

Appendix A.1: Market Information

Market Scan Completed July 2023

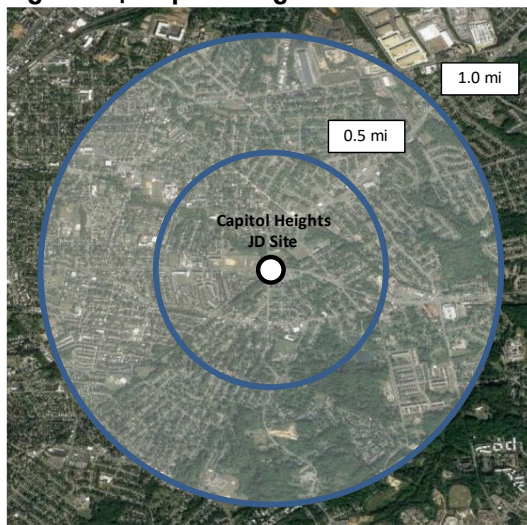
Summary

This market analysis provides context for market-rate housing, affordable housing, and retail potential at the Capitol Heights Joint Development (“JD”) site by evaluating local trends within a one-mile radius of the station and in Prince George’s County. Figure 1 provides a map of the Station area.

The Capitol Heights Metro Station Area has experienced limited development in recent years. However, the volume of projects under construction or planned in the station area is increasing. Recent development has been concentrated along Nannie Helen Burroughs Avenue in the District of Columbia, comprised primarily of a mixed-use affordable residential project in the Deanwood neighborhood, along with scattered multifamily development between Deanwood and the Station Area. One large affordable multifamily development is under construction now adjacent to the Addison Road-Seat Pleasant station to the east of Capitol Heights.

New public investment planned by Prince George’s County along the Blue Line Corridor may help catalyze additional private development and investment interest in coming years, though is not reflected in market conditions today. Prince George’s County has established the Central Avenue and Blue Line Corridor Vision Plan, which includes Capitol Heights along with three other Metrorail stations (Addison Road-Seat Pleasant, Morgan Boulevard, and Downtown Largo). The plan establishes a priority for economic development and investment to leverage its transit access and support walkable, mixed-use development in the area. In 2022, the County received more than \$400 million in state funding for a number of public investments along the Corridor. While no direct investments are yet planned at the Capitol Heights station, the broader investment and its focus on the Corridor presents potential for catalyzing new investment and development at Capitol Heights.

Figure 1 | Capitol Heights Station Area



Key Findings:

- **There is market demand to support both market-rate and affordable development.** The JD site could support approximately 150 market-rate residential units or more than 200 affordable units through 2027; Supportable market rents for market-rate multifamily are \$2.35-\$2.50 per square foot and affordable housing rents would be fixed based on the type of housing built. The feasibility of supporting market-rate or affordable development will be further informed by a financial feasibility analysis.
- **The site can accommodate a small amount of ground floor retail,** which can serve as an amenity for residential development above or be creatively tenanted to activate the station area. A small amount of ground floor retail will support the walkable, mixed-use vision the County has for Capitol Heights and the Blue Line Corridor.
- **The scale of demand at Capitol Heights suggests development at the station will require a phased approach to support full build out of the site,** regardless of whether the site is developed as market-rate or affordable housing.

Real Estate Market Conditions

Based on current market conditions, market development potential on the Joint Development site is strongest for multifamily residential and complementary ground floor retail uses. Though, a financial analysis will be required to understand the financial feasibility of development, including whether to prioritize market-rate or affordable multifamily apartment development, and potential funding gaps that may exist. Figure 2 provides a summary of market conditions and an assessment of overall conditions for incorporating market-rate multifamily, affordable multifamily, and retail uses as part of the joint development program. Additional information on each use, including rental pricing, planned pipeline projects, and trends in vacancy, absorption, and development, as well as demographic information, is included in Appendix A. Given the lack of existing office concentration near the station and broader challenges with office uses following the rise of remote and hybrid work environments, office uses were not considered as a potential use.

Figure 2 | Summary of Real Estate Conditions

	Market-rate multifamily		Affordable multifamily		Retail	
	Capitol Heights Station Area	Prince George's County	Capitol Heights Station Area	Prince George's County	Capitol Heights Station Area	Prince George's County
Total Space	1,796 Units	94,600 Units	1,293 Units	11,904 Units	550,081 SF	39.5M SF
Vacancy	7.4%	8.6%	1.8%	6.4%	2.1%	5.2%
Avg. Rent of Class A Space (\$/SF/Year)	-- ¹	\$2.35	\$2.10	\$1.70	\$30.14	\$29.68
Avg. Annual Change in Rent – Class A Space (2017-2023)	-- ¹	2.4%	0.8%	4.2%	2.9%	2.8%
New Space (Constructed 2017-2023)	38 Units	8,270 Units	125 Units	436 Units	8,602 SF	1M SF
Average Annual Absorption (2017-2023)	--	709 Units	13 Units	14 Units	7,078 SF	34,032 SF
Space Under Construction	16 Units	3,245 Units	193 Units	1,093 Units	0 SF	174,228 SF
Space Planned to be Built	18 Units	9,141 Units	445 Units	193 Units	0 SF ²	1.5M SF
Opportunity for Joint Dev. Inclusion	Market Potential		Market Potential		Market Potential	

Note: 2023 data is year-to-date or estimated. Class A space is defined as properties built since 2015. Pipeline includes all announced and proposed projects, including those that are not yet fully entitled.

¹Market-rate multifamily rent data is not available in the Station Area given the limited number of units.

²The DC government is seeking to attract a large-format grocer to the Capitol Gateway site near the joint development site, but there are no active plans for development.

Source: CoStar, HR&A

Recent market-rate multifamily development in the Station Area has been limited to one small-scale building, which suggests an emerging but small demand for this type of product at the prices required to support new development. Turner Flats at Beulah Crossing has 38 units and was completed in 2023. An additional 16 units are now under construction as part of another project. Turner Flats was fully absorbed by the market and vacancy in the Station Area is 7.4%, less than the Prince George's County average of 8.6%. Rental pricing for this sole newer Class A (built since 2015) market-rate building is not available. Though, across Prince George's County, Class A buildings are rented for \$2.35 per square foot. New buildings completed since 2022 are averaging rents of approximately \$2.50 per square foot, which reflects a "top-of-market" precedent for potential achievable rents at the JD site. While Turner Flats leased up well, the depth of market demand in the station area remains untested. HR&A's demand analysis and financial feasibility assessment will better inform the full potential of market-rate multifamily, particularly based on the difference in achievable rents between market-rate and affordable development.

Recent affordable multifamily development in the Station Area has been more substantial than market-rate development and vacancy is low, suggesting the Station Area is well-positioned for affordable multifamily growth in coming years. Since 2017, 125 new affordable multifamily units have been built in the station area and rents for these affordable units (which are fixed based on established Area Median Income guidelines) are \$2.10 per square foot per month. All of these units are part of developments funded in part by low-income housing tax credits (LIHTC). The new construction has been totally absorbed by the market, as the affordable vacancy rate in the area is exceptionally low at 1.8%. This low vacancy signals significant additional demand for new affordable multifamily development in the Station area, reflected by the 656 units under construction or planned for development.

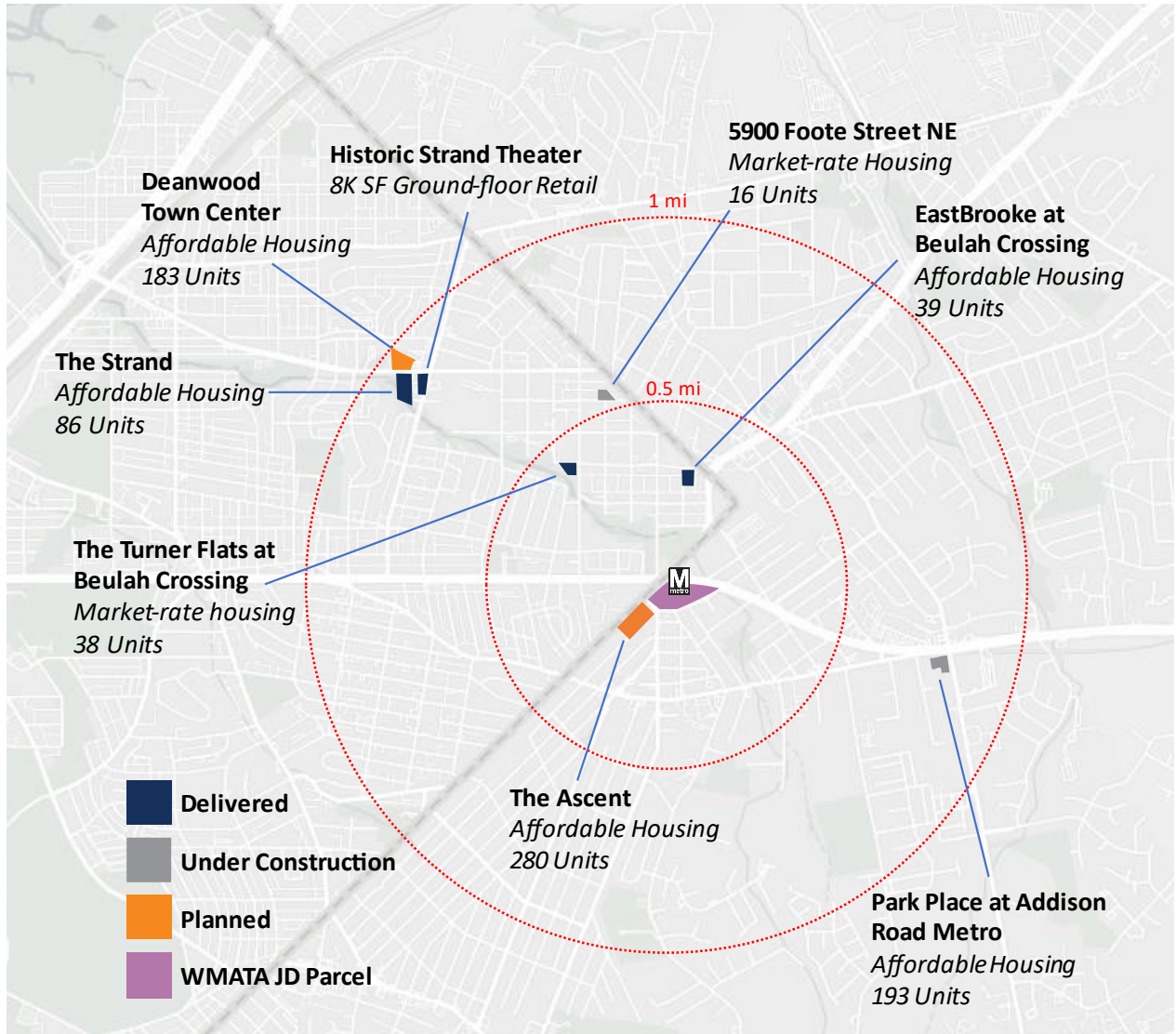
Only a small amount of retail space has been built in the station area in recent years, though market conditions suggest the opportunity to cater new ground floor retail at the station to existing residents, new building occupants, and transit riders. The only new retail in the Capitol Heights Station area since 2015 has been limited to a small amount of ground-floor space as part of a new mixed-use project. Vacancies in the station area are low, at 2.1%, and below the County average of 5.2%. Existing retail space is largely older Class B and Class C space. The Station Area is adjacent to the large Capitol Gateway site, which was initially planned to include a Walmart location. However, the company withdrew those plans in 2016. The District of Columbia announced plans to use eminent domain to acquire the site and attract a large, full-service grocer, but the plan has since been stuck in legal proceedings with the District of Columbia Housing Authority, which owns the site. A large format retail tenant like a grocer at the Capitol Gateway site would increase foot traffic in the immediate area of the station and better support additional ground floor retail uses on the station site.

Recent and Planned Station Area Development

The Capitol Heights Station Area has experienced limited development in recent years, with 163 multifamily units and a small amount of ground floor retail built. However, two additional projects are under construction now and two more larger scale projects are planned. Additionally, Prince George's County's economic development focus on the Blue Line Corridor and planned investment at nearby stations may position Capitol Heights to attract further investment and development interest in coming years.

Figure 3 shows a map of the recently completed and pipeline projects within the Station Area.

Figure 3 | Map of Recently Completed and Pipeline Development in Capitol Heights Station Area, 2015-2023



Note: Pipeline includes all announced and proposed projects, including those that are not yet fully entitled.

Source: CoStar, HR&A

Figure 4 | Pipeline Development in Capitol Heights Station Area

	Name	Use	Units	Floors
DELIVERED PROJECTS				
1	The Turner Flats at Beulah Crossing	Market-rate residential	38	4
2	The Strand	Affordable residential and ground-floor retail	86	6
3	Eastbrooke at Beulah Crossing	Affordable residential	39	4
UNDER CONSTRUCTION PROJECTS				
4	5900 Foote Street NE	Market-rate residential	16	3
5	Park Place at Addison Road Metro	Affordable residential	193	10
PIPELINE PROJECTS				
6	Deanwood Town Center	Affordable housing	183	5
7	The Ascent	Affordable housing	280	6

Source: CoStar, HR&A

*Estimate based on parcel size and number of units

There are two projects under construction in the station area – 5900 Foote Street and Park Place at Addison Road Metro, and two planned developments – Deanwood Town Center and The Ascent. 5900 Foote Street expects to complete construction in July 2023. Park Place began the construction phase in June 2023. Deanwood Town Center begins construction in September 2023 and will be completed in June 2024. Figure 4 provides a detailed summary of each pipeline project.

Figure 5 | Deanwood Town Center Rendering



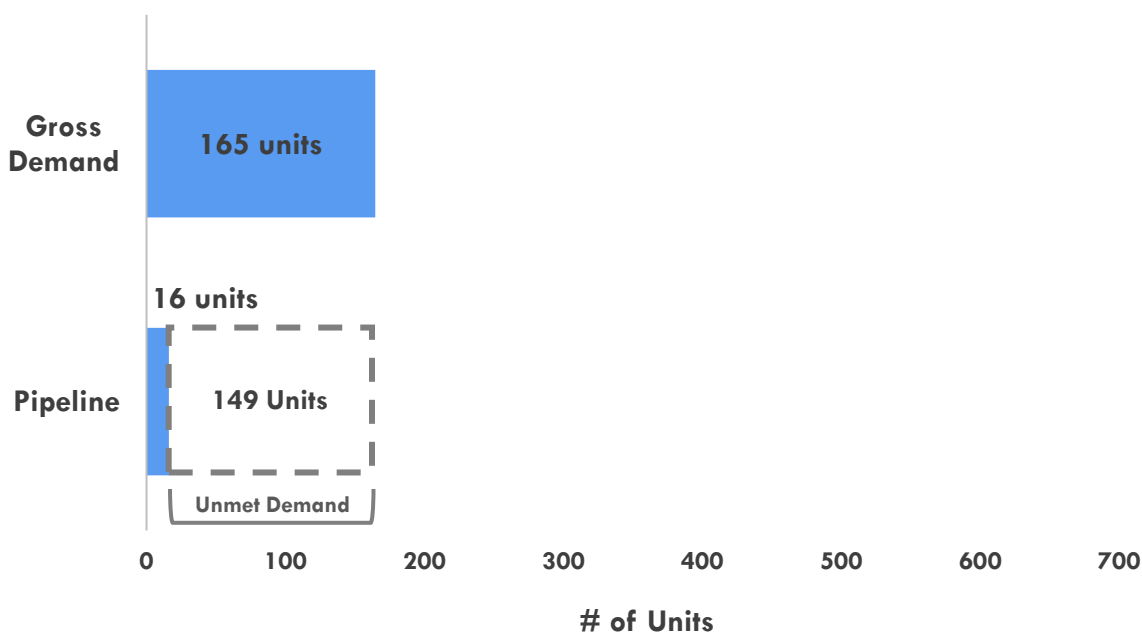
Capturable Demand

Station Area Demand by Use

There is market demand for both market-rate and affordable residential development. HR&A estimated the future market-rate and affordable multifamily rental demand at Capitol Heights based on projected household growth and turnover in the Station Area and compared it against pipeline development.

For market-rate development, there is market demand to support approximately 150 units in the Station Area through 2027 on top of the current pipeline. While gross demand is limited, the few market-rate units planned in the station area provide little competition for supporting market-rate demand. Results of the market-rate multifamily demand analysis are shown in Figure 6.

Figure 6 | Market-rate Multifamily Rental Residential Demand Analysis in the Capitol Heights Station Area, 2023-2027

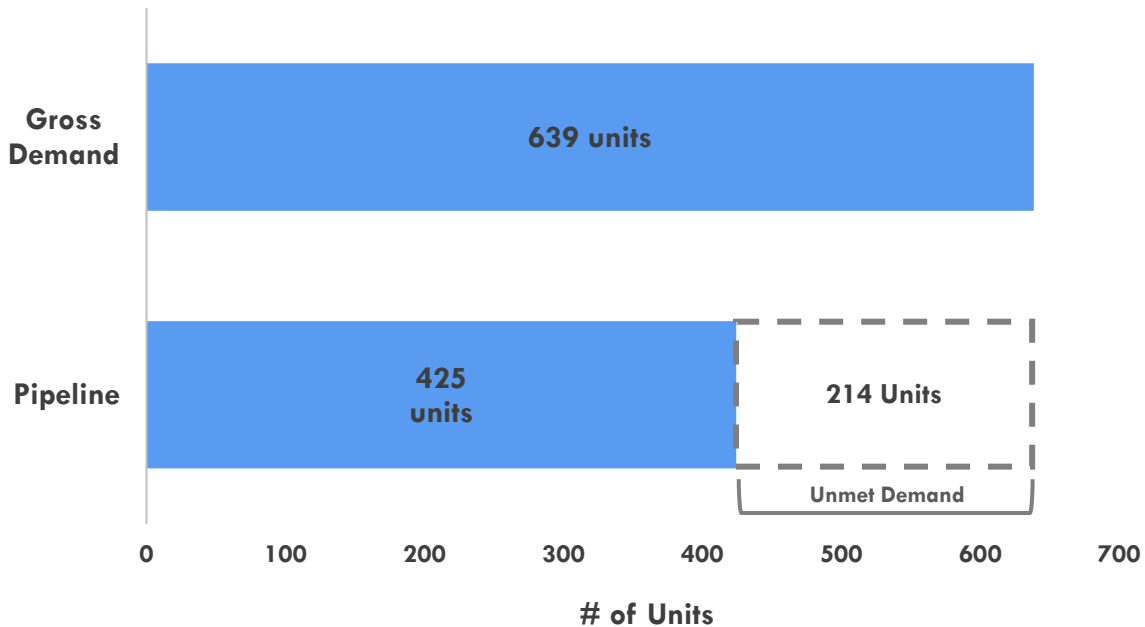


Note: Residential demand analysis assumes full buildout of 4-year pipeline projects through 2027 and 50% attrition for pipeline projects that are planned but not yet under construction. Pipeline supply includes all announced development projects, regardless of permitting status.

Source: HR&A Analysis, ESRI, U.S. Census, CoStar.

For affordable development, there is market demand to support more than 200 additional multifamily units in the Station Area through 2027 on top of the current pipeline. Overall demand for affordable units is higher than market-rate units but the pipeline for development from competing projects is also much larger. However, the joint development site's adjacency to the Metro station gives it a competitive advantage relative to other sites, which may position it to advance more quickly or capture a greater share of market demand. Results of the affordable multifamily demand analysis are shown in Figure 7.

Figure 7 | Affordable Multifamily Rental Residential Demand Analysis in the Capitol Heights Station Area, 2023-2027



Note: Residential demand analysis assumes full buildout of four-year pipeline projects through 2027 and 50% attrition for pipeline projects that are planned but not yet under construction. Pipeline supply includes all announced development projects, regardless of permitting status.

Source: HR&A Analysis, ESRI, U.S. Census, CoStar.

Summary of Supportable Development

The scale of demand at Capitol Heights suggests development at the station will require a phased approach to support full build out of the site, regardless of whether the site is developed as market-rate or affordable housing. Capturable demand through 2027 is less than the total development capacity of the JD site. Strategic phasing will allow for healthy absorption of new housing units as they come online. Accounting for projected future demand and the pipeline of planned development, HR&A estimates there is potential to support approximately 150 market-rate or more than 200 affordable multifamily units on-site through 2027. HR&A estimates achievable market-rate multifamily rents to be in line with pricing for other new development in Prince George's County, approximately \$2.35-\$2.50 per square foot per month. Pricing for affordable units would be fixed based on the program/tool used to support development. Figure 8 shows supportable development and achievable rents by use for the Joint Development Site.

Ground floor retail space at the station will cater primarily to transit riders going to/from the station, nearby residents, and new residents of the joint development. Success of ground-floor retail will largely depend on the value-add the retail provides over abundant surrounding options. Factors contributing to the value-add of new retail may include convenience, distance to comparable offering, quality of space, and more. Given total retail space on the site will be relatively small, there is also opportunity to approach retail tenanting with more creativity in a manner that better activates the site or supports community goals. HR&A

estimates achievable retail pricing to be approximately \$30-35 per square foot annually¹, in line with or slightly above the Prince George's County average of \$30 per square foot.

Figure 8 | Capturable Demand and Supportable Rent on Joint Development Site

	Station Area Market Opportunity	Capturable Market Demand on Joint Development Site	Projected Supportable Rent (\$2023)
Market-rate Residential	Market Potential	2023-2027: 150 units	~\$28.20-30.00/SF (\$2.35-2.50/SF/Month)
Affordable Residential	Market Potential	2023-2027: 200+ units	~25.20/SF* (\$2.10/SF/Month)
Retail	Market Potential	Dependent on Primary Use	~\$30-35/SF

**Rental pricing for designated affordable residential units will be dictated by the specific program through which the housing is developed (e.g., LIHTC development will set rents at 50-60% of AMI). HR&A's financial analysis will use pricing specific to the programs most applicable to supporting development at the Capitol Heights site.*

Development Incentives and Programs

Prince George's County offers a number of development incentives and programs that could assist in supporting feasibility of joint development or allowing more creative ground floor uses/tenants that supportive of site activation and community goals. As redevelopment scenarios are considered for the Joint Development site, the HR&A Team will evaluate the applicability of these development tools and potential to target incentives or programs, such as:

- **General incentives and programs**
 - **Payment in Lieu of Taxes (PILOT) Agreement** - PILOTs are intended to support development projects that bring employment. A project must create a minimum of 100 full-time jobs to qualify, which can include retail or office employment. Standalone residential projects are not eligible for a PILOT agreement, which could pose challenges in employing PILOT for the Joint Development site depending on the final development program. The County's prefers issuing a PILOT to a TIF due to the length of the incentive. Under state law, PILOTs can run for a maximum of 15 years, while TIFs are authorized for up to 30 years. The County has stated interest in using housing PILOTs to get affordable housing units in otherwise market-rate development.
 - **State capital funds** – In 2023, Prince George's County requested state capital funds to support infrastructure investment costs required to position the joint development site for redevelopment. The funds were not granted as part of the legislative session, but the County has indicated willingness to continue pursuing state capital funds in future legislative sessions.
 - **School Facilities Surcharge (SFS) waivers and/or reduction** – Prince George's County requires a \$11,200 per unit SFS for permits issued for buildings abutting WMATA stations. A 50 percent reduction of the SFS is offered for multifamily properties within ¼ mile from a metro station or in an approved Transit District Overlay Zone (TDOZ). The fee may also be waived for studio or efficiency apartment units in similarly qualifying developments.
 - **Tax Increment Financing** – Prince George's County has a series of designated TIF districts, with most of the current authorized TIF bonds being for large developments in less transit-accessible, outer portions of the County. The Joint Development site is located outside of

¹ Assumes NNN lease for retail space.

existing districts, but use of the tool provides precedent should there be an opportunity to create a new district. As an example, there has been \$28 million of bonds issued for a mixed-use town center development in the Suitland-Naylor Road District, an inner-Beltway area of the county.

- **Grant and loan programs** – The Prince George’s County Economic Development Corporation (PGCEDC) administers a series of tax relief programs for local businesses and offers businesses a series of loans and grants for development purposes. The most relevant to potential joint development at the Joint Development site include:
 - **Economic Development Incentive Fund (EDIF):** The \$64 million EDIF is intended to stimulate job growth, support business attraction/retention, and promote transit-oriented development. This fund operates as a revolving loan fund with \$7 to 11 million released per year to eligible businesses. Businesses can use the loans towards new development, expansion, relocation, or equipment purchases. The PGCEDC has started allocating funds more frequently, with four loans granted in the first half of 2019, compared to three loans in 2018 and six loans in 2017. The County has stated the highest priorities for deployment of the EDIF are TOD, inner-Beltway locations, strategic industries, and minority hiring.
 - **FSC First:** FSC First is a loan provider that is structured as a public-private partnership between a consortium of participating banks, the County, the State, and FSC First to provide loan products to small and minority businesses in the county. This includes the SB504 Commercial Real Estate Loan, which provides up to 90% financing for expanding businesses seeking to purchase owner-occupied commercial real estate.
- **Affordable Housing incentives and programs**
 - **Housing Investment Trust Fund (HITF)** – Prince George’s County’s HITF program provides Gap Financing for new construction, rehabilitation, and preservation of existing affordable housing that targets households earning up to 120% of Area Median Income. HITF loans are available in an amount up to \$2.5M per project. Applications are submitted in conjunction with LIHTC applications, with preference given to 9% LIHTC projects. HITF has had a sustainable funding source in place since 2021 to ensure ongoing funds are available to support affordable housing initiatives in the County.
 - **Project-Based Vouchers** – The Housing Authority of Prince George’s County (HAPGC) controls the provision of housing vouchers in the county, including project-based vouchers that can be tied to supporting housing affordability at specific properties. Metro has had preliminary conversations with the Department of Housing and Community Development (DCHD) and HAPGC, who were supportive of coordinating the provision of project-based vouchers to support feasibility at Capitol Heights. However, further consideration and an application to receive vouchers will require having a development partner and development plan for the site in place. Metro’s development partner would pursue project-based vouchers for the site.
 - **Rental Housing Works** – The State of Maryland offers additional subordinate gap financing to support 4% Low-Income Housing Tax Credit (LIHTC) projects in the state through the Rental Housing Works program. As of 2023, the program provides approximately \$3 million in funding per project. A development partner could apply for the funding once a development plan is in place to support the overall capital stack for the project.
 - **Workforce Housing Gap Financing Program Fund (WHGFP)** – The \$2.6 million WHGFP was established in 2017 to enable the County to support the development of viable, mixed income communities by providing gap financing for the development of quality workforce housing. The limited size of the fund will make attainment of funds difficult in the near term,

though growth in the fund could provide a channel of funding to support inclusion of workforce housing units.

Appendix

Demographics

Figure 9 | Population

	Capitol Heights Station Area	Prince George's County	Station Area Compared to County
Total Population, 2023	23,668	981,896	--
Population Growth Rate 2010-2020	3.6%	12.0%	+8.4%
Population Projection, 2028	23,069	995,463	--
Future Growth Rate, 2023 – 2028	-2.5%	1.4%	-3.9%

Source: U.S. Census, ESRI

Figure 10 | Educational Attainment

	Capitol Heights Station Area	Prince George's County	Station Area Compared to County
Less than High School Degree	11%	11%	0%
High School/Associate Degree	65%	51%	+14%
Bachelor's Degree or Higher	25%	37%	-12%

Source: U.S. Census, ESRI

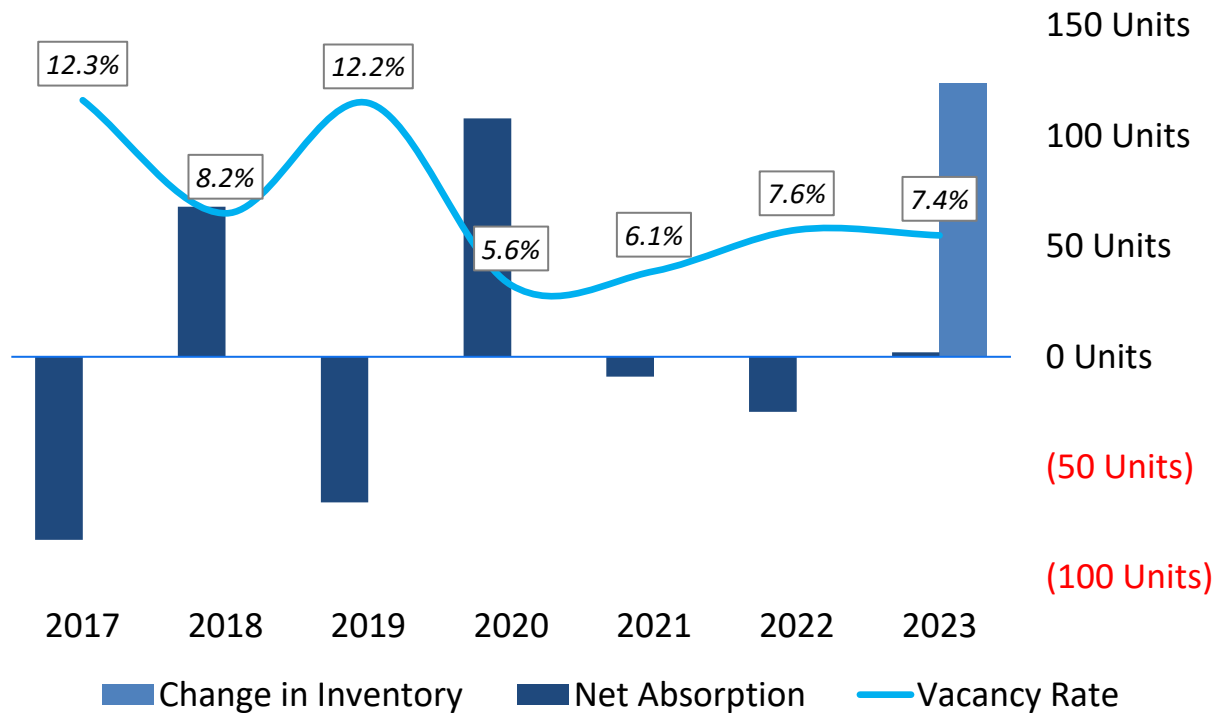
Figure 11 | Projected Household Growth by Income Distribution, 2023-2028

	Capitol Heights Station Area		Prince George's County	
	Total Households (2023)	Projected Change through 2028 (Total Households)	Total Households (2023)	Projected Change through 2028 (Total Households)
< \$25,000	2,450	-301	43,844	-3,617
\$25,000 – 50,000	1,448	-136	45,678	-4,583
\$50,000 – 75,000	1,286	-1	50,898	-3,030
\$75,000 – 100,000	1,149	+32	45,625	-1,425
\$100,000 – 200,000	1,849	+143	115,644	+10,783
> \$200,000	542	+117	47,645	+9,640
Median Income, 2023	\$57,070		\$92,437	

Source: U.S. Census, ESRI

Market-rate Multifamily

Figure 12 | Market-rate Apartment Absorption, Deliveries, and Vacancy, 2017 – 2023, Capitol Heights Station Area



Source: CoStar, HR&A

Figure 13 | Unit Size and Pricing by Unit Type, Market-rate Class A Properties in Capitol Heights Station Area and Region

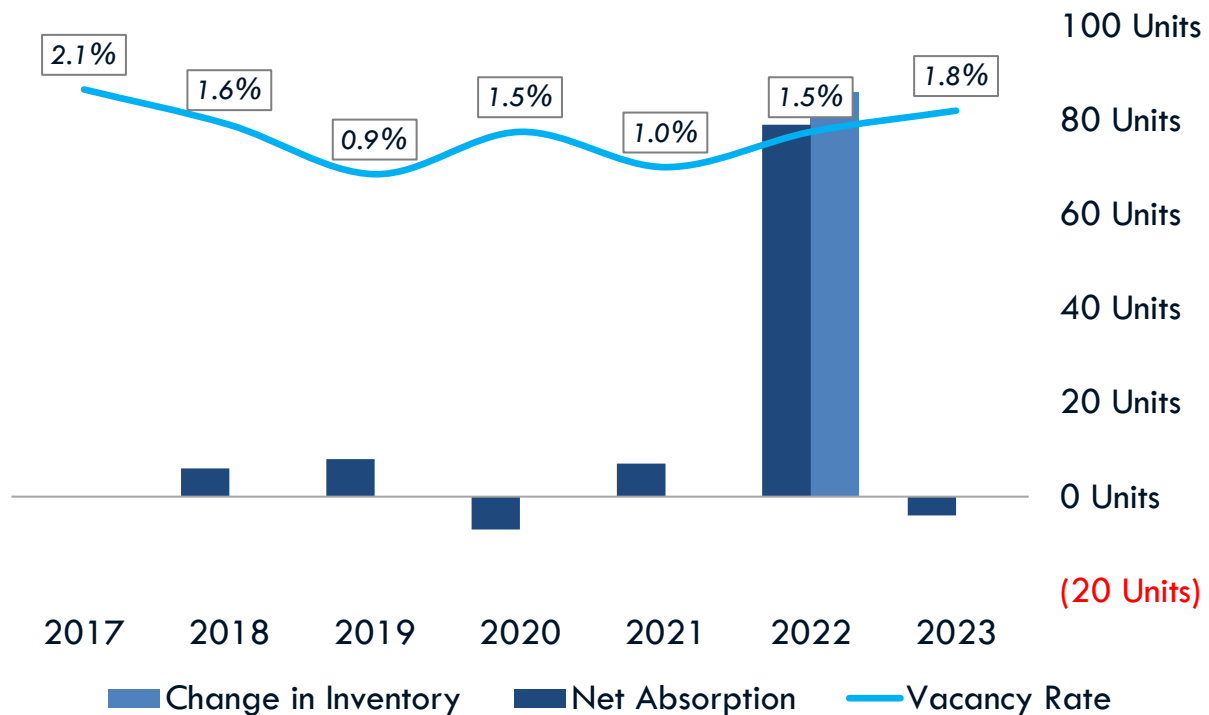
	Capitol Heights Station Area			Prince George's County			Washington DC MSA		
Project Name	Rent (Monthly)	Average Size (SF)	Rent / SF / Month	Rent (Monthly)	Average Size (SF)	Rent / SF / Month	Rent (Monthly)	Average Size (SF)	Rent/ SF/ Month
Studio	--	--	--	\$1,831	556	\$3.58	\$2,054	713	\$2.88
One Bedroom	--	--	--	\$1,892	730	\$2.70	\$2,368	724	\$3.27
Two Bedroom	--	--	--	\$2,367	1,080	\$2.26	\$3,153	1,099	\$2.87
Three Bedroom	--	--	--	\$3,011	1,456	\$2.12	\$4,208	1,451	\$2.90

Total	--	--	--	\$2,192	934	\$2.64	\$2,675	860	\$3.11
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Source: CoStar, HR&A

Affordable Multifamily

Figure 14 | Affordable Apartment Absorption, Deliveries, and Vacancy, 2017 – 2023, Capitol Heights Station Area



Source: CoStar, HR&A

Figure 15 | Unit Size and Pricing by Unit Type, Affordable Class A Properties in Capitol Heights Station Area and Region

	Capitol Heights Station Area			Prince George's County			Washington DC MSA		
Project Name	Rent (Monthly)	Average Size (SF)	Rent / SF / Month	Rent (Monthly)	Average Size (SF)	Rent / SF / Month	Rent (Monthly)	Average Size (SF)	Rent / SF / Month
Studio	--	--	--	\$--	--	--	\$1,231	479	\$2.63
One Bedroom	\$1,208	538	\$2.25	\$1,120	676	\$1.65	\$1,288	677	\$1.90

Two Bedroom	\$1,450	722	\$2.02	\$1,483	1,038	\$1.43	\$1,527	962	\$1.59
Three Bedroom	\$1,631	872	\$1.87	\$1,892	1,307	\$1.45	\$1,809	1,230	\$1.50
Total	\$1,386	934*	\$2.50*	\$1,275	816	\$1.59	\$1,447	870	\$1.71

*Prince George's County new (2022-present) market-rate data rounded to nearest tenth used due to little available data.

Figure 16 | Apartment Pipeline (Under Construction or Planned) in Capitol Heights Station Area

Project Name	Location	Number of Units	Project Status
5900 Foote Street NE	5900 Foote Street NE, Washington DC	16	Under Construction
Park Place at Addison Road Metro	6301 Central Avenue, Capitol Heights, MD	193	Under Construction
Deanwood Town Center	5110-5140 Nannie Helen Burroughs Avenue NE, Washington DC	183	Planned
The Ascent	5911 Southern Avenue, Capitol Heights, MD	280	Planned
Total		672	

Note: Pipeline includes all announced and proposed projects, including those that are not yet fully entitled.

Source: CoStar, HR&A

The table below details demand for new units based on households in the Capitol Heights Station Area earning sufficient income to afford the average rent in the Station Area. The table further segments households able to afford a new unit by tenure, turnover rate, and preference for housing, thereby distilling the annual number of households looking for a new rental unit in the Station Area.

Figure 17 | Market-rate Multifamily Rental Demand in Capitol Heights Station Area (\$2,335 average rent per unit)

Age of Householder	Household Income Bracket \$93K+	Renter Portion	Turnover Rate	Preference for Target Product Type	Households "In the Market" for a Rental Unit
<25	15	84%	11%	50%	1

25-34	430	63%	16%	40%	18
35-44	620	52%	12%	30%	12
45-64	1,138	45%	6%	20%	10
65+	511	38%	6%	10%	1
Total	2,714	48%	11%	28%	41

Source: CoStar, Esri, HR&A

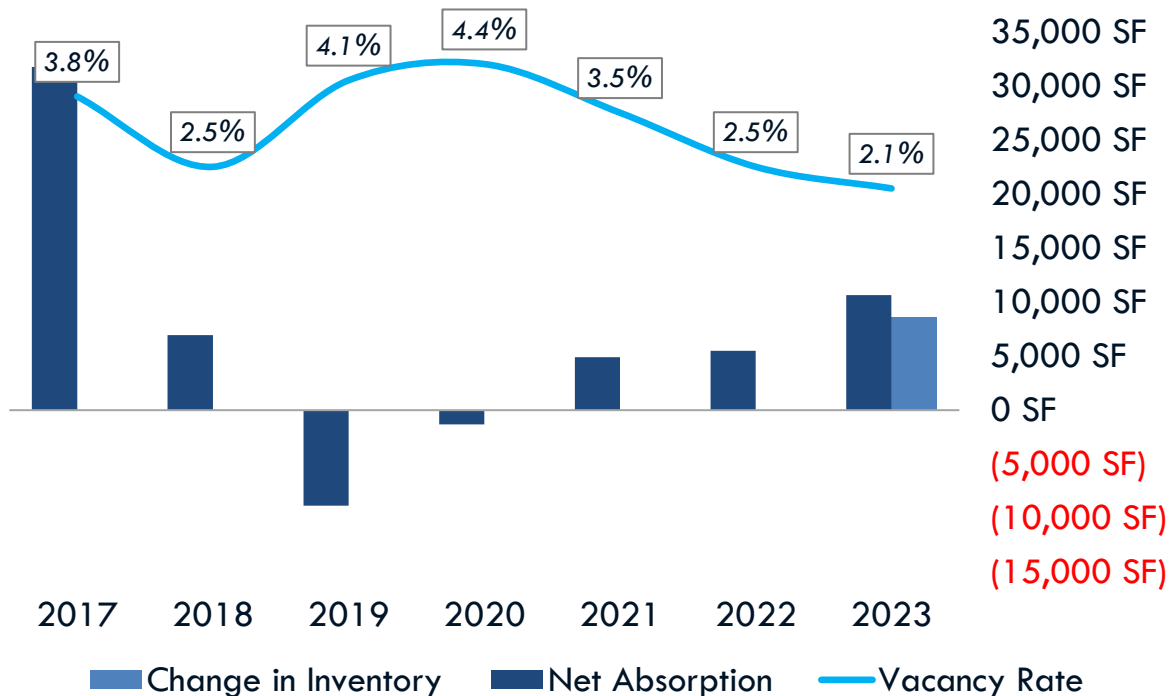
Figure 18 | Affordable Multifamily Rental Demand in Capitol Heights Station Area (\$1,352 average rent per unit)

Age of Householder	Household Income Bracket \$54K+	Renter Portion	Turnover Rate	Preference for Target Product Type	Households "In the Market" for a Rental Unit
<25	41	84%	11%	80%	3
25-34	650	63%	16%	70%	46
35-44	850	52%	12%	60%	33
45-64	1,621	45%	9%	60%	41
65+	765	38%	6%	60%	10
Total	3,927	48%	11%	64%	120

Source: CoStar, Esri, HR&A

Retail

Figure 19 | Retail Absorption, Deliveries, and Vacancy, 2017 – 2023, Capitol Heights Station Area



Source: CoStar, HR&A

Figure 20 | Class A Retail Space and Pricing in Capitol Heights Station Area, 2023

	Capitol Heights Station Area		Prince George's County	
Project Name	Total Space (SF)	Average Rent (Per SF / Year)	Total Space (SF)	Average Rent (Per SF / Year)
Total Space	8,602 SF	\$26.50	1.6M SF	\$29.96

Source: CoStar, HR&A