

PARKWOOD HOMES

Brad,

We have carefully considered the feasibility of building Live/Work units in the referenced community and feel that the use does not make sense at the present time.

We have built 40 Live/Works in Kentlands and 12 in Urbana, Maryland. In both cases, they are adjacent or across the street from substantial retail. Kentlands/Lakelands has well over 500,000 sf of retail immediately adjacent to our Live/Works. We share the parking with Whole Foods and Michaels. The building type has been generally successful here; they provide interesting, new and diverse retail and the office and apartment space is desirable. They are great incubators of new businesses for the Gaithersburg area. Urbana has 12 units completed to date and they have been less successful in that community. Although there is retail directly across the street (Route 355), it is limited to perhaps 100,000 sf with a Giant Foods anchor and 'connection' is limited by a busy street frontage with no parking. Perhaps when additional planned retail including 2-300,000 sf is completed, the product will be more viable.

Due to the nation's current economic situation, we are still in a very difficult retail environment. To be successful, new retail development needs all the basic requirements in place. Our feeling is that Live/Works rely on the traffic generated by a strong, vibrant and substantial retail core, which is not yet in place in the Parklands. Absent that combination, any Live/Work development will very likely be unsuccessful.

Given that limitation, we would not be interested in building the product there at the present time.

Thank you for your consideration.
Steve

Steve Wilcox
President
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September 26, 2012

Mr. Brad Kline
BP Realty Investment, LLC
10000 Falls Road, Suite 100
Potomac, MD 20854

**Re: Live-Work Market Feasibility Analysis
Live-Work Units at Parklands, Watkins Mill Town Center**

Dear Mr. Kline,

CBRE, Inc. is pleased to submit this report documenting the findings and conclusions from the demographic analysis and retail market study evaluating the viability of Live-Work Units at the Parklands at Watkins Mill Town Center in Gaithersburg, Maryland. The subject units are 20 mid-town urban style townhouses located at 400, 401, 500, and 501 Uptown Avenue in the midst of the Parklands residential community. The 24' x 50' units with attached garages are located outside of the planned Urban Core, and have a 750 SF first floor area. The cumulative approved commercial square footage for the 20 Live-Work units is 10,000, with 1,500 SF of the total allocated for restaurant use. Therefore, it is presumed that the seven of the units would be solely residential.

The questions addressed include:

- Does the market exist for Live-Work units as currently proposed in the Parklands at Watkins Mill?
- What are the challenges and opportunities posed by the proposed Live-Work units?
- Will a market exist for Live-Work Units at Parklands once the Urban Core is completed?
- What will be the impact of the proposed commercial Live-Work units on the surrounding neighborhood?

Demographic Information about the project location will be located in Appendix A.

This report reflects our most current recommendations. It has been a pleasure to assist BP Realty Investments, LLC in this project and we look forward to working with you in the future.

Sincerely,
CBRE, Inc.

Frank C. Graybeal
First Vice President

CC: John T. Sheridan, Sr. VP. Investment Properties, CBRE, Inc.

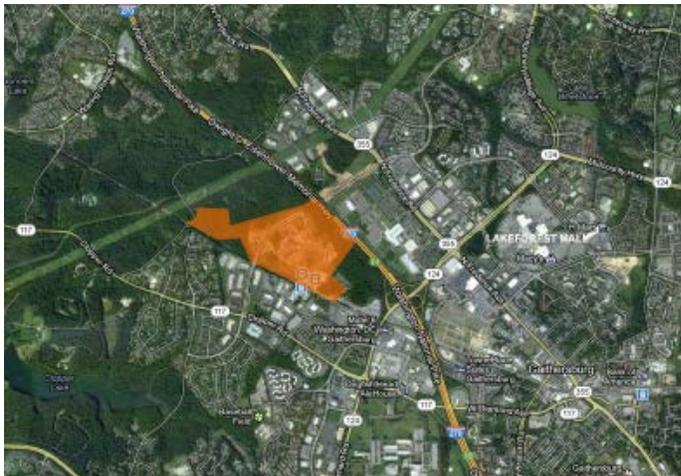
I. Introduction



Watkins Mill Town Center consists of three fairly distinct development districts:

- **The Spectrum at Watkins Mill.** A mixed-used development under construction at Route 355 to the West, I-270 to the east, and Watkins Mill Road to the south.
- **The Parklands.** A neo-traditional residential neighborhood featuring 2-over-2s, townhouses, cottages and executive housing. According to NV Ryan, currently, this is the fastest selling residential community in Montgomery County.
- **The Urban Core.** Mixed use project approved for 4.5 million SF Class A office, hotel, restaurants, podium-style retail and 2,200 homes and apartment units.

Subject Property



The subject property is located on the western portion of Watkins Mill Town Center. This transit-oriented development (TOD) is located on a 125 acre site located approximately 18 miles outside of Washington, DC in Gaithersburg, MD. It is strategically located at the Maryland Area Regional Commuter (MARC) train Metropolitan Grove station, a future Interstate 270 interchange at Watkins Mill Road, a future Corridor Cities Transit way (CCT - proposed bus rapid transit system that will connect to the regional subway system) station, the Countywide

Bikeway system, and a future local bus access, and existing inter-county bus access system. The 125-acre development has been designed to take full advantage of the existing and proposed multi-modal transportation options, while preserving 40% of the site as open/green space.

The Property is surrounded by a number of different approved land uses that include; office, research and development, multi-family units, single-family attached units, and industrial (vehicle storage) uses. There are surrounding properties that are publicly owned by the City of Gaithersburg, Maryland State Highway Administration, and Montgomery County.

Subject of Amendment to Schematic Development Plan:



Question 1: Does the market exist for Live-Work units as currently proposed in the Parklands at Watkins Mill?

To be successful as Live-Work units, demand must exist for this product type. While demand for residential townhouses is strong at the Parklands, demand for retail at this location is improbable.

Currently, there is a glut of retail options for small footprint and start-up retailers in nearby neighborhood shopping centers. These spaces typically are located on major streets and offer high visibility, large surface parking fields, transparent storefronts, high ceilings, and co-tenant that drive retail traffic. A snapshot of existing retail better suited for small square foot tenants in the trade area includes the following comparables:

Firstfield Shopping Center: Traditional neighborhood shopping center, located just off I-270 in at the intersection of Quince Orchard Road (Route 124) and First Field Road (VPD: 29,500+). Availability includes three spaces ranging from 1,500 to 3,000. Co-tenancy includes Starbucks Coffee and other local restaurants and retailers.

Quince Orchard: Located at the intersection of Quince Orchard Road and Clopper Road. The property has a total of 248,000 SF and 747 parking spaces and is anchored by a Magruder's Supermarket, a new L.A. Fitness, Rite Aid and Staples. There are seven spaces currently available at this center.

Goshen Oaks Shopping Center: Safeway anchored shopping Center with a 1,500 SF end cap immediately available for \$27 psf; 1,200 SF also available at \$27 psf.

Festival at Muddy Branch: A 184,709 SF shopping center located at the corner of Muddy Branch Road and I-270 in Gaithersburg. The center is anchored by Grand Mart and Gold's Gym. Other tenants include CosmoProf, Performance Bikes, Pizza Hut, Tuesday Morning, Wells Fargo. Currently there is a total of 27,209 SF of available rental space with an asking price of \$10 psf.

Walnut Center: Located at 615 S. Frederick Avenue. This strip center currently has available 890, 1,400 and 2,800 SF spaces that are highly visible from Route 355 with ample free parking in front as well and three small office/ retail spaces above retail, with an average asking price of \$16.50 psf.

Diamond Square: Located at I-270 and Clopper Road (VPD: 43,300+). This 107,829 neighborhood strip center is anchored by a Giant Foods and Jo-Ann Fabrics. Other tenants include Capital One and Sun Trust. Total available space is 12,723 SF, most of it in smaller retail bays.

Question 2: What are the challenges and opportunities posed by the proposed Live-Work units?

The best known examples of Live-Work units locally are the townhouses located along Main Street in the Kentlands. These popular units have gained national exposure as an example of Live-Work "flexhousing" that can accommodate restaurants, retailers and local businesses. However, there are a number of factors that distinguish that product from the proposed units at The Parklands. Points of differentiation include:



Parking:

- As the aerial illustrates Kentland's Live-Work units (shown in green) are located adjacent to retail surface parking lot that is used by Live-Work units without cost (shown in yellow).
- A recent City of Gaithersburg survey indicated that although more than 65% of polled residents walk to the Main Street retailers, 69% of merchants reported that parking is a problem.
- By contrast, Parkland Live-Work units would have to

rely on sparse street parking designed for residents.

A successful restaurant would not be able to park its guests in the immediate vicinity. Inevitable conflicts would arise between Parkland residents and retailers over parking, particularly during holidays.

Great Retail Street.

- Kentland's Live-Work units are located on Main Street between two large grocery-store anchored shopping centers, in the midst of an established, affluent neighborhood. Retailers in the immediate vicinity include: Whole Foods, Lowe's, PetsMart and Five Below.
- Currently there is no retail product at the subject property. Additionally, Uptown Avenue is not designed as a major commercial street.

Civic Spaces and Events:

- The Kentlands downtown area is home to events that include the annual Kentlands/ Lakelands 5K race, Kentlands Community Day, Halloween Rocks and the Holiday Tree and Menorah Lighting Festival.
- Public civic spaces are planned for the Urban Core; gathering spaces at the Parklands are designed for residents.

Live-Work Product Type: At the Kentlands, the units are almost entirely commercial whereas the Parklands product is designed as retail with residential above.

- Notably that the "live" component of the Kentlands product has largely disappeared, replaced by second and third floor retailers and offices.
- At The Parklands, the approved live-work units allow for 10,000 SF with residential rather than retail and office uses above. Additionally, there is not enough approved commercial density to allow for a uninterrupted commercial streetscape experience.

Recently, the City of Gaithersburg surveyed residents of the Kentlands/ Lakelands communities as well as retailers to learn more about the challenges and opportunities created by the Live-Work units. Identified challenges included:

- **Space sizes. Lack of variety of main street businesses.** The average first floor space at the Kentlands is about 1,100, limiting the type of retail that can locate in these spaces (resulting in almost 25% occupancy by nail and hair salons).
 - At the Parklands, the typical first floor space is 750 SF.
 - Once a unit is sold, there is no mechanism for controlling tenant mix.
- **Tenants Seeking 1-year Leases**
 - At Parklands, this would be further complicated by the current form which assumes that the tenant lives "above the shop."
- **Property Taxes/ Rent Rates**
- **Landscaping/ Signage**
 - Although Master Design Guidelines have been approved for Watkins Mill Town Center, enforcement would be challenging.
- **Assistance With Space Build Out Costs**
- **More Public Parking**

Another issue facing owners of Live-work units is code compliance. Kentlands development began in 1988, before passage of the Americans with Disability Act (ADA), which imposes accessibility requirements on entry and egress. ADA regulation requires that if a business anticipates any walk-in trade or employees, the workspace must be made fully accessible according to ADA. Other related issues include:

- Illegal conversion of residential spaces to commercial uses
- Restaurant venting
- Noise regulation
- Hours of operation
- Hazardous materials
- Fire Code compliance
- Trash and rodent control
- Power requirements – retailers often use equipment that requires higher voltage or amperage than residential.

Question 3: Will a market exist for Live-Work Units at Parklands once the Urban Core is completed?

It is doubtful that development of the Urban Core will make a marked difference in the feasibility of this use. The Urban Core is projected to include more than 200,000 SF of retail product. Tenants who would opt for the Live Work project instead of retail at the Urban Core or other Gaithersburg shopping centers probably will be undesirable.

Question 4: What will the impact of the proposed commercial Live-Work units on the surrounding neighborhood?

At the Parklands, the proposed Live-Work Units are surrounded by town homes. There is no buffer or parking field that separates these units from the adjacent high-end residential community. Without a dedicated retail parking lot, the impact of the Live-Work units on the surrounding community will be negative. The proposed units lack the characteristics found in successful retail centers including a retail anchor, ample parking, at-grade storefronts and high ceilings, and visibility from a major commercial road. Therefore, it is unlikely that any commercial use found in the proposed Live-Work Units would be deemed desirable by local residents. Other potential negative impacts would include early morning or late night commercial traffic, use of back driveways for trash, storage and equipment, annoying signage, hazardous materials, and increased difficulty with pest control.

Conclusion

The Parklands at Watkins Mill is a highly successful, neo-traditional residential community. The location, absence of a dedicated parking field, size and close proximity of the proposed Live-Work Units to the residential neighborhood poses a number of challenges. Rather than acting to “jumpstart” retail at this project, the failure of these units to attract retail will create a disincentive for retailers to pioneer more appropriate retail spaces at the Urban Core. Instead, the 20 units would more appropriately provide a strong residential edge with wide sidewalks that connected to the Urban Core.

Appendix A

Demographic Characteristics

A recent demographic study of the secondary and tertiary trade market supports the conclusion that the best use of this site is residential, and that existing demographics and retail analysis does not support Live-Work.

Secondary Trade Area Site Summary

Based on a smart polygonal demographic report of the project trade area, the following secondary trade area boundary was determined. The North East Limit to the trade area was determined to be Interstate 270. The North West Limit was determined to be Game Preserve Road. The South West Limit was Clopper Road (Route 117). The South East Limit is Quince Orchard Road (Route 124). These boundaries created a trade area located within or touching the following zip codes: 20878 & 20879. The entire trade area is located within Montgomery County, Maryland.

In 2000 this trade area was home to an estimated 1,832 people, located in 808 housing units. The median household income of the secondary trade area was \$45,096. The 2005-2009 Census estimated 5.2% of the housing unit to be vacant, significantly below the 9.54% average in the State of Maryland. Short term vacancy rates as reported by the US postal Service show decreasing vacancy in the trade area, falling from 2.03% to 1.25%.

Secondary Trade Area Demographic Report Conclusion

The low population of the Secondary Trade Area, combined with the low vacancy found in the area, and the residential uses within the surrounding market, supports the conclusion that the current highest and best use of the space is residential, not commercial. This conclusion is further supported by the presence of a grocery anchored retail shopping center adjacent to the South East limit of the trade area.

Tertiary Trade Area Demographic Summary

Based on a smart polygonal demographic report of the projects trade area, the following secondary trade area boundary was determined. The North East Limit to the trade area was determined to be Interstate 270. The North West Limit was determined to be Game Preserve Road and Longdraft Road. The South West Limit was Clopper Road (Route 117). The South East Limit is Quince Orchard Road (Route 124), and Firstfield Road. These boundaries created a trade area located within or touching the following zip codes: 20878, 20879, 20899. The entire trade area is located within Montgomery County, MD.

In 2000 this trade area was home to an estimated 6,095 people, located in 2,488 housing units. The median household income of the secondary trade area ranged from \$45,096 to \$110,865. The 2005-2009 Census estimated 4.58% of the housing unit to be vacant, significantly below the 9.54% average in the State of Maryland. Short term vacancy rates as reported by the US postal Service show decreasing vacancy in the trade area, falling from 2.03% to 1.25%.

Tertiary Trade Area Demographic Report Conclusion

The population of the Tertiary Trade Area, combined with the low vacancy and a strong base of high income households, supports the conclusion that the current highest and best use of the space is for sale residential uses. This site currently lacks the population to support the commercial use found in the live work units. The amount of office within this trade area shows that this area is more likely to turn to a commercial office use than that of a retail restaurant use.