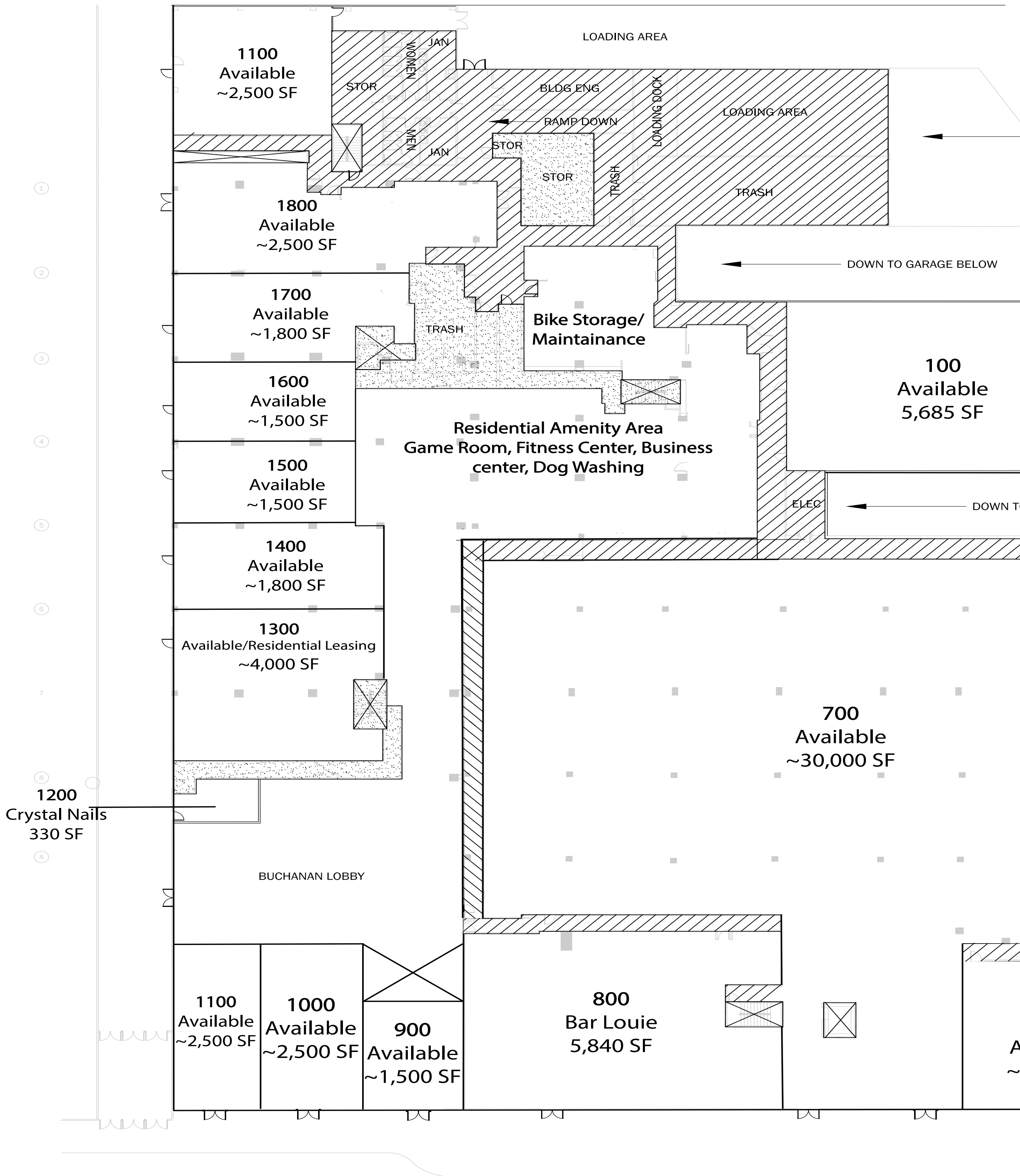
PAVILION A	CEILING HEIGHT	LEASABLE AREA
Level 1	17'-6"	11,554 SF
Level 2	18'-0"	5,646 SF
PAVILION B		
Level 1	23'-4"	8,490 SF
TOTAL		**25,690 SF**

8: BUCHANAN CURRENT GROUND LEVEL PLAN

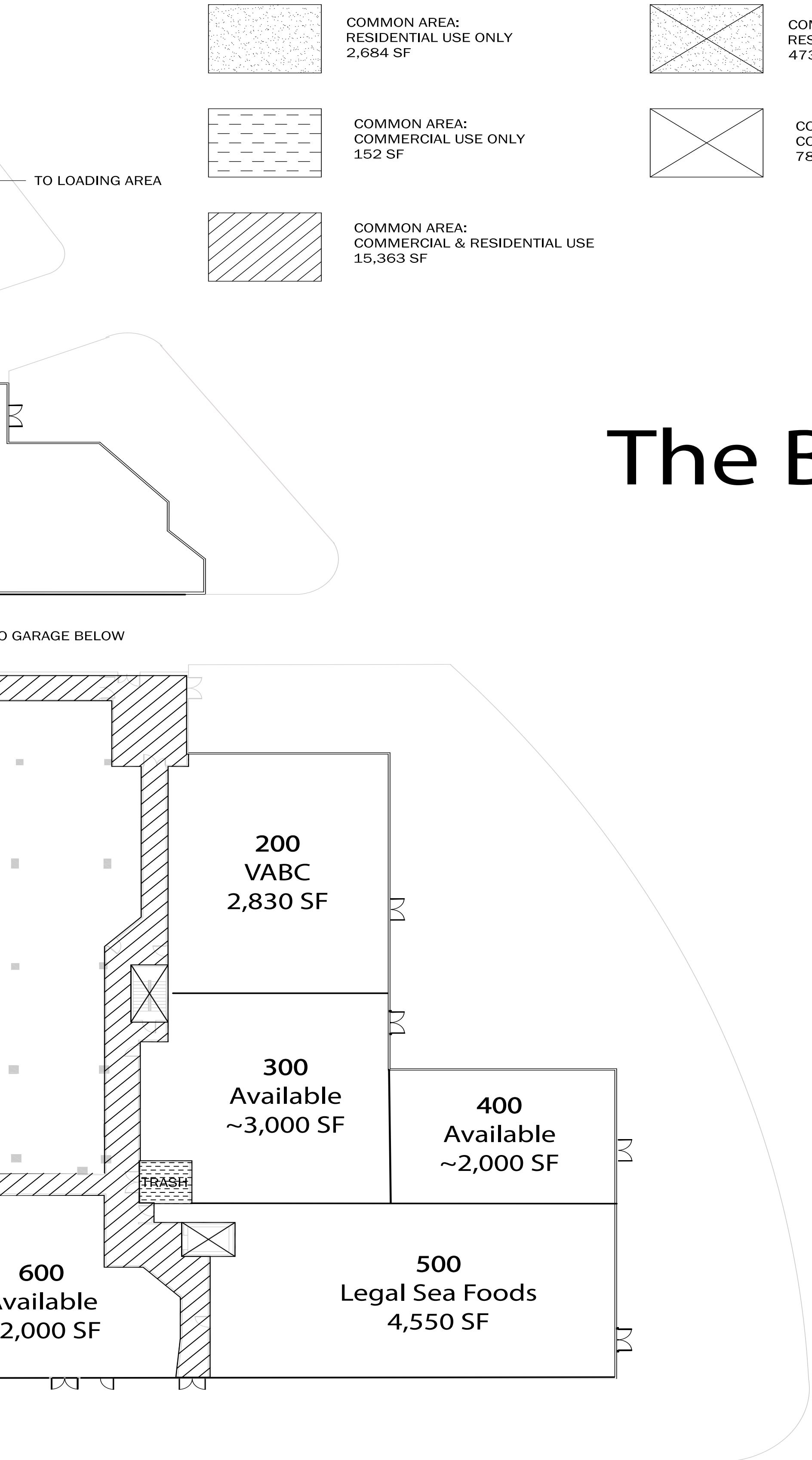



ESOARC
STUDIO
103 West Broad St, Suite 200
Falls Church, VA 22046-4231
703.637.2380 info@esoarc.com
www.esoarc.com
COMMON AREA: RESIDENTIAL USE ONLY 2,684 SF
COMMON AREA: COMMERCIAL USE ONLY 152 SF
COMMON AREA: COMMERCIAL & RESIDENTIAL USE 15,363 SF
COMMON VERTICAL ENCLOSURE: RESIDENTIAL USE ONLY 473 SF
COMMON VERTICAL ENCLOSURE: COMMERCIAL & RESIDENTIAL USE 788 SF
TO LOADING AREA
GARAGE BELOW
0275 RETAIL - ABC 2,830 SF
0250 RETAIL - CHILI'S 5,644 SF
TRASH
0200 RETAIL - LEGAL SEA FOODS 4,550 SF
HANG'S
No. Date Description
1 10/12/12 AREA CALCS
COMMON AREA CALC - MAIN FLOOR
THE BUCHANAN BUILDING
320 23RD STREET
ARLINGTON, VA 22202
193.01
OCTOBER 12, 2012
SCALE: 1/16" = 1'-0"
0 2 4 8 16
FIRST FLOOR
AREA CALCS
AC-01

8: MASTER MERCHANDISING PLAN



The Buchanan



9: SPACE BY SPACE MERCHANDISING

The following subsections will focus on a space by space analysis of each individual space with an analysis of current leasehold including the potential for future uses and merchandising with spectrum of potential users. The section will focus on the strengths of the Tenancy, likelihood for expiration or vacancy, new demising options, potential Tenants for the space and a brief description of merchandising.

9A: GDIT - ANCHOR SPACE REPORT CARD

The GDIT Space is the most important Tenancy in the ground level of the building. The economic, amenity and merchandising implications of the future of the space are vast. We will cover comprehensively our understanding of the current space and it's level of use, it's potential for vacancy, our recommendations for current Tenancy, the variety of uses, and potential demising options for future Tenancy, the benefits of the space, and spectrum of economic options.

District Equities Report Card Score: B

Remaining Term: Up to 5 Years. Expiration Date: July 31st, 2017. Notice no less than 6 months prior to lease expiration (January 31st, 2017).
Credit: A
Sales: (N/A)
Rent: $28 NNN
Option: Two (2), Two (2) Year Options. Extension rental terms increase at 2.5%

Reasoning for B Score: GDIT is both a strong Tenant as well as a high paying user for a large and windowless space. This Tenancy would be an A+ but for a variety of external factors outside of everyone's control, the new presidential administration, the low level of usage of the space, the short renewal option periods. Our recommendation is to renew GDIT any way possible including reducing the rent if need be, our reasoning is that even in an ideal scenario where a new anchor is attracted to the space it would be over 12 months before the earliest possible construction and delivery.

We are concerned about GDIT renewing for the following reasons: They didn't renew earlier (could have renewed beginning in August of 2016, we recommend Principle level engagement and willingness to make a deal outside of the lease terms if necessary to retain Tenancy if possible. Also may consider hiring an office broker.

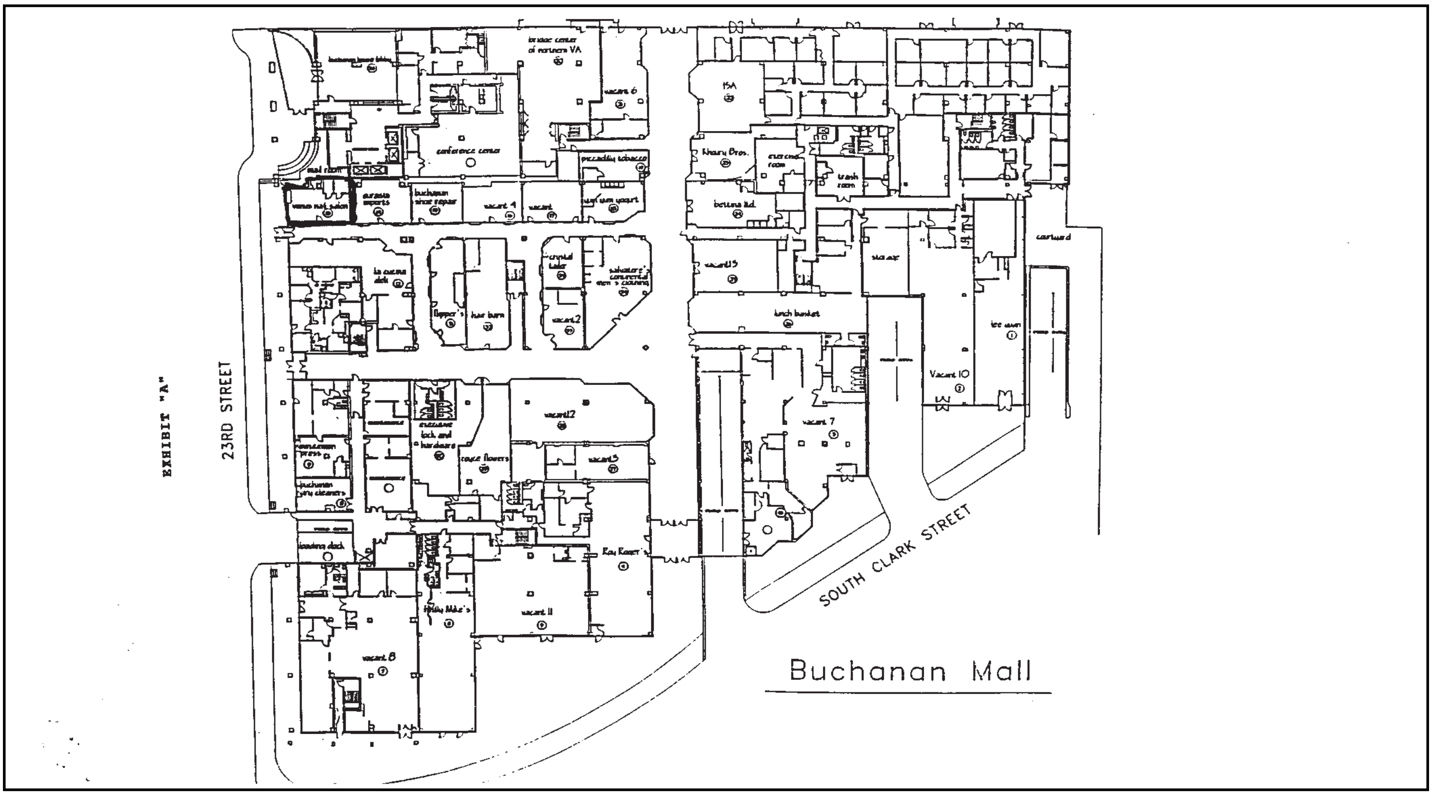
External: With the incoming administration vowing to "drain the swamp" we see the expensive contracting industry being in the cross hairs. While no one knows exactly what is going to happen it appears that this type of contractor spending is precisely in line for the types of cuts one imagines might come. We think they may exercise the first renewal option as it is only a week away and there isn't enough time to make changes to all of the governmental programs quickly enough to negate the renewal but it will be close and we will be watching.

Internal: The GDIT space is only used by approximately 25-40 people, the space is almost entirely empty including its sub-tenants. For this reason we anticipate GDIT potentially not renewing as the space is underutilized as it is.

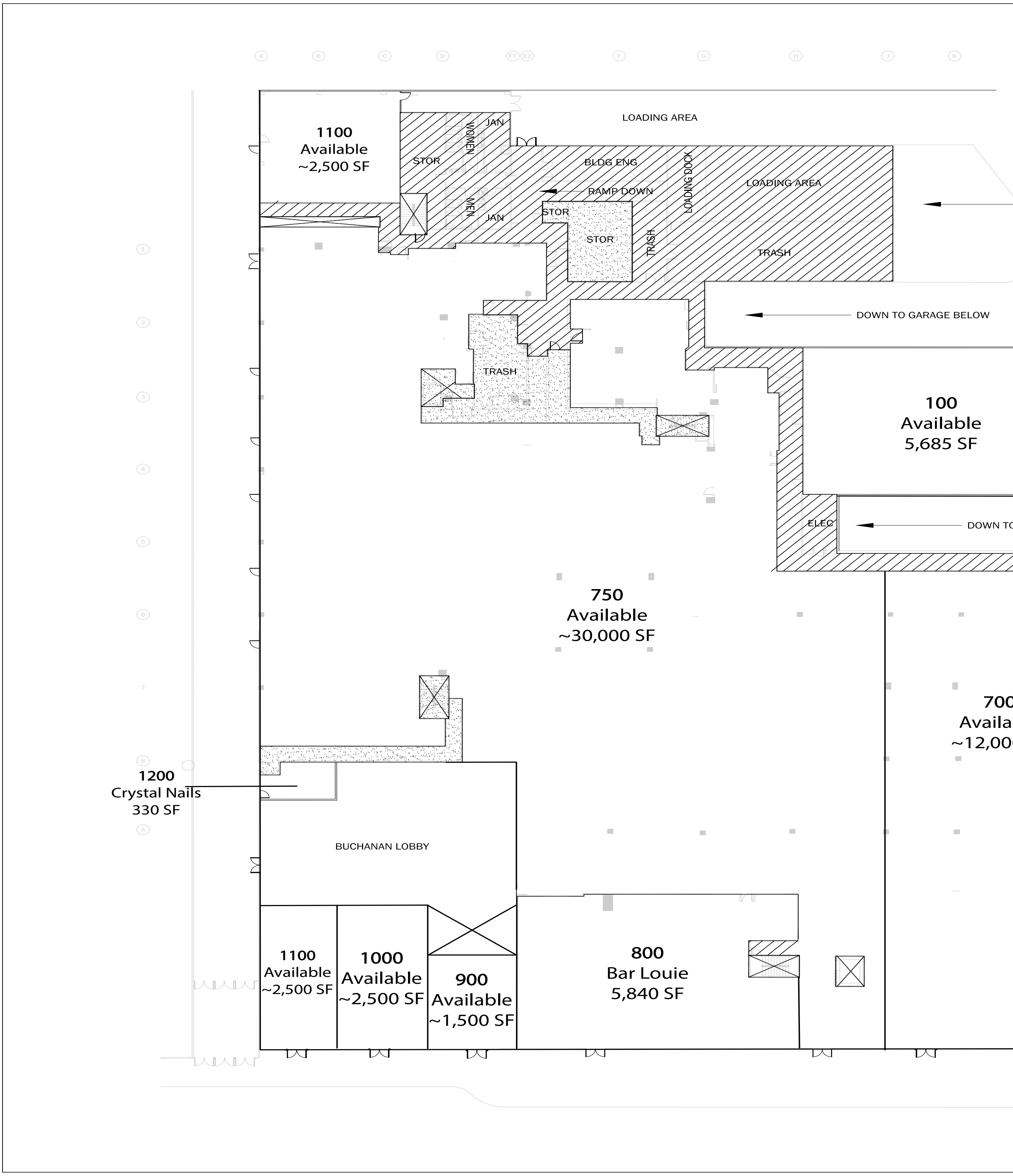
Best Case Scenario: GDIT opts for a 2 year renewal on January 31st 2017, buying us two years of merchandising and marketing to find an excellent anchor. If GDIT does not renew we will pursue all avenues towards anchor backfill on an expedited schedule.

9A: GDIT MERCHANDISING PLANS

GDIT was formerly a retail underground similar to the rest of Crystal City, as we looked through the leases copied are old plans of the underground housing 30-40 Tenant's in what is now the GDIT space. Our plans envision bringing the space back as a retail use, but in a much different merchandising scenario.



The space has some major attributes that work critically in its favor. These internal conditions provided reassurance that the space has great retail potential, coupled with the external market conditions District Equities is confident in the possibilities for **releasing the GDIT space to a high amenity and economically viable anchor user**. The space has **high ceilings** with skylights and wide open floor plan, the ceiling's above the current drop may be high enough to even include a movie theater as targeted anchor user. The corridor into the space **includes a stairwell and elevator directly from the retail parking into the space**, this will be a critical selling point for many potential users including grocers. Finally, we feel it will likely be necessary to recapture Queen Amannisa to provide the frontage necessary for an anchor to gain the street presence for pedestrian viability. While this is not a sure bet it is one of the most likely users to become vacant as will be detailed later, we recommend aggressively recapturing the Amannisa space in any regard but most importantly the ability to attract a new anchor user. One of the bigger downsides is the retail space that will be left over facing the interior corridor, we see the upside as heavily outweighing this low desirability retail, however it is a consideration that must be made in the final budget analysis.


1100
Available
~2,500 SF
LOADING AREA
JAN
WOMEN
STOR
BLDG ENG
RAMP DOWN
LOADING DOCK
LOADING AREA
MEN
JAN
STOR
STOR
TRASH
TRASH
DOWN TO GARAGE BELOW
TRASH
100
Available
5,685 SF
ELEC
DOWN TO
750
Available
~30,000 SF
700
Availa
~12,00
1200
Crystal Nails
330 SF
BUCHANAN LOBBY
1100
Available
~2,500 SF
1000
Available
~2,500 SF
900
Available
~1,500 SF
800
Bar Louie
5,840 SF

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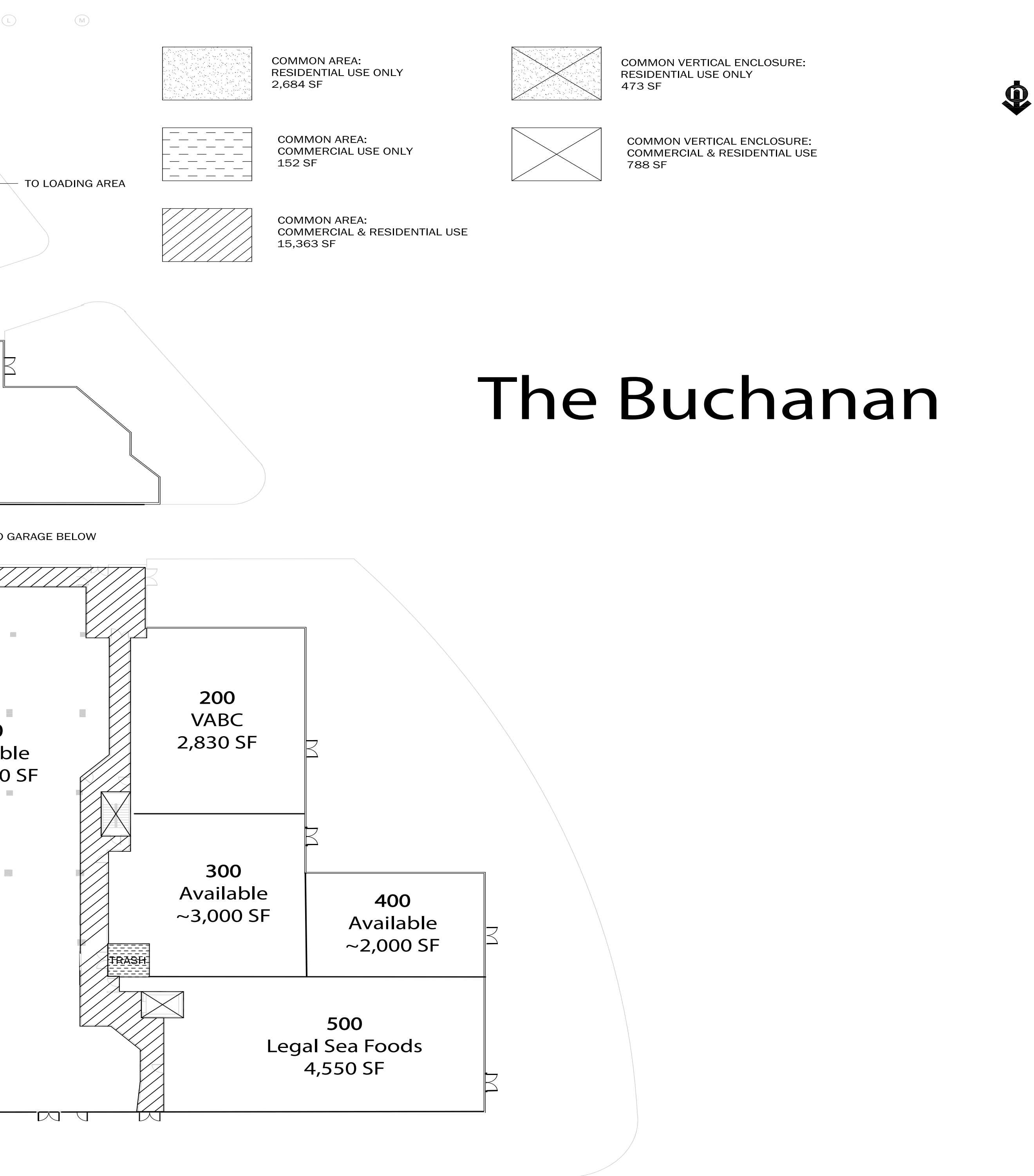
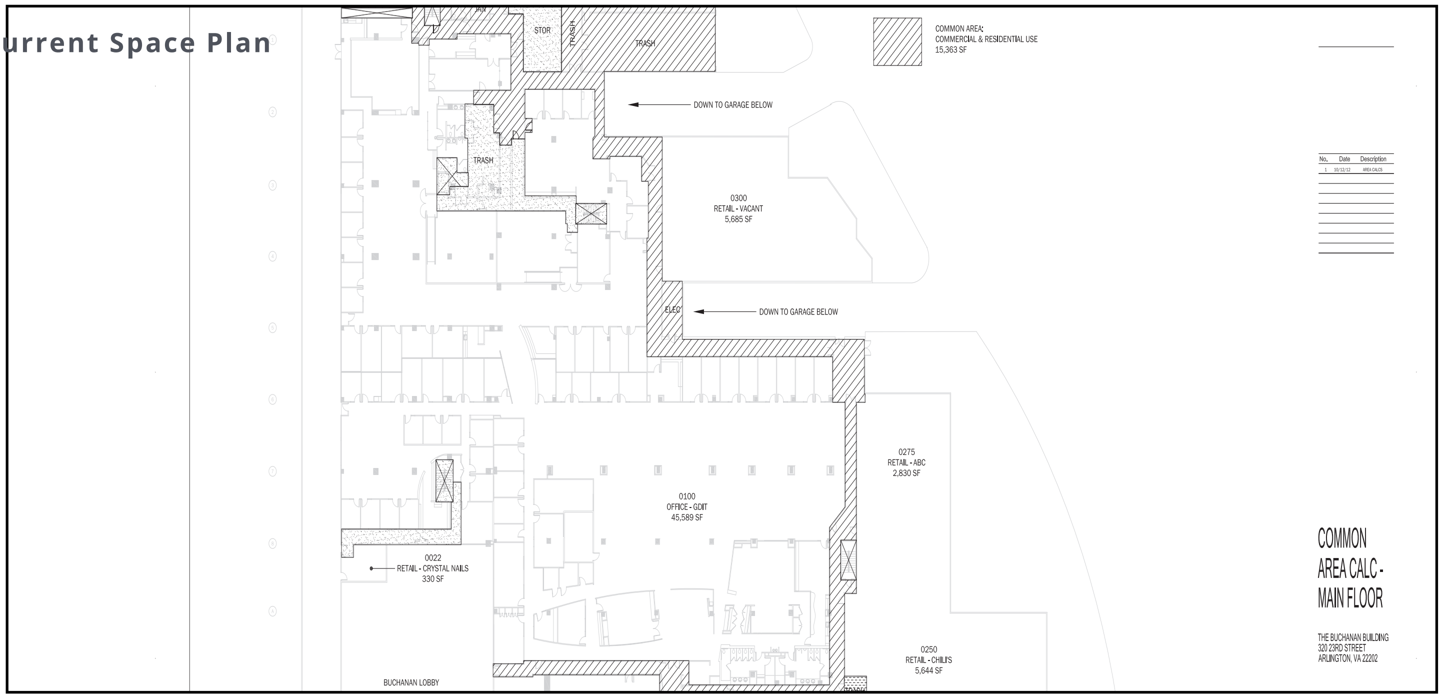
The Buchanan

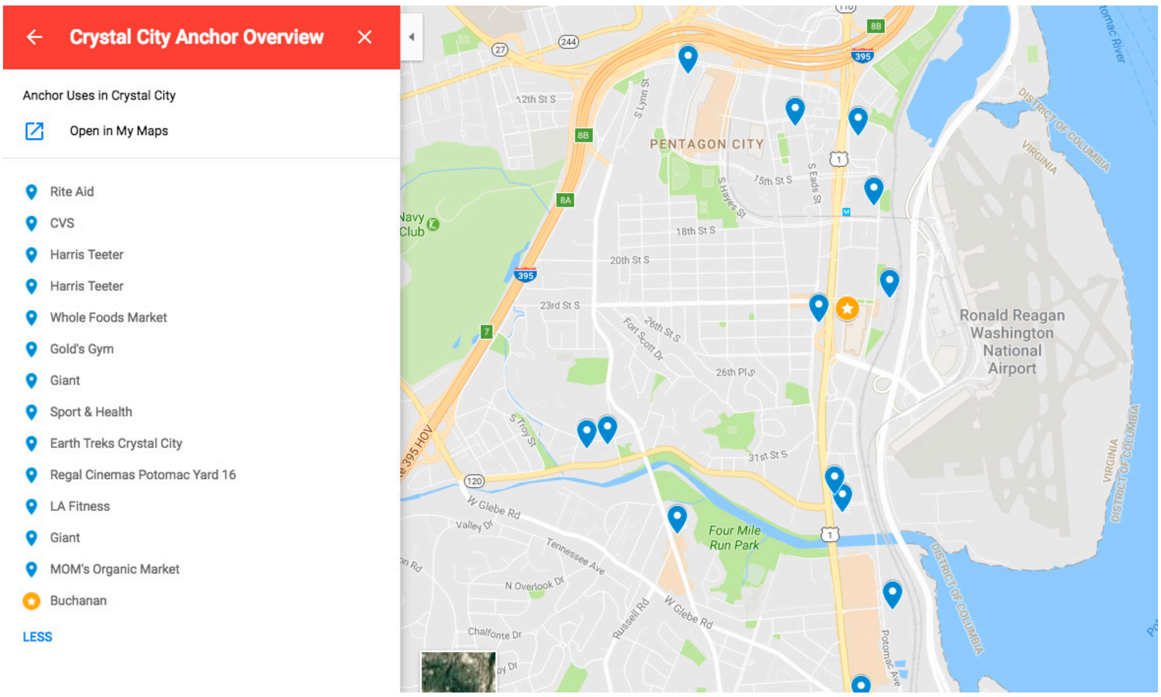


External Considerations:

As described in the first phase the void analysis for Anchor users in Crystal City is what led to the initial conclusion that there is demand and limited supply of anchor space. Due to the design of the underground and the depth of much of it, there is a vast oversupply of low visibility small shop space, and almost no supply of large format space. As we've seen with Vornado's lease with Earth Treks, the high ceilinged space had extremely low visibility, was greatly removed from the day to day of Crystal City and still attracted a cutting edge retail anchor use. We feel that this space is much superior to the Earth Treks space for the reasons cited above and as our portfolio doesn't exclude us from any type of anchor use we have a wide variety of users to market to.

Current Space Plan

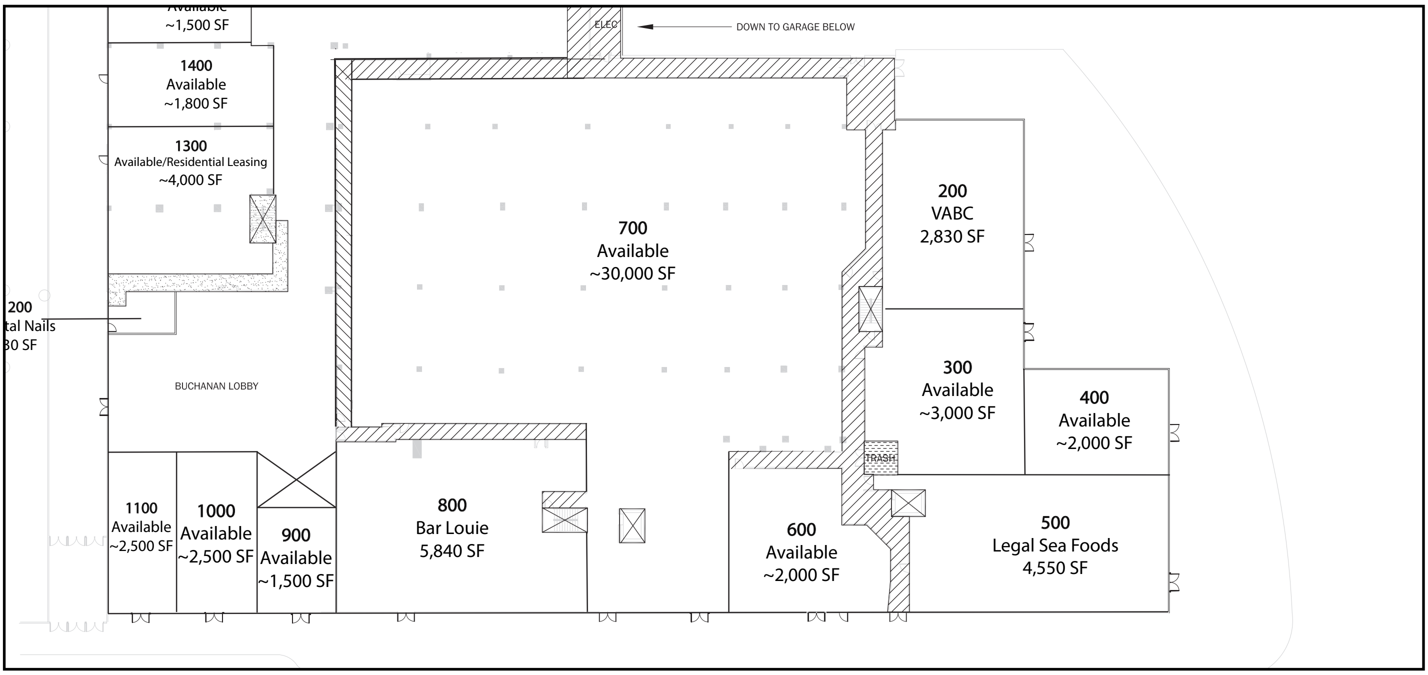




Scenario 1: Large Format Anchor(s) -Grocer, Fitness, Entertainment:

Our top scenario includes attracting best in class users, we have merchandised our scenario based on ultimately desirability with three factors, rent, merchandising and amenity. The users we feel are most viable can afford the highest rent and will have the most stable tenancy, followed by their ability to drive traffic and raise rents amongst the adjacent retailers and finally their value to the residences.

Anchor Option A

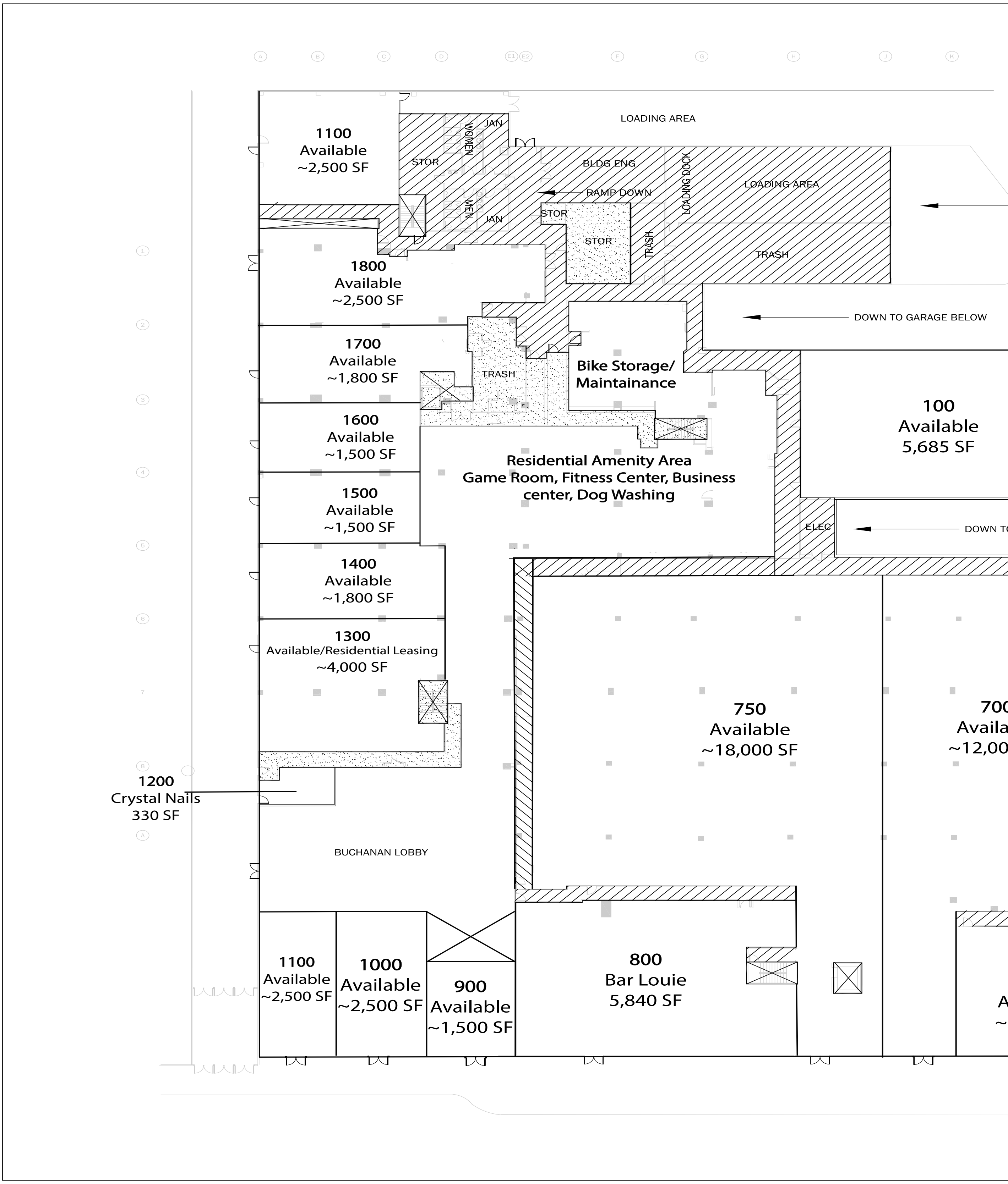


Scenario 1A: Large Format Grocery

Crystal City, for it's density and demographics is surprisingly lacking in full format grocers. Whole Foods does not drive other potential users away it should attract them as Whole Foods has picked the market and does so based on some of the best demographic research of any modern retailer. Many retailers follow Whole Foods and while it is on the other side of the market it demonstrates the strength throughout. We will target the below users will tailored marketing materials for each users size and ideal layout, we will highlight the available parking and elevator access and recommend renderings of the 23rd street store-front that will provide their street presence. The below users would take the entire space and therefore we have included them first. There are higher merchandising users but they wouldn't take the entire space and we've therefore listed them in the below Scenario 2. Please keep in mind that these are not linear marketing strategies as each would be pursued simultaneously.

List of Prospective Users:

Target (urban format) (30,000sf)
Safeway (40,000-60,000sf)
Giant (nearby but defensive positioning) (50,000sf)
Harris Teeter (nearby but defensive positioning) (50,000sf)
Fresh Market (30,000-50,000sf)


LOADING AREA
1100
Available
~2,500 SF
JAN
WOMEN
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BLDG ENG
LOADING DOCK
LOADING AREA
RAMP DOWN
MEN
JAN
STOR
STOR
TRASH
TRASH
1800
Available
~2,500 SF
DOWN TO GARAGE BELOW
1700
Available
~1,800 SF
TRASH
Bike Storage/
Maintainance
100
Available
5,685 SF
1600
Available
~1,500 SF
Residential Amenity Area
Game Room, Fitness Center, Business
center, Dog Washing
1500
Available
~1,500 SF
ELEC
1400
Available
~1,800 SF
1300
Available/Residential Leasing
~4,000 SF
750
Available
~18,000 SF
1200
Crystal Nails
330 SF
BUCHANAN LOBBY
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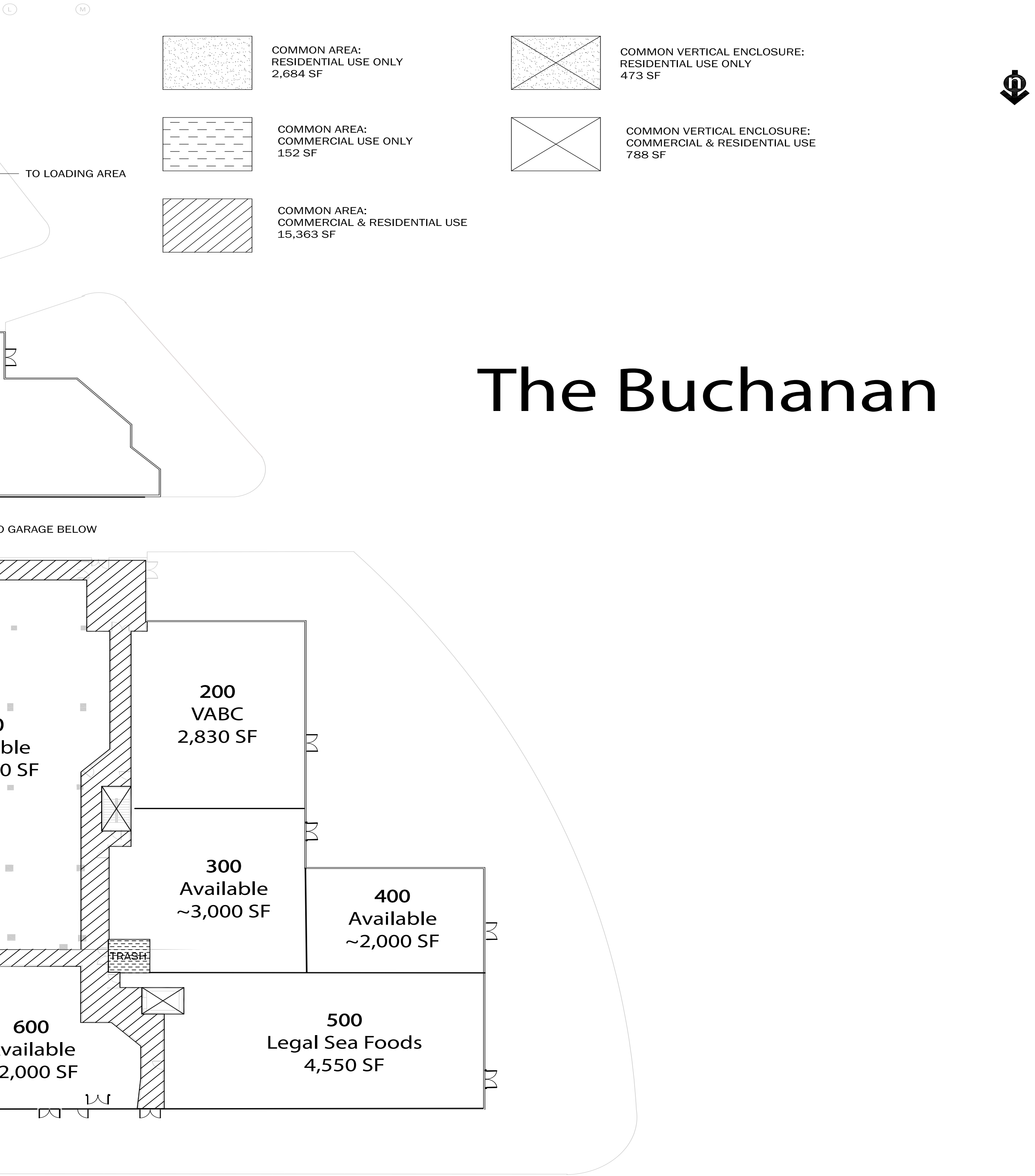
800
Bar Louie
5,840 SF



The Buchanan

Scenario 1B: Heatlh Club

Large format gyms have been some of the most active anchor users through the last decade, as health and wellness remained recession proof and consumers have placed value on these retail uses consistently. The Large Format Gym is 2nd to grocery because it precludes some of the most active small shop users outlined in the first phase, boutique fitness. Ideally we would target a Grocer and fill in small shop space with boutique fitness, but we would not rule out gyms by any means as a gym with great coffee and quick service food would be economically viable, positive merchandising and great amenity value. The gyms are also one of the few users that could likely utilize the existing space "as-is" taking the entire GDIT footprint as they can work well with idiosyncratic spaces.

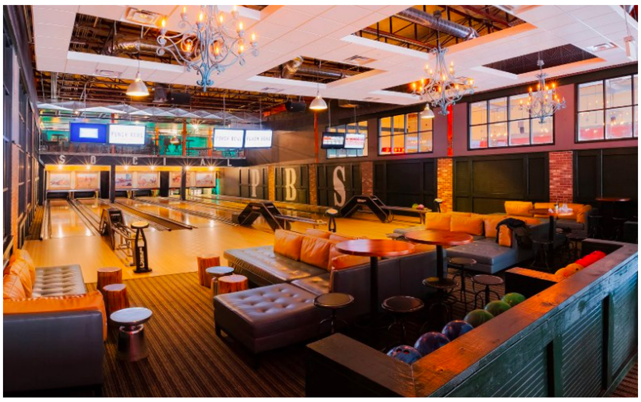
List of Prospective Users:

VIDA Fitness (30,000-50,000)
Crunch (30,000-50,000)
Balance (20,000-30,000)
Washington Sports Club (40,000-60,000)
LA Fitness (nearby but defensive positioning) (60,000)
Gold's Gym (nearby but defensive positioning) (40,000-50,000)
Life Time Fitness (80,000-100,000)
XSport Fitness (50,000)
24 Hour Fitness (50,000)

Scenario 1C: Entertainment

Entertainment uses have made a major resurgence over the last five years as we've seen movie theaters reconfigure their model to accommodate user experience and fit into core urban markets. In addition we've seen a variety of ancillary users like bowling alleys locate in core markets like Georgetown to capture the urban consumer and have upgraded their quality of offerings. We think it's a great economic use as their margins are generous and allow for solid rents. It can be great to have one in your building as an amenity and they drive traffic to adjacent retailers, however, their merchandising value is diminished because the traffic flow is boom and bust, and with some users you'd rather have them nearby than actually in your building. Therefore we have listed them last among the large users, but some of these large format high credit Tenant's shouldn't be overlooked.

List of Prospective Users:
AMC Theatres (50,000-60,000sf)
Alamo Drafthouse Cinema (40,000-50,000sf)
Landmark Theatres (30,000sf)
Encore Stage & Studio (25,000-35,000sf)
iPic Theatres (50,000-60,000sf)
Angelika Film Center (30,000sf)
Pinstripes Bowling (30,000sf)
Kingpin Bowling (30,000sf)
Lucky Strike Bowling (30,000sf)
Dave & Buster's (50,000-60,000sf)
Punchbowl Social (30,000sf)
Bowlmor Bowling (30,000sf)
Top Golf (50,000sf)



Scenario 2: Junior Anchors

Scenario 2 may be even better than scenario 1 in a lot of ways, the Tenants can be more attractive, the available space that remains can be valuable small shop space, and the Tenants themselves often can afford a higher rent. That said, as we face the vacancy of GDIT, whether now or in the future, it will be economically advantageous to backfill it with a single user than to have a long lease up of multiple spaces. Again, we will pursue both the large single user for the entire space simultaneously with the "jr. anchors" and determine actively which is the more viable use as deals present themselves.

The below list is shorter but it consists of some of the most viable retailers in the market. It also can include many of the aforementioned retailers in smaller formats, while many of the true anchors are 50,000-60,000sf many have also begun pursuing smaller format stores, in the 20,000sf range which would potentially allow for two anchors. Our ideal strategy is to include with small anchors, followed by a jr. anchor with small shop space. The below users would be high rent payers and high amenities, but with the exception of Trader Joe's score lower on merchandising.

List of Prospective Users:

Trader Joe's (top user, attracted to Whole Foods but at a bit of a distance, we see this is an ideal target user)
CVS (close by across the street with surface parking but they do locate extremely close to one another and we see this as a viable use on the other side of the highway as well as a possible defensive position)
Walgreens (has begun a more active real estate cycle recently, is selective but would be worth pursuing)
Rite Aid (store located in the underground, with development plans and/or defensive positioning we feel this could be a viable target Tenant)

9A: CONCLUSION

GDIT is a credit Tenant paying a high market rent for 50,000sf, therefore our ultimate recommendation is to keep them in place to the best of our ability, however due to external factors outside our control we want to plan for an eventual vacancy. Our best option is to get in front of their next option by marketing the space to anchor users now for 2019. If it appears based on the new administration and defense contracting that they will continue to renew we will back off our marketing and pursuit of anchor users but on the other hand if contracting shrinks we will be prepared with great back up users. We are confident in the pursuit of anchor users for the GDIT space, there are 30-40 potential anchors that should have interest in the sub-market and with recent gains made by Pentagon City, Whole Foods and the increased focus the JBGS merger in going to place on Crystal City we think the timing for marketing and outreach to anchors is optimal. Additionally, the level of amenity an anchor is going to provide to the residential, coupled with the small shop rent increases it will drive will be a long term gain for the Buchanan.

9B: SPACE 100 - AVAILABLE (5,685 SF)

The former Japanese Hibachi vacancy is tough, the space is removed from regular pedestrian traffic and street visibility. That said, there are potential users in the market and the space has a level of investment and infrastructure that shouldn't be overlooked, we propose outreach to the following users.

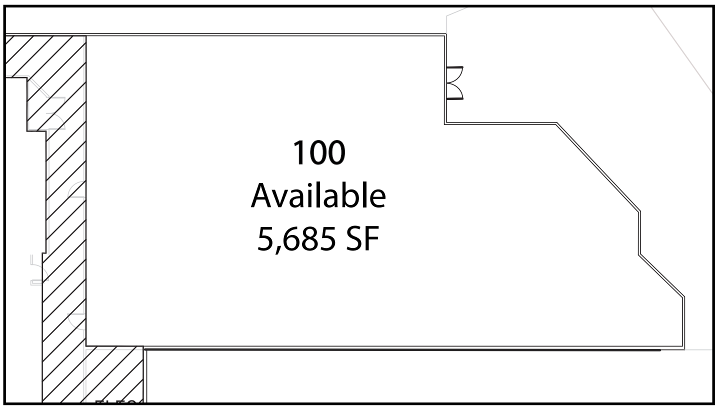
1 - Crossfit - Crossfit studios typically need isolation from other retail uses as the weights can make noise and reverberate through neighbouring walls. We continue to see fitness as a high level merchandising use for Crystal City, there is an extremely active demographic base yet very few fitness options. We would perform active outreach to all NOVA and DC crossfit studios

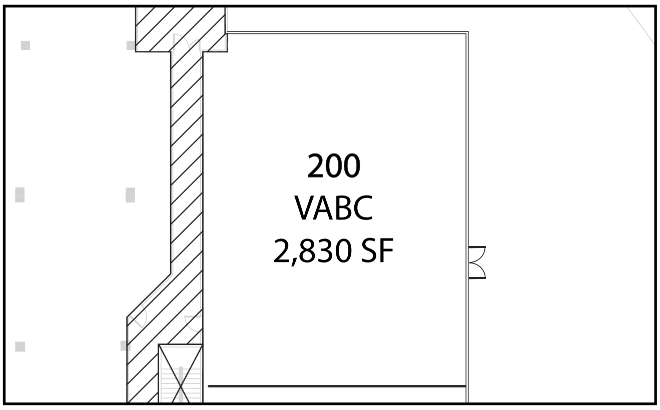
2 - Korean BBQ - Hibachi had its heyday in the 90s, but Korean BBQ has been going strong for years and is finally moving closer into the city from the Annandale suburbs home to most of the Korean restaurants. There is valuable and high quality venting in place that we don't want to demolish without first pursuing users whose biggest barrier to entry is installing this type of venting

3 - Commissary - There are a lot of quick service restaurants, bakeries, and expanding food operations who could make use of the valuable infrastructure in the space, it is a longer shot, and they are not the highest rent payers but if they moved in quickly and utilized the existing infrastructure it could be a win

4 - Bike Store - Bike stores notoriously can not afford high rent, being right along the bike path we think there is a valid argument for a bike store to take this space, it is a use that we know has a ton of consumers in Crystal City yet can't locate in the underground as people can't easily walk their bikes through it, and can't afford the few street front retail spaces.

- In order to proceed with leasing efforts District Equities needs an update on all current deals, including the Hertz deal. The worst thing we could do is tie up parking that would be required for a high quality anchor like Trader Joe's for this space. If the reality is that it is a low value space we want to make sure we don't negatively impact high value spaces in an effort to lease it.





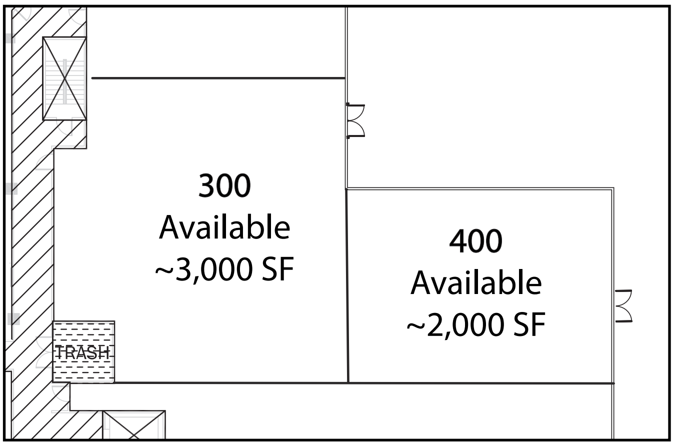
9C: SPACE 200 - VABC (2,830 SF)

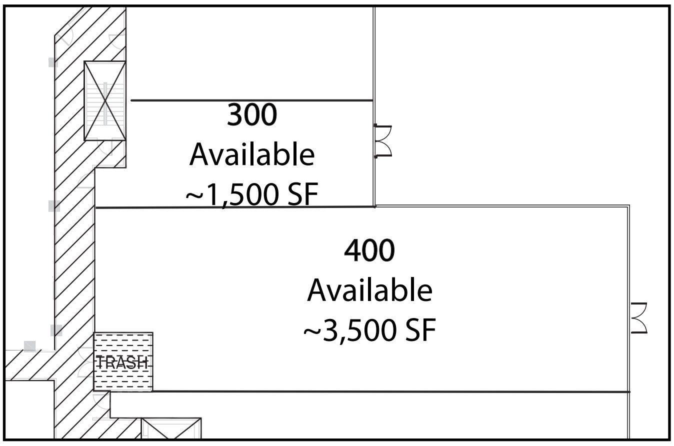
District Equities Report Card Score: **A**
Remaining Term: 4+ years
Credit: A+
Sales: A (does not report sales)
Rent: ~$40 NET
Option: March 2021, a Five (5) Year Option

Reasoning for A Score: This is a great Tenant with great credit, good merchandising and amenity, particularly good on this side of the building.

9D: SPACE 300 + 400 - AVAILABLE (5,644 SF)

Chili's gross sales were trending to ~$2M annually, lower than the volume of the quick service food users that occupy less than half of the same square footage. Lesson for future leasing, less large format restaurants, more smaller spaces. Two merchandising scenarios, both break up the space into smaller spaces more appealing to the active Tenants in the market, yielding higher rental rates and longer more sustainable Tenancy.





9E: SPACE 500 - LEGAL SEA FOODS (4,550 SF)

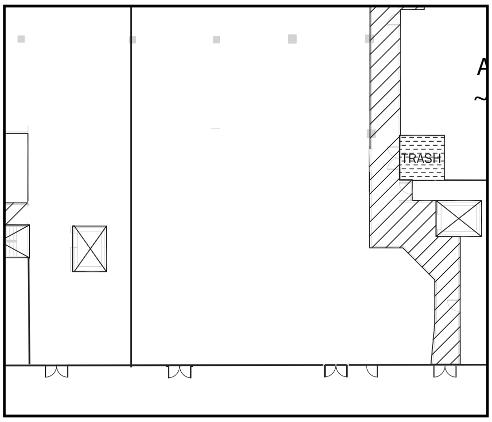
District Equities Report Card Score: **A**
Remaining Term: 4+ years. Expiration of original Lease in November 2016, option to extend for one Five (5) year option was exercised.
Credit: A
Sales: A, $4 Million in 2015, $4 Million in 2014
Rent: $50 NET
Option: No further options.

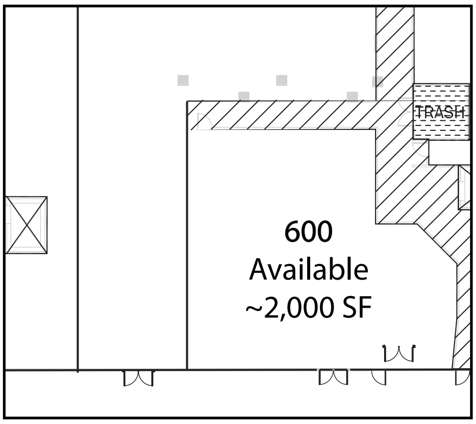
Reasoning for A Score: After eating at all of the full service restaurants in Crystal City, Legal Sea Foods is the top option, their service, food quality and price are high quality. They also have a brand that is recognizable amongst the hoards of hotel guests making their sales especially viable. They are averaging over $800psf in sales which is strong even amongst downtown restaurants, we think it is a great use. We would like to reach out when we recommend street and pedestrian upgrades on the sidewalk to perform a power-wash of their sign and awning. Other than that we are happy to have them in the building. We will actively discuss options as their term nears expiration in 2021.

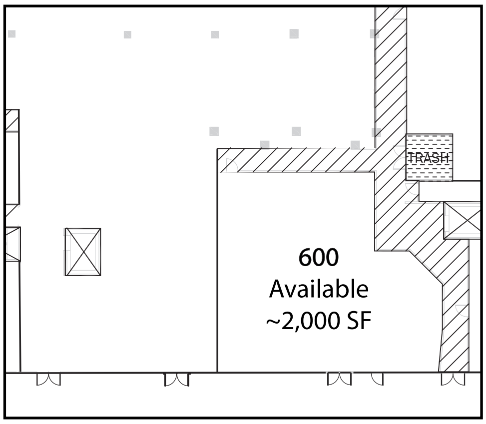
9F: SPACE 600 - QUEEN AMANNISA (4,550 SF)

District Equities Report Card Score: D
Remaining Term: Assignment to Assignee in August 2015. 4+ Years. Lease was extended in August 2011 to expire August 31st, 2021.
Credit: C (joint personal guarantees)
Sales: Charlie Chiang's did not break $1 Million in sales over the recent duration of their tenancy. District Equities recomends investigating whether or not the Tenant is in default as Tenant is not reporting sales.
Rent: $42 NNN.
Option: No further options.

Reasoning for D Score: The best part about how bad Queen Amannisa is, is that it is critical to anchor plans to get this space back and create retail street presence for the anchor space. We are going to strategically discuss with Gates Hudson all available information on the Tenant so that we can craft a strategy to recapture this space. Whether it becomes entirely the anchor space, partially the anchor space, or if GDIT stays and we convert this to two smaller more viable footprint retail spaces it is essential we recapture this space. All possibilities are positive once we have the space in control but we want to approach the situation carefully as any tip off to the value of the space will increase their demands. They are struggling and we want to try to "help" them get out of the space. We will work closely with ownership and Gates Hudson to craft a strategy to recapture. This D can easily be turned into an **A** opportunity.



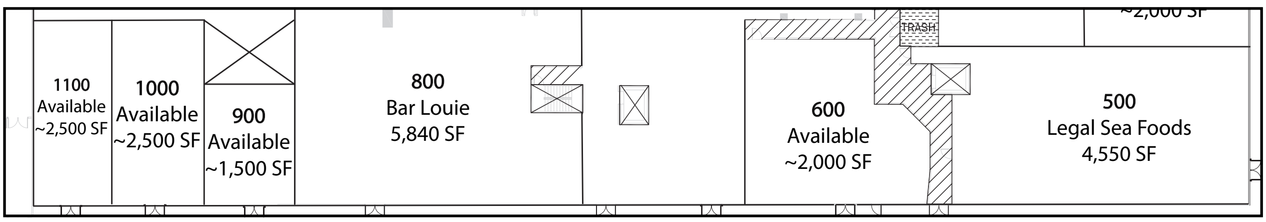




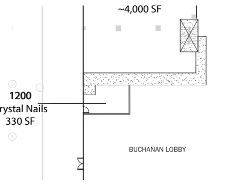
9G: SPACE 800 - BAR LOUIE (5,480 SF)

District Equities Report Card Score: B
Remaining Term: 4+ Years. Remaining term is through December 2023.
Credit: B
Sales: Gross sales are under $2 Million.
Rent: $42.50 NET
Option: Tenant has Two (2), Five (5) Year options.

Reasoning for C Score: Bar Louie is a mediocre user and we generally don't recommend a bar next to residential lobbies due to the late night drunken traffic. Bar Louie also derives sales from high margin alcohol so while they are viable at their $400psf gross sales it means they drive very little traffic to the building and other retail uses. This space could have been used to recreate the facade in addition to Queen Amannisa for the anchor providing additional flexibility for multiple anchors and the addition of the valuable small shop space that we would want to accompany it. We also feel that higher rents could be achieved as the sales of a 2,000sf Sweetgreen are $2M+, the same as Bar Louie in 5,480. It isn't a huge deal to have them there but we would prefer them elsewhere.



9H: SPACE 1200 - CRYSTAL NAILS (330 SF)



District Equities Report Card Score: C
Remaining Term: Second Lease with Tenant (original Lease for 600 SF executed in 1997 expired in 2001) expired on July 21, 2011. Landlord renewed Tenant for a five (5) Year Option with Lease expiration on July 31st, 2016. Landlord further extended Tenant on June 22nd, 2016 through July 31st, 2021.
Credit: C
Sales: NA
Rent: $39.00 NET
Option: No further options.

Reasoning for C Score: For a Tenant so small we would prefer a month to month or year to year lease allowing flexibility with any type of repositioning plans. They are adjacent to the residential lobby and we believe valuable retail could be added if the lobby was reconfigured, but Crystal is in the way. That said, there is a relocation right so they can be moved but it would be more costly than it is worth for such a Tenant. Not a big deal but would have been better otherwise.

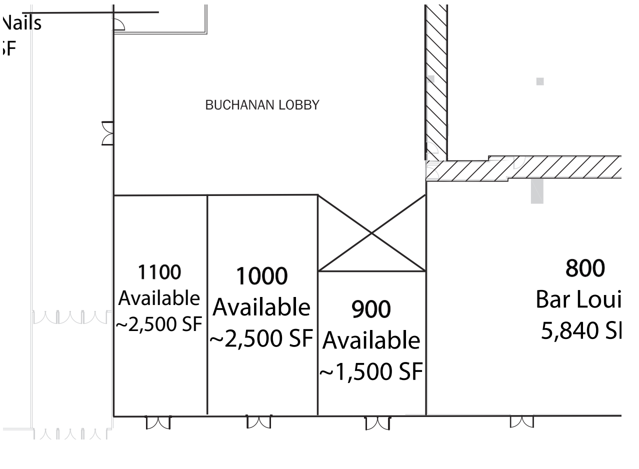
9I: CREATIVE ADDITION OF NEW RETAIL SPACE

After a careful examination of the retail at the Buchanan there is clearly a lot of work to do, and a lot of retail space to lease. That said, we see some opportunities for value-add with additional retail, which can be further studied architecturally at any point in the future.

The value of street retail space positioned properly in Crystal City is high in and of itself as well as an amenity to the residential. To this end District Equities has sketched a more dramatic alternative to the current residential plans by shrinking or eliminating the residential lobby on 23rd street. The least valuable frontage on the building is the interior hallway space, if ownership felt it wouldn't negatively impact the residents or the residential leasing the street retail that would be created on 23rd street could be highly valuable. We understand this is not a simple request but as there are considerations for renovations of the residential lobby we thought now would be a good time to explore this use. Additionally, moving the residential leasing and management office into deeper space that may be leftover by GDIT and any new anchor user, creating a more meaningful and valuable residential gym or amenity area would be a good use of this deep space. This would all involve quite a bit of disruption and cost, so we would carefully vet these assumptions but we can confidently place a value on the new retail, and with sketched plans if everyone agreed we would recommend an architecture and pricing study.

Approximately 5,000 square feet of new high value retail space would be created. The interior "corner" actually picks up quite a bit of activity coming off of the underground hallway, and the positive activation of the street presence.

5,000 square feet at $50 per square foot = $250,000 in additional annual revenue and approximately $4M in capped real estate value.



10: BUCHANAN PHASE TWO WRAP UP

10A: Conclusion:

We continue to believe that the JBGS merger is going to bring positive activity and retail uses to Crystal City, overwhelming we feel these will be a benefit to the Buchanan and our marketing strategy. Our only caution is that a lot of the large activity is focused firstly on the north parcels so we don't necessarily want to lag behind them as the activity shifts north.

Our biggest space concern is the GDIT space which if not renewed in the next few days will leave us with a large economic delta to cover. We believe we have attractive options to present to anchor users and we believe those users are going to have a renewed interest in the market given the JBGS merger and the Whole Foods. We have multiple viable scenarios but it is essential that we recapture Queen Amannisa.

The small shop space and existing vacancies have great potential for releasing with competitive economics and merchandising. We are excited to fill the market voids across a range of categories and the street retail vacancy in Crystal City is so low we are confident in the Buchanan's ability to attract top users.

Finally, if and when the Buchanan repositions its residential program, we would like to consider the addition of small shop retail space on 23rd street. We are seeing more and more residential buildings with entrances on side streets or in alleys to provide for maximum retail frontage. The opportunity to add 2-3 high value spaces on 23rd street is a benefit to the bottom line as well as the positive activation via retail adjacent to the residential lobby.

10B: Next Steps:

The final phase will conclude the overall retail consulting deliverable. In the final phase we will discuss all required steps for implementation based on mutually agreed upon plans.

- Architecture - recommendations based on any architectural and infrastructure needs, space plans, work letters, and any other required material necessary to attract a sophisticated anchor user

- Marketing - options for marketing packages for the retail, both digital material, print material and all building level signage with multiple options to choose from

- Proforma - once we have approval on the merchandising plan we will provide a proforma guiding our retail leasing and expectations for our retail spaces moving forward

- We will provide a public space analysis which will include parking areas, sidewalks, outdoor seating, retail store-fronts, signage and any other elements that impact the residents and consumers external impressions

-We will discuss branding and any potential impact on the retail marketing or viability

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