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VIA HAND DELIVERY

Lloyd Jordan, Chairperson
D C Board of Zoning Adjustment
441 4th Street, N W
Second Floor
Washington, D C 20001

BOARD OF ZONING ADJUSTMENT
District of Columbia
CASE NO. 18289A
EXHIBIT NO. 48

Re: Board of Zoning Adjustment Case No. 18289A for 455 I Street, N.W. (Square 516, Lot 36), Washington, DC (the "Property") – Request to Extend BZA Order No. 18289 (the "Order") for a Period of Two Years – Supplemental Information Requested by the Board

Dear Chairman Jordan and Members of the Board

On behalf of EQR-EYE Street LLC ("**Applicant**"), the owner of the Property and the applicant in BZA Case No 18289A, we are hereby submitting a supplemental letter into the record as requested by the Board's at its February 11, 2014 public meeting Specifically, the Board requested information regarding the Applicant's requests to its parent company's investment committee to fund the project approved by the Order (the "**Project**") and that the Project is not viable in the current market

The Applicant also incorporates by reference its February 10, 2014 submission into this letter. The February 10th submission provided additional information supplementing the Applicant's satisfaction of the "good faith" standard under 11 DCMR Section 3130 et seq and reiterated the request for a two (2) year extension of the Order, rather than a one (1) year extension The Applicant believes that the February 10th letter was not able to be included in the record for review by the Board in time for the February 11th public meeting, due to its submission one day prior The February 10th letter provides additional information on the current unfavorable dynamics of the market making it necessary to obtain an extension to the Order and the "other conditions" applicable to the Project that constitute good cause under Section 3130

I. Requests for Investment

At its February 11th public meeting, the Board asked the Applicant to provide additional information regarding its requests to its parent company's investment committee to fund the Project

The Applicant has attached a sworn, notarized letter as Exhibit A stating that, since the issuance of the Order, there was a weekly conference call between the Applicant and Equity Residential's[1] Executive Vice President of Development, as a representative of Equity Residential's investment committee, wherein the financing to allow commencement of the Project's construction was discussed During each of these calls, the Applicant requested financing approval for the Project and received feedback that the financing for the Project was on hold, pending more favorable dynamics in the market and resolution of at least some of the conditions described in the Applicant's January 8 submission and February 10th letter

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[1] As described in previous submissions, Equity Residential is a national, publicly-traded Real Estate Investment Trust ("**REIT**") and is the parent company of the Applicant

The local team for the Applicant is particularly interested in seeing the Project proceed, as approved by the Order It continues to seek the investment committee's approval of the financing of the Project

II. Information Regarding State of Market

At its February 11th public meeting, the Board asked the Applicant to provide additional information regarding the state of the market for multi-family residential That is, the Board requested that additional information demonstrating that the current state of the market is not favorable for the construction and delivery of the multi-family residential project approved by the Order

The Applicant calculates that there are approximately 1,250 multi-family units either already delivered or to be delivered in the next 20 months in the immediate vicinity of the project – the Mount Vernon Triangle and NoMA areas Exhibit E attached to the Applicant's January 8th submission shows the location of such additional supply The Applicant believes that increasing the window for delivery of the Project is necessary to allow for the absorption of such extensive supply

The Applicant is submitting the attached Washington, DC Apartment Market Report from MPF Research for the fourth quarter of 2013 (the "**Report**", attached as Exhibit B) The Applicant highlighted particularly relevant portions of the Report describing the soft multi-family market that exists in the District, particularly in the vicinity of the Property The Report concludes that the District is in the midst of a frenzied construction boom that will lead to large supply volumes and challenge absorption In fact, the delivery volume of apartment units was at a ten year high for the fourth quarter of 2013, and ranked as the nation's largest completion volume during such time The District's total completions for 2013 reached a two decade high at 10,085 units The Report also noted that construction levels for multi-family remain elevated, with approximately 23,561 units under construction in metropolitan DC This is the second largest construction volume in the nation As a result, the fundamentals of the market have softened and occupancy and rents have dropped along all District market segments, along with rents The Report notes that new supply volumes are projected to nearly double to 19,300 units over the next four quarters and that "it is very unlikely that the [District] can absorb enough of that new product to prevent a significant occupancy decline over the next year" P 3 of the Report Such figure would be a historical high for the DC area P 5 of the Report

The Report notes that the "Central DC" submarket, where the Property is located, is particularly subject to a surge of supply and construction which will make supply an even bigger factor P 6 of the Report The Report notes that the supply is likely to become an even bigger risk factor in the Central DC submarket Id Central DC saw the delivery of the District's largest quarterly supply volume on record P. 16 of the Report

Taken as a whole, the Report makes clear that an investor or owner such as the Applicant would logically conclude that the DC apartment market will face significant oversupply headwinds and that starting construction in the midst of this heavy supply would not necessarily be a wise financial decision

Other companies have reached similar conclusions regarding the oversupply of apartment units in Washington, DC Among them, Marcus & Millichap issued its 2014 National Apartment Report, attached as <u>Exhibit C</u>, which on page 58 notes that Washington DC is in the midst of a construction-induced vacancy rise resulting from a misalignment of supply and demand The Marcus & Millichap report notes that 10,000 units were completed in 2013 with 18,000 units expected to be completed in 2014

Multiple publications have also taken note of the oversupply of multi-family residential projects in DC For example, Bloomberg reached many of the same conclusions as the Report in an article published on April 23, 2013, attached as Exhibit D Similarly, the Washington Business Journal described the same supply challenges for multi-family in its article published on March 15, 2013, attached as Exhibit E The Wall Street Journal added its voice to the chorus of publications touting the oversupply of residential apartments in the District, as described in its article published on March 17, 2013, attached as Exhibit F The oversupply was also noted by the Washington Post, in its article published June 23, 2013, attached as Exhibit G and, specifically regarding the nearby NOMA neighborhood oversupply and vacancy rate, in its March 2, 2014 article, attached as Exhibit H The oversupply has also been noted by the local apartment rental company, Urban Igloo, in its article published January 27, 2014, attached as Exhibit I.

III. Other Conditions Contributing to the Request for Extension

As described in the Applicant's January 8th submission and the February 10th letter, there are several "other conditions, circumstances, or factors beyond the applicant's reasonable control" (under Section 3130 6(c)(3)) in addition to the deferred approval of the Applicant's investment committee and the current state of supply in the market that have contributed to the delay of construction of the Project

The Section 3130 6(c)(3) "other conditions" good cause elements are summarized as follows·

- "Merger" of Equity Residential and 60% of Archstone – Since the issuance of the Order, Equity Residential purchased 60% of Archstone, Inc (with AvalonBay, Inc purchasing the other 40% of such entity) Equity Residential now owns a significantly larger number of residential multi-family units in the Washington, DC area as the number of units jumped from roughly 12,000 to roughly 19,000 This delayed the ability to embark on the project as the company needed to reassess its projects and properties

- Physical Constraints Due to Adjacent Construction – The property to the north, 450 K Street, NW, is currently under construction and utilizes the entirety of the alley at the north of the Property The developer of such property has a license agreement with the Applicant, attached as Exhibit J, to rent and utilize the Property for staging and storage of construction equipment and materials due to such tight configuration It would be difficult for both projects to proceed with construction simultaneously and likely result in a greater use of public space than necessary

- Request for Proposals at Adjacent 5th and I Site – As explained in the Application and more specifically in the February 10th letter, the Applicant hopes that the developer is chosen for the adjacent parcel to bring certainty to the condition along that property line However, as mentioned in the February 10th letter, the Applicant is prepared to proceed with the Project despite the current state of the District's RFP

IV. Good Cause Shown

Given the totality of the conditions and circumstances described above and in the Application, the Applicant believes that the "good cause" required under the third prong of Section 3130 6 has been satisfied Despite the challenges described above and in the extension application materials, the Applicant has acted diligently, prudently, and in good faith to proceed towards the implementation of the Order The Applicant has spent considerable funds on plans and construction drawings necessary to apply for a building permit for the Project The Applicant has paid approximately $2 5 million towards implementation of the Project since the issuance of the Order

The Applicant has applied for its building permit for the Project and has pushed it well into the District of Columbia Department of Consumer and Regulatory Affairs ("**DCRA**") review process In addition, the Applicant has obtained the necessary public space permits for the Project and has applied for its raze permit The Applicant continues to price the construction costs of the Project with general contractors.

V. **Conclusion**

As stated in the Applicant's January 8th extension request submission and the February 10th letter, the Applicant wishes to see the Project completed as soon as possible The Applicant has a significant investment in this Property For all of the above reasons constituting good cause, the Applicant requests a two (2) year extension for BZA Order No 18289.

Thank you for your attention to this application

Respectfully submitted,

John T. Epting

Jeffrey C Utz

cc Richard Boales
Ben Stoll

Board of Zoning Adjustment – 455 I Street, NW
March 4, 2014

Certificate of Service

I certify that on March 4, 2014, I delivered a copy of the foregoing document via hand delivery or first class mail to the addresses listed below

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