Appendix D - Market Analysis

FRIENDSHIP HEIGHTS
SECTOR PLAN

Appendix D: Market Analysis

This appendix includes the RCLCO memo that summarizes the market analysis work and conclusions.

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MEMORANDUM

DATE: November 5, 2025

TO: Montgomery County Planning Board and Montgomery County Planning Department

FROM: RCLCO

SUBJECT: Friendship Heights Zoning and Feasibility Study

PROJECT BACKGROUND AND OBJECTIVES

The Montgomery County Planning Board, with support from the Planning Department, is updating the Friendship Heights Sector Plan. The last plan was adopted in 1998, and this update reflects the area's transformation from a regional retail hub into a more mixed-use neighborhood with evolving demographics, land uses, and development pressures. Building on the Friendship Heights Urban Design Study, the update will address land use, housing, transportation, parks and open space, environment, economic development, and urban design. Following approval of the plan scope and boundary in February 2025, the Visioning Phase began in June 2025. This phase includes community outreach, visioning workshops, focus groups, a questionnaire, and other analyses and activities designed to identify community priorities and develop strategies that will guide the plan's recommendations.

To support this visioning effort, the Montgomery County Planning Department engaged RCLCO in 2025 to provide a real estate and economic perspective into the planning process, ensuring that the long-term vision is informed by and grounded in market realities.

RCLCO's engagement included two main components: case studies of similar neighborhoods and financial feasibility testing for a variety of site and product prototypes. The case study analysis benchmarked a selection of comparable neighborhoods nationwide to evaluate Friendship Heights' current position and to identify lessons and best practices relevant to its future market potential. Second, RCLCO tested redevelopment scenarios to assess the type, scale, timing, and feasibility of future opportunities from a developer and property owner's perspective. This analysis identified barriers and informed the Planning Department's review of enabling conditions needed to unlock site potential. Together, these findings complement community input by clarifying what is achievable in the market and outlining strategies to bridge the gap between vision and implementation over the plan's long-term horizon.

RCLCO worked closely with the Montgomery County Planning Department from January through August 2025 to complete this analysis, the results of which are summarized in this memo.

EXECUTIVE SUMMARY

Friendship Heights represents a distinctive opportunity for growth, combining strong transit access, affluent demographics, and a strategic location between two major employment centers. These advantages position it well for new residential and neighborhood-serving retail development, though success will depend on careful integration with existing neighborhoods and alignment with community priorities. While the area has historically supported a mix of residential, retail, office, and medical uses, multi-family apartments offer the clearest near- and mid-term development potential, both regionally and in Friendship Heights. Although broader challenges remain, including elevated construction costs, tighter capital markets, and higher interest rates, strong renter demand and relatively favorable land economics make multi-family apartments the most practical foundation for redevelopment as market conditions improve. Multi-family apartments will also play a key role in addressing regional housing needs and supporting local-serving retail growth. Furthermore, recent market dynamics and shifting patterns of office and retail activity have intensified competition for both office tenants and fashion / shopping retailers, leading to new leasing activity increasingly concentrating in areas with newer commercial spaces, higher pedestrian activity, and stronger retail clustering. Downtown Bethesda has a competitive edge in these areas, leaving Friendship Heights comparatively less likely to attract additional conventional office or fashion / shopping retail tenants.

Friendship Heights is unique among urban clusters in the United States due to the mix of its location, transit and employment access, economic drivers, variety of real estate uses, history of success among those uses, and surrounding demographics. No exact match exists, but comparable districts such as Alewife Station in Cambridge, Massachusetts; Downtown New Rochelle, New York; SouthPark in Charlotte, North Carolina; and the Brookwood Corridor in Atlanta, Georgia offer useful takeaways on different aspects of Friendship Heights and lessons learned that can be applied to foster sustainable growth. These examples highlight recurring drivers of successful infill and redevelopment, including strong transit infrastructure, institutional or medical anchors, supportive public policy, public-private collaboration, and tailored planning frameworks that translate market potential into development advancing shared community goals. While no perfect model exists, these lessons reinforce that strategies for Friendship Heights must be customized to its distinctive context.

RCLCO’s feasibility testing of representative sites in Friendship Heights shows that multi-family apartments consistently generate the highest near-term land values, making them the land use most likely to attract interest from landowners and developers pursuing infill or redevelopment. Ground-floor retail is a modest value enhancer for sites with an attractive, visible, and easily accessible street frontage. Larger, flatter parcels are best positioned for near-term redevelopment, accommodating mid-rise product types that can be built at a lower cost and execution risk. By contrast, smaller or irregularly-shaped sites that require redevelopment and land assemblage face higher baseline costs, often requiring high-rise densities to achieve feasibility and necessitating more complex and expensive parking structures. RCLCO also tested alternative concepts such as hotel and office for high-visibility sites. Hotel is more likely than office to become viable going forward, given stronger demand fundamentals and fewer market headwinds.

Realizing the full potential generated by Friendship Heights’ numerous strengths will depend on supportive policy tools, targeted infrastructure investment, and clear alignment with community priorities. Strategic actions such as updating regulations to allow higher-density development on key sites, addressing barriers to feasibility, and pursuing catalytic public investments can help unlock private investment. Together, the locational advantages and site-specific opportunities position Friendship Heights for a new phase of growth that promotes walkability, housing diversity, and high-quality public spaces while balancing economic viability with neighborhood character, livability, and long-term sustainability.

SITE ASSESSMENT AND CASE STUDY MARKET ANALYSIS

RCLCO conducted a national survey of urban neighborhoods and clusters to identify case study locations with characteristics relevant to Friendship Heights: high-income demographics, concentrated population density adjacent to single-family neighborhoods, strong transit access, proximity to major job centers, and a role as a secondary suburban commercial hub. The goal was to draw lessons from comparable areas that could inform strategies for future growth and redevelopment.

Friendship Heights is a compact, transit-served district on the Maryland–DC border, anchored by the Metrorail Red Line and surrounded by some of the region's most affluent neighborhoods. Though located in a suburban context surrounded by single-family homes, its high-density residential stock, mix of retail and medical office uses, and proximity to institutions such as NIH and Walter Reed give it a distinctive urban character within the Washington region. However, its position adjacent to Downtown Bethesda, a dominant first-ring employment and retail core, both enhances its regional connectivity and limits its ability to compete directly for large-scale office or retail demand. This context shaped the criteria for case study selection.

RCLCO identified four urban districts—Downtown New Rochelle (NY), Alewife Station (Cambridge, MA), SouthPark (Charlotte, NC), and Brookwood (Atlanta, GA)—that offer relevant insights on how similarly-positioned districts have evolved. Lessons from these precedents point to clear strategies for Friendship Heights' future: leverage transit access (Alewife), adopt targeting zoning and streamlined approvals to facilitate development (New Rochelle), align new growth with community character and positioning (SouthPark), and capitalize on proximity to institutional anchors to catalyze development (Brookwood). Despite a range of shared characteristics, no case study fully mirrors the unique conditions of Friendship Heights, underscoring its distinct positioning in the regional and national landscape. As a result, these key lessons learned must be drawn from multiple precedents and interpreted through the specific context of Friendship Heights.

Across these varied contexts, the case studies consistently highlight the importance of public-private collaboration, strategic transit access, and market positioning. Most notably, they underscore the critical role of supportive public policy in enabling successful redevelopment—an insight that is especially relevant as the Montgomery County Planning Department updates the Friendship Heights Sector Plan.

ALEWIFE STATION (CAMBRIDGE, MA)

STRONG TRANSIT CONNECTIVITY AND ACCESS TO ACADEMIC ANCHORS SPURRED A SHIFT FROM LOW-DENSITY USES TO A THRIVING MIXED-USE HUB, THOUGH COMMUNITY PUSHBACK AND REGULATORY UNCERTAINTY HAS LIMITED LIFE SCIENCE DEVELOPMENT

Alewife Station is a transit-oriented mixed-use area northwest of Downtown Boston and Cambridge, and its location on the MBTA's Red Line provides it with very strong access to employment centers and key institutions like Harvard University and Massachusetts Institute of Technology. After the opening of the Red Line station in 1985, the Alewife Station area began to slowly transform from a low-density industrial area to a mid- and high-rise life sciences and technology hub from spillover demand from Downtown Cambridge. More recently, growth has accelerated as the area has added 2,500 new rental apartment units since 2014 and is now positioned as a true live-work-play district. Alewife Station's evolution can be attributed to its strong location near urban nodes, which helped generate demand, as well as the importance of public-private alliances, which were instrumental in capturing this demand and increasing the area's walkability, bike connectivity, and traffic patterns to adapt to its modern uses. However, while some life science space has delivered, overall growth has fallen short of the area's likely market potential. Outdated zoning, stalled rezoning efforts, and a 2022 moratorium driven by community pushback constrained new office and lab development. This experience underscores the importance of maintaining clear, up-to-date zoning and ensuring redevelopment strategies in Friendship Heights are shaped through early, consistent engagement that aligns with community priorities.

DOWNTOWN NEW ROCHELLE (NEW ROCHELLE, NY)

ZONING INCENTIVES AND STREAMLINING THE APPROVALS PROCESS HELPED TO ACCELERATE NEW ROCHELLE'S TRANSITION FROM A RETAIL-ORIENTED CENTER TO A MIXED-USE TRANSIT DISTRICT WITH SIGNIFICANT ONGOING RESIDENTIAL DEVELOPMENT

Downtown New Rochelle is located 20 miles north of Midtown Manhattan along the MTA's New Haven Line. The area's transformation kickstarted in 1995 due to the closure of the New Rochelle Mall and the subsequent opening of New Roc City, a $190 million entertainment and retail complex that helped to revitalize the area and bring in more foot traffic. This new anchor, combined with the city's walkability, skyline views, and relative affordability for renters and developers compared to New York City, spurred an influx of residential development. Momentum carried forward into the 2010s and 2020s as the City of New Rochelle adopted the Downtown Overlay Zone, which streamlined approvals, offered density bonuses, and worked in partnership with private developers to prioritize walkability and urban density. This coordinated framework accelerated mixed-use growth and helped reposition downtown as a vibrant, transit-oriented hub within the New York metro area.

SOUTHPARK (CHARLOTTE, NC)

HISTORICALLY A SUBURBAN SHOPPING MALL AND MEDICAL OFFICE NODE WITHOUT A PRIMARY ANCHOR, SOUTHPARK HAS CAPITALIZED ON STRONG DEMOGRAPHICS AND COMMUNITY ENGAGEMENT TO DRIVE RESIDENTIAL DEVELOPMENT AND TRANSITION INTO A MIXED-USE NEIGHBORHOOD

SouthPark is about five miles south of Uptown Charlotte and serves as one of the region's primary suburban nodes. Originally developed at the edge of suburban expansion, it remains surrounded by some of the region's most affluent single-family neighborhoods, contributing to its broad appeal. Early growth centered on SouthPark Mall in the 1970s, with auto-oriented retail, traditional office, and low-density housing emerging largely through market forces rather than a unified planning vision. Its sizable medical office cluster, similar to Friendship Heights, formed without a hospital or major institutional anchor and instead grew organically, driven primarily by the area's affluent surrounding neighborhoods and its urban-suburban character. As Charlotte's suburbs continued to grow, residents and community groups became more receptive to density and walkability. Public initiatives, such as adopting urban streetscapes and rezoning for additional height and density, helped organize this growth and enabled infill projects near the mall, including multi-family housing, hotels, and other mixed-use development. Unlike Friendship Heights' retail centers, SouthPark Mall remains a Class A+ regional asset, and recent mixed-use projects have added new urban-format retail that leverages the mall's ongoing strength.

BROOKWOOD (ATLANTA, GA)

EXEMPLIFIES HOW INSTITUTIONAL ANCHORS AND COORDINATED LOCAL PLANNING CAN FOSTER MIXED-USE GROWTH AND IMPROVE WALKABILITY IN A SETTING THAT CLOSELY MIRRORS FRIENDSHIP HEIGHTS' POSITIONING BETWEEN DC AND BETHESDA

Brookwood in Atlanta is a linear corridor along Peachtree Street between Midtown and Buckhead. The neighborhood benefits from its proximity to well-established affluent communities and the presence of Piedmont Atlanta Hospital, which anchors and has been a critical demand driver for related uses, including medical offices, specialty clinics, and senior living facilities. The Brookwood Alliance, formed in 2007 as a partnership among residents, businesses, and Piedmont Hospital, was established to guide growth within the corridor. The Alliance emphasized smart urban design and walkability by advocating for wider sidewalks, bike lanes, and on-street parking, while also encouraging taller mixed-use buildings with more thoughtful spacing between structures. These initiatives helped catalyze reinvestment, including the addition of 568 new multi-family units and a variety of new retail and dining options. Over time, Brookwood has evolved into a transitional node between Midtown's high-rise density and Buckhead's affluent commercial core, leveraging both its institutional anchor and strong community partnerships to shape a more vibrant mixed-use district. While Brookwood lacks the legacy of high-density development that Friendship Heights offers, its growth demonstrates how an anchor institution, community collaboration, and supportive planning can successfully guide mixed-use development, highlighting parallels with the potential for Friendship Heights.

FINANCIAL FEASIBILITY ANALYSIS

RCLCO analyzed opportunity sites throughout Friendship Heights to assess development feasibility across various asset types, including multi-family apartments, for-sale townhomes, office, retail, and hotel. Feasibility is determined based on a residual land value analysis that estimates the amount a developer would initially pay for an opportunity site for each land use. Assumptions in the analysis are based on market research and cost inputs specific to Friendship Heights and assume a stabilized outlook for capital markets that represents a moderate improvement over 2024–2025 conditions, consistent with RCLCO's and the industry's near-term view and representative of the conditions developers would be operating in once the plan is approved.

In RCLCO's analysis, residual land values provide a measure of relative feasibility across sites and asset types. Sites with residual values well below recent land sale prices or the existing asset value (for redevelopment sites) indicate more limited near-term financial viability, while those with residual values above market benchmarks suggest a stronger likelihood that developers could pursue the proposed development. The residual land values reflect a spectrum of opportunity, with higher values generally corresponding to nearer-term development potential. Timing and feasibility are also influenced by broader regional economic conditions, meaning that the relative attractiveness of individual sites may change as market conditions evolve.

Across each parcel assessed for redevelopment, multi-family apartments (including the appropriate MPDU allocations) ranked as the most feasible development type in the near term. RCLCO also evaluated the financial feasibility of ground-floor retail for these multi-family projects, which contributed slightly to the overall value of the project and would be feasible in the right locations. RCLCO projects that hotel development along Wisconsin Avenue near Wisconsin Circle is feasible, though less so compared to multi-family development. Lastly, RCLCO evaluated traditional office development, which is not likely to be feasible under current market conditions due to the heightened costs and overall market uncertainty.

Given the financial appeal and developer interest in sites suited for multi-family development in Friendship Heights, RCLCO evaluated specific development scenarios and their impact on feasibility.

- **Base Case (Podium)**
  - Seven stories, wood frame over concrete podium construction
  - Limited overall construction costs and density given the wood construction and reduced infrastructure required at lower heights
  - Reduced parking requirements and costs
  - Rents priced at a slight discount to higher-density product types
- **Higher-Density (Mid-Rise & High-Rise)**
  - Eight or more stories, requiring concrete or steel construction
  - Significant increases in construction costs as the construction style required changes to concrete or steel
  - Can support parking below-grade or parking in the base of a building, but at a higher cost
  - Impractical when adjacent to lower-density neighborhoods
  - High-rise buildings generate rent premiums

Based on RCLCO's analysis, podium construction is typically only feasible on larger, flatter sites that are easier to redevelop. These larger sites can support higher unit counts without adding additional stories and can support parking without requiring below-grade structures. Adding density with high-rise development has an initial adverse impact on feasibility, as the higher construction costs of concrete or steel-frame buildings outweigh the rent premiums generated at lower floors (between seven and 14). However, as additional floors are added (from 14 stories up to approximately 28 stories), the land value generated per unit begins to exceed that of wood-frame construction, improving overall feasibility.

While high-rise development can generate higher land values, site-specific factors must guide density and design decisions. Many large sites are adjacent to single-family neighborhoods, where high-rise or even some podium development would likely be substantially taller than nearby homes. These larger, flatter parcels can often accommodate cost-effective parking under or next to podium buildings, an advantage lost with high-rise construction. In contrast, smaller sites often lack space for efficient lower-cost parking options, making below-grade parking necessary to achieve density. As a result, they are better suited for taller buildings that can offset these costs by capitalizing on unobstructed views, upper-floor rent premiums, and the economies of scale at these higher floor counts.

In rare cases, very large redevelopment sites offer the potential for a mix of housing types and uses. Such sites can accommodate lower-density options like townhomes, which are a popular infill housing typology across the region. Based on nearby comparable sales and MPDU allocations, townhome development generally generates slightly lower residual land value than podium multi-family apartments on large redevelopment sites in Friendship Heights. However, in cases where a site could feasibly contain multiple phases of rental apartment construction, townhomes carry less market risk, require smaller upfront investments, and allow sales proceeds to be realized sooner, which can be appealing to developers. Building both townhomes and multi-family apartments also allow sites to add more residents sooner and build out more quickly.

In these instances, a blended program of rental multi-family apartments and for-sale townhomes can help mitigate risk, avoid oversupplying the rental market, and still achieve the scale needed for a mixed-use district. The inclusion of public amenities, such as grocery stores or community arts centers, adds cost and reduces land value, but can further enhance the overall appeal of the development, support community objectives, and potentially generate revenue premiums through improved marketability.

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CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available 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.

We made certain assumptions about the future performance of the global, national, and 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 these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will experience a period of slower growth in the next 12 to 24 months, and then return to a stable and moderate rate in late 2025 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when inflection points in economic and real estate cycles will occur.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- The cost of development and construction
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

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. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. 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.

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