

Attachment R: Real Estate Marketing Study

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Comments on Real Estate Marketing Study¹

This report purports to provide meaningful information about whether the building of the station will have a meaningful impact on the property values of the surrounding homes. As we show below, the report fails to provide any independently reliable information on that issue. Its conclusions are either wholly dependent on the outcome of other studies (such as environmental reviews) or – by their own admissions – do not provide any basis for drawing any conclusions from the evidence presented. The report was updated in September 2012, just prior to the determination that the warehouse would not be able to open due to unspecified “construction delays.”²

Part I – Introduction

The report notes that the consultant “[drew] conclusions concerning the subject property's impact on the values of adjoining properties. LF&M has not appraised any properties; no statements contained in the report as to values are to be construed as appraisals.” Thus, while the report purports to consider the sort of external factors that are considered in appraisals, no such actual appraisals were carried out by the expert.

This is critical because nowhere in the report – as the expert concedes – does he ever actually attempt to compare homes that are or are not in proximity to a station such as this. To be sure, it might not be easy to find homes as close to such a massive station as this. (An examination of other Maryland Costco stations shows that homes are hundreds of feet further away, generally at least 1,000 feet and sometimes considerably more.) However, one could at least compare residential areas near more normal gas stations or groups thereof and see what effect there is from close proximity thereto compared with similar homes located further away. No such analysis was done, however, so everything in the rest of the report is largely speculative.

Part II - Costco Filling Station and Description

The report (p. 4) describes the mall itself and suggests that the station will be a small portion thereof. In particular, it asserts that the mall has 18,000 visitors a day on weekdays, 24,000 on weekends, and 40,000 during the holiday season. Interestingly, those first two figures are about 50% higher than the figures in the land use report (Exhibit O) which states that the mall has 13,500 visitors during the week and 17,500 on weekends. We do not know which number is correct – but apparently neither do Costco's different experts.

The report states (p. 5) that the station is located at least 200' from the lot lines of the nearest properties to the west and south. That measurement must be taken from the pumps, not from the edge of the Special Exception area (to which the idling cars will extend), since the

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² While dated September 2012, it appears to be substantially identical to one filed many months ago as part of the previous Special Exception application, with no attempts to update the analysis or the value trend study.

property lines of the nearest existing houses are no more than about 125-150 feet from the edge of the Special Exception. Moreover, it ignores the homes that are scheduled to be built on what is commonly referred to as "Mount McComas." When completed their property line will likely be little more than 100 feet from the Special Exception area.

The report further states (p.5) that a "solid screen wall ranging in height from 8' to 14' will be constructed." In fact, though, it is completely unclear at this point, how far that wall will extend, what its height will be, and whether it will be solid or have openings to allow for pedestrian access at Mount McComas. Exhibit J in the original report has one conceptual drawing of the wall; Exhibit 10 in the January 3 submission has a very different drawing. We are not able to determine which Planning Staff intends to be required. At best, we can say some form of wall at some location is intended and that it may block the view of many, but likely not all affected residences. (The latest drawing indicates some sight lines from Littleford Lane and potentially from Mount McComas, particularly if the townhouses have three stories and/or the wall is lower or has openings.). There is also no discussion as to whether homeowners might find an 8 to 14 foot wall, looming at the top of a hill behind them, itself intrusive and undesirable.

The report further notes that virtually all affected homes were built after the date the mall was in operation and the current home owners bought after that date "understanding that an auto service center [a Montgomery Wards facility] in essentially the Costco filling station's location was in operation. In fact, if one uses a Google Earth view of the mall prior to the time that the facility was torn down, it is readily apparent that the location was in a more central portion of the lot, significantly further away than either the original location or the proposed new location. Further, by its description of the facility, the report apparently intends to suggest that the two operations are comparable. Leaving aside the fact that many homeowners bought after 2002, we note the following points: a) the center probably served no more than 100 to 200 cars a day at most; this station will be expected to serve 2500-3000 cars a day; b) cars that came to the center were worked on inside an enclosed building; c) cars that came to center would park and not idle while they were waiting to be worked on, and d) no gas was pumped at the station. Plainly, this auto service center provides nothing in the way of a comparable analysis.

The report concludes (p. 6) "LF&M finds that, if there is any impact (positive or negative) on adjoining residential uses, the Westfield Shoppingtown Mall is the cause. Despite the fact that it is reasonably buffered from adjoining residential uses, the Mall is a very intensive use of tremendous scale which generates significant traffic. The subject will create only a relatively small amount of incremental traffic over and above what is already on the Mall property. Adjoining residential property owners purchased their homes understanding the relationship of their properties to the Mall."

That statement ignores the fact that the buffer is precisely what is being eroded at this point and is what is of most concern. Even with all of the traffic going to the mall (and even when the Hecht's was there), there was very little reason for traffic to move along the quadrant of the ring road from the primary Target lot to around to where the Hecht's and Office Depot locations were. Traffic entered from the north or the east sides and there was rarely reason to come in on the north side and drive around on the ring road to exit on the east side. While there

was parking to the south of the Hecht's it was little needed except at the busiest times of the year and, of course, the parking that took place would be near the store entrance, hundreds of feet from the edge of the ring road.

With the station, though, some 2,500 to 3,000 cars a day will use that section of the road, directly adjacent to homes, where very few cars went before. And because of the one-way nature of the station, a significant amount of that traffic will have to come from the north, enter the station on the south, move through, and exit out to the west and north. The traffic coming from the east side of the mall will also generally have to traverse along the south side of the ring road, use the station, and exit along the west side heading north. The west side will, accordingly, take the heaviest brunt of new traffic.

Data submitted by the applicant in April 2012 as part of the prior application. The "Ring Road Data" included with the supplemental April filing showed less than one car per minute from 6:30 until the 8:15 to 8:30 am period (with as little as 1 car every 3 minutes between 6:45 and 7:00 am.). Even then the traffic rose at most to less than two cars per minute. During the entire period from 6 am to 9 am, when the rest of the mall isn't open, there were only 201 cars clocked in both directions combined. The station, though, can be expected to generate in the range nearly 200 cars per hour on average.³ Even if one cuts that in half for the morning hours, that will still be an additional 200 trips (100 each way) above and beyond the existing numbers or 600 more for the same 3 hour period that now has only 200. Thus, for all but the highest peak time during the morning hours, this will mean at least four to six times more cars passing by.

Moreover, all of that traffic during the period before 10 am will be generated solely by the station. Finally, although we cannot say for certain without far more detailed information on Costco customers, it seems likely that the small business members, such as contractors, might use it more at this time as they start their day. If so, such commercial vehicles are probably more likely to create more noise than a similar number of vehicles for personal use. In short, this is a significantly different use with a significantly different burden than before and one that buyers could not have readily anticipated when they bought their homes. The mall has maintained basically the same footprint with the same large parking buffers for many years (and indeed that layout is very typical for malls). One could hardly have assumed that buying into that configuration was also a waiver of any concerns about the placement of a mega-gas station in extremely close proximity to neighborhood homes.

The fact that, within the space limitations of the mall, space may be utilized for normal retail without restrictions while, even within this very loosely-regulated C2 zone, one must still obtain a Special Exception permit for a gas station strongly suggest there is a meaningful difference between the two. The fact that prior to this station there was no strong pressure for a wall between the mall and the surrounding homes again illustrates the significantly different

³ 12 million gallons/year projected sales divided by a 12 gallon average fill-up = 1 million fill-ups, divided by 5300 hours per year (52 weeks times 103.5 hours per week (15.5 hours per day x 5 = 77.5 + 13 hours x 2 = 22 for a total of 103.5 hours) = 5300 (after some holidays subtracted when station is closed) = approximately 189 fill-ups per hour.

impact of the two forms of development. The suggestion that the wall is a cure-all for all effect of the station is, the neighborhood respectfully suggests highly unrealistic.

III. Factors Affecting Values

The report concludes that there are no external effects, essentially because it relies on the statements in the Sullivan report that there will be no such effects. Thus, this statement is no better than the underlying data, which we will comment on separately. A few other points of note are listed below.

a) According to the report, traffic will not be affected because there is a relatively small addition to existing mall traffic and there is no direct connection to the neighborhood road network. As noted above, this does not take into effect the differential traffic effects during the day; i.e., the addition of substantial trips at a time where there are currently almost none. Moreover, despite the lack of a direct connection, the increased traffic in and around the mall is likely to affect the neighborhood. Those seeking to skirt the mall, the added traffic around it, and the long lights on Georgia, Viers Mill, and the mall entrances may well choose to use the McComas/Drumm route to sidestep that area. Entering the mall for instance from the KHCA area to the south means three long lights – exiting onto Georgia from McComas, passing the light at the Georgia/Viers Mill intersection, and waiting out the light going into the mall. Each is quite long and missing all three (as is often the case) can mean that it may take the better part of ten minutes to drive into the mall. It is often far quicker to use the McComas/Drumm/University Blvd. route to enter the mall and avoid the lights. This bypass is likely to grow in popularity for anyone seeking to move from the south to the west on University and vice-versa. It does not appear that this was even taken into account in the report's assumptions. McComas and Drumm are already dangerous streets due to their hilly nature, curves, narrow width, and the speed of traffic on them. Adding more traffic will only make the situation worse. Further, the short sight lines at Drumm and University creates additional traffic hazards for cars using that short cut.

b) Further, according to the report, having a wall built to block one's view is *better* than what is currently in place. That is certainly a debatable point. Moreover, the report refers to an augmented forest buffer. It is our understanding, however, that Planning staff has limited the extent to which additional plantings may be made in the existing forest area, thus undercutting this point.

At page 8, the report concludes that the station will *improve* the overall market value for houses near the mall. That seems a wholly unlikely conclusion. And, even if one can assert that the reports "prove" that there is no actual impact from the station, this discussion fails to even consider any problems arising from "perceptions" with respect to the station. While the station owner can trumpet its claim that there are no harmful health effects from living next to a mega station such as this and that the studies "guarantee" that, such assurances are not at all the same thing as saying buyers would believe that to be the case. As an example, many buyers might be put off from buying a house in which a crime was committed, even though one could "prove"

that it really did not affect the house at all.⁴ Similarly, the siting of the station is highly likely to convince at least a segment of buyers not to look at nearby homes even if “objectively,” they shouldn’t care. A more convincing analysis would be to determine whether a real estate agent would feel obligated to note the existence of the facility for potential out-of-state buyers who cannot physically inspect the area to learn of the station – or to determine whether a buyer might well complain if they were not told of the existence of the station. We submit the answer is surely yes.

IV. Value Trend Analysis

This section is based on the proposition that “if the proximity of filling stations had some negative impact on residential property values, it would be evident in a lower rate of appreciation for any affected properties over time.” The report provides absolutely no support for that assumption and there is no particular reason to believe it is true. If the presence of a station means that a comparable home would be worth 10, or 20, or 30% less than a comparable home without a station on day 1, there seems to be no particularly clear reason why that same 10, 20, or 30% discount would not simply hold up over time, rather than growing larger. Thus, there is absolutely no evidence to establish that this whole discussion is anything more than a meaningless exercise.

Even taken on its own terms, this mode of analysis cannot possibly provide any useful data. The study purports to compare homes in a small number of blocks around the station, to homes within “400 feet” of stations in Kensington (no further description of where these homes are located), to sales in Montgomery County as a whole. It finds 66 sales over a 17 year-period in KHCA or ~3.7 sales/year and 82 sales in Kensington over 18 years for ~4.5 sales/year. There was no statement of the total number of sales in Montgomery County over that period.

The number of house sales in Kensington Heights and Kensington are obviously so small in any given year that, as can be seen from the table on page 11 of the report, there is no clear relationship between the prices of the three groups of houses at any given moment or over time. One year, KHCA sales will be well above Kensington, the next they will be well below. The same applies to sales compared to the county. The obvious explanation for this is that the 3 or 4 houses that happen to sell in a given year in one area have no necessary correlation to the 3 or 4 house that sell the next year, nor are the homes that happen to sell in Kensington necessarily similar to those in Kensington Heights. The huge jump for Kensington houses in the last two years of the study is an example – surely prices for comparable houses in that area did not go up 20% a year in each year when Montgomery County as a whole had much smaller increases. Similarly, Kensington Heights had a 25% drop in prices in the last two years, again something that surely did not occur on comparable homes. These results are undoubtedly due to the difference between a three-bedroom house selling one year, versus a five-bedroom house the next, rather than any overall change in market values.

⁴ Indeed, to curb this problem, Maryland has actually enacted a “stigmatized property” law that forbids realtors from disclosing information about such crimes, precisely because it is assumed that doing so will make it impossible to sell otherwise useable property.

The report's conclusion was that "Given the vagaries of the residential real estate market and the shifting sample of properties from period to period, the trends revealed above can only be suggestive of the fundamentals influencing sales price trends in the three geographic areas. It is reasonable to conclude, nonetheless, that real estate values in all three geographies have appreciated over the long-run at roughly the same rate." That is likely to be perfectly true. What does not follow from that, in any demonstrable sense, is the conclusion (p. 11) that the prices in Kensington (or the future prices in Wheaton) have not been negatively affected by the stations. The evidence presented simply proves nothing either way. Unless one accepts without question, the *a fortiori* assumption that the report simply presumes to be true, i.e., that nearby stations will affect the rate of appreciation, as opposed to merely the starting price for a home, it is patently obvious that this section of the report is meaningless.

CONCLUSION

In short, this report boils down to nothing more than an assertion that "we have been told that the station will have no effect and, accordingly, we believe that there will be no effect on home values." The balance of the report has no meaningful content and can be disregarded in its entirety. Even assuming that it has adequately disproved the hypothesis that the existence of a station will affect the *rate* of price increases, it has shown nothing about whether the station will simply bring down the base price of the homes – the concern of most relevance to the surrounding homeowners.

There are many actions an expert would likely take if he were truly trying to determine the effect of a particular external factor as we will note below. The failure to perform or discuss such actions is highly indicative of the value (or lack thereof) of this report. We suggest some questions below that one would ask an expert who was truly interested in trying to determine the effects on market value of an external factor.

Appendix:

1. If you were trying to value a property, you would look at actual comparables, and consider the square feet, number of bedrooms, and baths, quality of workmanship, etc. You would not simply average all of the sales in a given area as a way to estimate another home's value?
2. If you were comparing two identical houses and one was 200 feet from a large gas station and the other one was not, which would you expect to be valued higher?
3. If a buyer saw the line-up of cars at the Costco gas station in Beltsville on a Saturday, would they consider that to be a material fact if they were buying a home within 200 feet or less? If they were not informed by their agent that such a station was nearby, would you expect to get a complaint from the buyer?
4. Why not try comparing homes in Kensington and near the Wheaton Freestate that are closest to particular stations and similar homes further away?