Forecast of Tax Revenues for Reston Community Center
Reston, Virginia

Prepared for Reston Community Center | March 2013

TAX BASE AND REVENUES FORECASTS FOR RESTON COMMUNITY CENTER

Purpose of the Analysis

RCLCO (Robert Charles Lesser & Co), a national independent real estate consulting and economic analysis firm, was retained to conduct an independent analysis of the likely future real property tax base in Reston, and resulting revenues available to the Reston Community Center (RCC), at the current tax rate and possible alternative tax rate(s), forecasted by year through 2030.

Sources of Information

RCLCO was provided with data on the Reston (Small Area #5) tax base by year, by land use classification, from 2006 through 2013. We also took into account the following:

- George Mason University (GMU) Center for Regional Analysis, Forecasts for the Reston/Dulles Rail Corridor and Route 28 Corridor 2010 to 2050 Prepared for the Fairfax County Department of Planning and Zoning, July 26, 2010
- Draft Report of the Reston Master Plan Special Study Task Force
- Reston Master Plan Special Study Task Force Meeting, November 27, 2012, Discussion of Scenario G and Staff Allocation of Absorption by 2030 by station area
- Fairfax County FY 2014 Advertised Budget Plan
- The Fairfax County Comprehensive Annual Financial Report
- Real Estate Reports and presentations prepared by the Fairfax County Economic Development Authority
- Information on development projects that are under construction, planned, and proposed in Reston, including articles in *The Fairfax Newsletter* and the *Washington Business Journal*
- Various brokerage reports

- Property tax assessment data and sales data for selected properties in Reston and surrounding areas
- RCLCO's experience with development projects and real estate forecasting in the local area and throughout the region and the United States, and our recent experience analyzing the potential real estate development and fiscal impact of the extension of rail to Loudoun County

Methodology and Conclusions

RCLCO undertook the following analysis. The results are shown in the attached exhibits.

1. We started with the Reston tax assessment data by land use classification for 2006 through 2013 (see Exhibit 1).

2. We then forecasted the most likely annual change in assessed value of existing homes and developments in Reston, taking account of:

   a. The historical annual assessment changes;

   b. RCLCO's understanding of local and national economic and real estate market conditions;

   c. Fairfax County expectations for changes in countywide residential and commercial property assessment changes for 2014 (FY 2015); and

   d. Broker reports.

   We believe that for-sale housing values in Reston are likely to increase at rates above anticipated long-term rates, as they did in 2013, for the next two years, in part as a partial adjustment for the decreases in 2007-2010. We also believe that rental apartment values in Reston will increase at a rate above the anticipated long-term rate for the next year before lagging behind long-term rates of increases for two years due to the potential for increased capitalization rates. Conversely, we believe that changes in office, retail, and hotel values will lag behind anticipated long-term rates for the next several years, due to implications of federal budget cuts and the potential for increased capitalization rates.

   Based on these forecasted annual changes in values of existing homes and developments, we calculated the forecasted changes in tax base for these properties through 2030.

3. We then prepared forecasts of annual development by year and by major land use classification for the areas surrounding the new Metro stations that are within Reston. We did this by relying primarily on the GMU Center for Regional Analysis Forecasts of average square footage expected to be developed in each decade of the analysis period under each of three scenarios: Low, Intermediate, and High. We determined that these were reasonable based on the information on planned developments in Reston that we reviewed. RCLCO also estimates additional new development elsewhere in Reston—particularly in the Lake Anne Village area.

4. We then prepared estimates as of 2013 for the average assessed value per square foot of each of the types of development forecasted by GMU, based on review of assessment and sales price data for selected properties in and near Reston and RCLCO's judgment regarding the likely quality and character of future development. We estimated that average values per square foot would be higher in the Reston Town Center area than in the other two station areas, and higher in the other two station areas than in other areas of Reston. We estimated that two-thirds of the new residential development would be for-sale and one-third would be rental.

5. We then forecasted the average assessed values per square foot by type of development from 2014 through 2030 based on the forecasted value changes determined in Step 2.

6. We then applied the estimated values per square foot to the forecasted square footage of new development by category and area to forecast the assessed value from new development under each of the three GMU new development scenarios from 2014 through 2030. We added these values to the total assessed value estimates for existing development and homes calculated in Step 2 to determine the grand total tax base by year under each of the three scenarios.

7. Finally, we applied the current Reston Community Center tax rate (4.7 cents per $100) and the rate that was in effect from 1986 to 2002 (6.0 cents per $100) to the forecasted grand total tax base by year under each of the three GMU new development scenarios. We also calculated the revenues that would be generated per cent of tax rate. These results are shown in Exhibit 2.

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This engagement was conducted by Leonard Bogorad, Managing Director. If you have any questions regarding the conclusions and recommendations included herein, or wish to learn about other RCLCO advisory services, please call 240.644.1300.

CRITICAL ASSUMPTIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

Our conclusions and recommendations are based on certain assumptions about the future performance of the global, national, and/or local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing conclusions and making the appropriate recommendations. However, given the fluid and dynamic nature of the economy and real estate markets, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions and recommendations periodically to ensure that they stand the test of time.

We assume that, in the future, the economy and real estate markets will grow at a stable and moderate rate. However, history tells us that stable and moderate growth patterns are not sustainable over extended periods of time. Indeed, we find that the economy is cyclical and that the real estate markets are typically highly sensitive to business cycles. Our analysis does not necessarily take into account the potential impact of major economic "shocks" on the national and/or local economy and does not necessarily account for the potential benefits from a major "boom." Similarly, the analysis does not necessarily reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. The future is always difficult to predict, particularly given changing consumer and market psychology. Therefore, we recommend the close monitoring of the economy and the marketplace. The project and investment economics should be “stress tested” to ensure that potential fluctuations in the economy and real estate market conditions will not cause failure.

In addition, we assume that economic, employment, and household growth will occur more or less in accordance with current expectations, along with other forecasts of trends and demographic and economic patterns. Along these lines, we are not taking into account any major shifts in the level of consumer confidence; in the cost of development and construction; in tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth); or in the availability and/or cost of capital and mortgage financing for real estate developers, owners, and buyers. Should any of the above change, this analysis should probably be updated, with the conclusions and recommendations summarized herein reviewed accordingly (and possibly revised).

We also assume that competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand. Finally, we assume that major public works projects occur and are completed as planned.

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO except as provided for in the Virginia Freedom of Information Act. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO except as provided for in the Virginia Freedom of Information Act. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

Exhibit 1

HISTORICAL REAL PROPERTY ASSESSMENTS BY CLASSIFICATION IN RESTON (SMALL AREA #5)

Residential Assessment Values by House Type:

House Type	2013 Assessment Amount	% Change 2012 - 2013	2012 Assessment Amount	% Change 2011 - 2012	2011 Assessment Amount	% Change 2010 - 2011	2010 Assessment Amount	% Change 2009 - 2010	2009 Assessment Amount	% Change 2008 - 2009	2008 Assessment Amount	% Change 2007 - 2008	2007 Assessment Amount	% Change 2006-2007	2006 Assessment Amount
1 - SFD	2,864,085,040	3.4%	2,769,189,890	2.3%	2,706,653,280	1.7%	2,660,111,080	-5.6%	2,817,756,820	-10.1%	3,133,862,250	-4.8%	3,290,261,610	-11.1%	3,700,326,970
2 - TH/DUP	3,092,625,200	4.1%	2,971,442,540	1.8%	2,920,333,770	3.0%	2,834,911,890	-2.4%	2,904,324,660	-11.7%	3,289,792,060	-5.1%	3,465,123,640	-0.4%	3,477,870,290
3 - CONDO	2,057,073,340	7.9%	1,906,032,600	1.8%	1,872,025,580	1.1%	1,851,071,290	-3.9%	1,926,880,670	-17.2%	2,328,521,280	-1.4%	2,362,737,260	4.1%	2,269,180,310
4 - DIFF/SFD	179,508,980	4.1%	172,476,640	3.8%	166,229,840	2.5%	162,192,890	38.8%	116,884,820	-18.9%	144,047,280	102.2%	71,255,050	-71.7%	251,928,470
5 - DIFF/Acreag	4,000	0.0%	4,000	0.0%	4,000	-93.4%	61,000	0.0%	61,000	7.0%	57,000	-91.0%	634,170	-95.7%	14,791,370
6 - Section 5	1,972,260	2.3%	1,927,110	-19.1%	2,382,990	-3.4%	2,466,230	9.3%	2,256,770	-32.2%	3,328,100	17.7%	2,827,430	-58.1%	6,755,720
9 - TOTAL	**8,195,268,820**	4.8%	**7,821,072,780**	2.0%	**7,667,629,460**	2.1%	**7,510,814,380**	-3.3%	**7,768,164,740**	-12.7%	**8,899,607,970**	-3.2%	**9,192,839,160**	-5.4%	**9,720,853,130**

* 6 - Section 5 = MID's and AUD's (Affordable Housing)

Commercial Assessment Values by Category:

Category	2013 Total Value		2012 Total Value		2011 Total Value		2010 Total Value		2009 Total Value		2008 Total Value		2007 Total Value		2006 Total Value
APARTMENTS	598,846,070	10.2%	543,563,450	14.2%	475,814,120	11.2%	427,867,110	-13.7%	496,011,440	-22.1%	636,975,320	7.7%	591,269,090	42.4%	415,087,650
HOTELS	163,414,230	-1.6%	166,080,500	2.2%	162,508,950	24.4%	130,602,960	-42.1%	225,559,620	-2.9%	232,360,880	10.6%	210,082,790	17.9%	178,132,980
INDUSTRIAL	25,925,790	0.2%	25,873,870	9.1%	23,715,620	-7.3%	25,596,120	-23.1%	33,296,400	-1.4%	33,777,600	22.1%	27,652,930	-55.3%	61,856,660
OFFICE CONDOS	280,061,260	0.0%	280,149,180	1.1%	277,057,730	-1.8%	282,258,050	-4.7%	296,037,920	16.2%	254,866,570	2.8%	247,899,380	12.2%	220,979,680
OFFICE ELEV	3,307,157,010	-1.3%	3,351,075,220	6.9%	3,135,538,700	-1.6%	3,186,109,700	-21.9%	4,078,504,560	1.0%	4,038,261,060	13.0%	3,574,660,760	14.7%	3,115,939,950
OFFICE OTHER	188,408,730	-3.9%	195,979,010	1.5%	193,084,790	-3.0%	199,123,300	-20.7%	250,999,710	4.0%	241,261,410	-0.5%	242,488,850	6.5%	227,614,450
RETAIL	302,317,780	-3.1%	312,112,230	4.7%	298,168,320	2.6%	290,735,700	-16.7%	348,993,100	0.3%	347,912,630	7.5%	323,491,000	7.3%	301,561,440
VACANT LAND	281,747,160	-4.9%	296,188,320	12.9%	262,391,780	7.3%	244,649,480	-21.8%	312,683,450	-3.0%	322,338,480	0.9%	319,383,700	-3.4%	330,731,420
Z_ALL OTHER	186,838,110	13.6%	164,456,250	-9.2%	181,081,830	-28.8%	254,402,520	-19.5%	315,957,020	3.2%	306,035,140	28.2%	238,748,820	-10.2%	265,813,190
TOTAL	**5,334,716,140**	0.0%	**5,335,478,030**	6.5%	**5,009,361,840**	-0.6%	**5,041,344,940**	-20.7%	**6,358,043,220**	-0.9%	**6,413,789,090**	11.0%	**5,775,677,320**	12.9%	**5,117,717,420**

* Z_ALL OTHER = fast food, Gas Stations and Repair shops.

Exhibit 2

FORECASTED RESTON COMMUNITY CENTER TAX REVENUES BY TAX RATE AND GMU SCENARIO

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GMU Low Scenario											
	0.047	5,958,186	6,183,579	6,359,093	6,730,814	7,080,678	7,439,205	7,798,485	8,181,844	8,572,507	9,031,358
	0.06	7,606,195	7,893,930	8,117,991	8,592,529	9,039,164	9,496,857	9,955,513	10,444,908	10,943,625	11,529,394
	Revenues per cent	1,267,699	1,315,655	1,352,998	1,432,088	1,506,527	1,582,809	1,659,252	1,740,818	1,823,938	1,921,566
GMU Intermediate Scenario											
	0.047	5,958,186	6,183,579	6,359,093	6,763,418	7,147,430	7,541,762	7,939,330	8,363,183	8,796,641	9,300,693
	0.06	7,606,195	7,893,930	8,117,991	8,634,151	9,124,379	9,627,781	10,135,315	10,676,403	11,229,754	11,873,225
	Revenues per cent	1,267,699	1,315,655	1,352,998	1,439,025	1,520,730	1,604,630	1,689,219	1,779,401	1,871,626	1,978,871
GMU High Scenario											
	0.047	5,958,186	6,183,579	6,359,093	6,823,620	7,271,773	7,740,639	8,209,852	8,711,232	9,224,809	9,823,819
	0.06	7,606,195	7,893,930	8,117,991	8,711,004	9,283,114	9,881,667	10,480,662	11,120,721	11,776,352	12,541,046
	Revenues per cent	1,267,699	1,315,655	1,352,998	1,451,834	1,547,186	1,646,944	1,746,777	1,853,454	1,962,725	2,090,174

Exhibit 2

FORECASTED RESTON COMMUNITY CENTER TAX REVENUES BY TAX RATE AND GMU SCENARIO

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
GMU Low Scenario											
	0.047	9,485,521	10,020,863	10,557,501	11,109,267	11,693,670	12,275,583	12,864,987	13,479,052	14,118,722	14,784,976
	0.06	12,109,175	12,792,590	13,477,661	14,182,042	14,928,089	15,670,956	16,423,387	17,207,300	18,023,901	18,874,437
	Revenues per cent	2,018,196	2,132,098	2,246,277	2,363,674	2,488,015	2,611,826	2,737,231	2,867,883	3,003,983	3,145,740
GMU Intermediate Scenario											
	0.047	9,851,368	10,488,771	11,133,264	11,798,936	12,503,561	13,212,288	13,935,387	14,690,325	15,478,357	16,300,784
	0.06	12,576,214	13,389,920	14,212,678	15,062,471	15,961,993	16,866,751	17,789,855	18,753,606	19,759,605	20,809,512
	Revenues per cent	2,096,036	2,231,653	2,368,780	2,510,412	2,660,332	2,811,125	2,964,976	3,125,601	3,293,267	3,468,252
GMU High Scenario											
	0.047	10,482,118	11,245,467	12,018,365	12,817,779	13,665,109	14,518,604	15,390,662	16,302,321	17,255,167	18,250,847
	0.06	13,381,427	14,355,916	15,342,593	16,363,122	17,444,820	18,534,389	19,647,653	20,811,473	22,027,873	23,298,953
	Revenues per cent	2,230,238	2,392,653	2,557,099	2,727,187	2,907,470	3,089,065	3,274,609	3,468,579	3,671,312	3,883,159