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1815 Riggs Place, NW
Apartment Feasibility

Bolan Smart Associates has been asked to provide an overview of economic issues pertaining to constructing additional units on the third floor of an existing apartment building at 1815 Riggs Place, NW in Washington DC.

The economic feasibility of redeveloping the subject property, comparing adding three units (@ 2.16 FAR) with adding one unit (@ 1.8 FAR), is constrained by a number of factors associated with economies of scale. The high cost per square foot of building one unit, totaling 565 gross square feet, versus constructing three units, totaling 1,927 gross square feet, requires an end rent under the single unit scenario that is over market by a factor of approximately one third, rendering a single-unit addition uneconomic.

As detailed in the attached Table 1, development costs and income were compared for the respective construction scenarios. Based on a review of the applicant's development assumptions, costs and revenues were divided into the fixed and incremental components. The net effect of limiting the project size to 565 gross square feet is summarized as follows:

- 4% reduction in achieved leaseable (rentable) square feet per area of gross square feet, attributable primarily to the space needed to add a stairwell serving only one unit.
- 40% increase in average development cost per apartment unit, due to the combination of substantial fixed costs, less efficient construction costs, and higher per unit soft costs.
- **33% over market rent** required to break even on a one unit addition.

Table 1
1815 Riggs Place, NW
FINANCIAL FEASIBILITY

			2.16 FAR	1.80 FAR	
Project Description					
1)	Units		3	1	
2)	Gross Square Footage		1,927 gsf	565 gsf	
3)	Efficiency (rentable sf / gross sf)		87%	84%	**3.7% less efficient / unit**
4)	Total Rentable Square Footage		1,681 rsf	474 rsf	
5)	Average Rentable Square Footage / Unit		560 rsf/unit	474 rsf/unit	
Development Costs					
6)	Fixed Costs				
7)	land		$0	$0	
8)	stairs / second floor modifications		$35,000	$35,000	
9)	approvals / other fixed elements		$30,000	$30,000	
10)	***Total Fixed Development Costs***		***$65,000***	***$65,000***	
11)	Incremental Costs				
12)	construction / FF&E per gsf for single unit		$190 /gsf	$190 /gsf	
13)	economies of scale for multiple units		$165 /gsf	$190 /gsf	**15.2% more expensive**
14)	total construction cost		$317,955	$107,274	
15)	***Net Incremental Development Costs***		***$317,955***	***$107,274***	
16)	***Total Fixed and Incremental Costs***		***$382,955***	***$172,274***	
17)	Other Soft Costs (A&E, admin, financing) & Contingencies		25%	30%	**20.0% more expensive**
18)	***Total Soft Costs & Contingences***		***$95,739***	***$51,682***	
19)	***Total Development Costs***		***$478,694***	***$223,956***	
20)	total cost per unit		$159,565 /unit	$223,956 /unit	**40.4% more expensive**
21)	total cost per gsf		$248 /gsf	$397 /gsf	
Funding Requirements					
22)	Mortgage Debt	75 00%	$359,020	$167,967	
23)	25 years amortization	5 00% interest rate	$25,473	$11,918	
24)	Cash Equity	25 00%	$119,673	$55,989	
25)	net equity yield	12 50% min required yield	$14,959	$6,999	
26)	***Net Annual Financing Cost***	8 45% cash-on-cash equivalent	***$40,433***	***$18,916***	
Required Market Rent					
27)	Op Expenses (net of heat & elec)	$8 00 /rsf	$13,448 /year	$3,794 /year	
28)	Replacement Reserves	$1 00 /rsf	$1,681 /year	$474 /year	
29)	Real Estate Taxes	$4 00 /rsf	$6,724 /year	$1,897 /year	
30)	Total Operating Expenses	$13 00 /rsf	$21,853 /year	$6,165 /year	
31)	per unit / year		$7,284 /unit	$6,165 /unit	
33)	Vacancy / Credit Loss	7 50% of market rent	$5,295 /year	$1,494 /year	
34)	Annual Financing Costs		$40,433 /year	$18,916 /year	
35)	Total Annual Cost		$67,581 /year	$26,576 /year	
36)	Total Monthly Market Rent	$3 50 / rsf / month	$5,884 /month	$1,660 /month	
37)	per unit / month		$1,961 /unit	$1,660 /unit	
38)	Total Annual Project Revenue		$70,602 /year	$19,919 /year	
39)	Monthly Required Rent		$5,632 /month	$2,215 /month	
40)	per unit		$1,877 /unit	$2,215 /unit	
41)	per rentable square foot		$3 35 /rsf	$4 67 /rsf	**33.4% over market rent**
42)	***Annual Profit / Loss***		***$3,021*** /year	***($6,657)*** /year	

Bolan Smart Associates, Inc (05/14)