

January 6, 2015

By E-Mail Submission

Lloyd Jordan, Chairman
Board of Zoning Adjustment
441 4th Street, NW
Suite 210S
Washington, DC 20001
bzasubmissions@dc.gov

Re: Post-Hearing Submission; BZA Application No. 18790; 2724 11th Street NW

Dear Chairman Jordan and Members of the Board:

The Applicant is hereby submitting additional support for the financial calculations submitted to the Board in its prehearing statement filing. In its Prehearing Statement, the Applicant submitted a construction budget from SCF Management, LLC, and pro formas estimating the project cost and cash flow projections associated with the proposed renovation of the building (the "Building") located at 2724 11th Street, NW (the "Property"). That budget is submitted here as Exhibit A.

To provide additional support for those estimates, the Applicant is submitting a formal proposal it has received from a potential construction contractor, JPJ Construction, for the Building's renovation, including the net addition of the eight (8) residential units. The quote from JPJ Construction amounts to approximately 2.7 million dollars, which when combined with soft costs and construction loan interest costs, is consistent with the budget estimate provided by the Applicant in its Prehearing Statement. Based on these estimates, the Applicant will be seeking a construction loan in the amount of at least 3.5 million dollars in order to complete the renovation with the addition of the basement units. The debt service payments on this amount are reflected on the pro formas submitted with the Prehearing Statement and included herein as Exhibit B. The JPJ construction budget is attached hereto as Exhibit C.

In addition, the Board asked for clarification on the large amount of professional expenses included in operating expenses on the pro forma for 2015. This amount - \$150,000 - represents costs associated with legal fees related to this variance request, the ongoing hardship petition (without which the pro formas would show reduced rental revenue), and loan closing and negotiation legal costs. These expenditures are included in the pro formas as operating expenses – rather than being rolled into the development costs – because they will be paid separately and not covered by the loan amount. This estimate consists of approximately \$80,000 in legal fees related to entitlement, loan closing, and related transactional issues; approximately \$25,000 in architectural and engineering fees not included in the development costs; \$30,000 for fees and expenses related to the ongoing hardship petition; \$7,000 for accounting and audit costs; and \$8,000 for miscellaneous legal and other professional fees.

The overall evidence submitted to the Board shows that each prong of the variance test is safely met, under a confluence of factors, as summarized herein.

Unique Conditions which Lead Directly to a Practical Difficulty.

The Property is an extraordinarily large lot in comparison to the surrounding neighborhood and to the R-4 zone district in general. The Property's land area is 12,209 square feet, where the large majority of lots in this neighborhood have an area of 2,300 square feet. This Property has been of that same lot area since at least 1923 when the Building was originally constructed.

The Building was built as a conforming apartment building in or around 1923 and was later made nonconforming upon the adoption of the 1958 Zoning Regulations. This element, having a large apartment building legally constructed as a conforming building on a conforming lot, and then being changed to a legally nonconforming building in 1958, and located within a zone which is meant for 1 and 2 unit buildings on lots typically around 1,800-2,300 square feet in size, has presented a practical difficulty to the owner in sustaining the Building and making the changes and upgrades necessary for a 1923 Building.

In this scenario, the Building cannot be demolished and rebuilt to its current condition or number of units, and it is difficult to do a complete renovation of the Building without having the flexibility to add additional residential units in the basement. Such a practical difficulty is apparent from the fact of having a large, old building that is mis-placed in the R-4 zone, and in need of significant repairs and updating merely as a result of the passage of time and a change in the Zoning Regulations. The financial information submitted by the Applicant functions to support that argument, by providing credible evidence for what is apparent to those who have visited the Property, including the Applicant's structural engineer, that the Building is in dire need of a major overhaul.

In addition, the Property is without access by alley or curb cuts, potential or otherwise, which also serves to limit future development or redevelopment. And any other solution but the one being presented in this Application would involve significant upheaval and probably relocation for the current tenants, as well as significant rent increases for existing tenants. This Application proposes that the necessary renovations are paid for by the provision of additional units, rather than from additional rent increases to existing tenants.

These unique conditions – the size, configuration, condition, and history of the Property – all directly present a significant and apparent practical difficulty to the Property owner.

No Substantial Detriment

Granting relief would not adversely affect the public good nor would it impair the integrity of the Zoning Regulations. All have agreed that a major renovation is greatly needed and desired for this Building. Even the persons that spoke in opposition to the Application spoke primarily of the need for the renovation.

The proposal seeks no increase at all in the footprint or height of the Building. The existing side yard will be converted to patio and green space. Several 2-bedroom units will be provided (something the ANC specifically requested). Handicap accessible units will be provided on the ground floor, with direct access. Trash collection will be moved inside the Building, the Building exterior will be renovated, and every single unit will be renovated without the need for tenant relocation from the Building. The Building will be safer,

more attractive, cleaner, and more sustainable. Every aspect of the renovation directly addresses the concerns of those that spoke in opposition to the Applicant at the hearing.

This is why two ANC Commissioners, including the ANC 1B Chair and SMD Member, and the neighboring SMD Member, testified so persuasively for approval of the Application.

Closing

We are hopeful that the clarifications and additional support provided herein are responsive to the Board's requests, and we respectfully request that the Board grant the requested relief and allow the renovation of the Building to go forward.

Sincerely,

A handwritten signature in dark ink, appearing to read "Martin P. Sullivan". The signature is fluid and cursive, with the first name "Martin" and last name "Sullivan" clearly distinguishable.

Martin P. Sullivan

cc: James Turner, ANC 1B
Office of Planning, Stephen Mordfin

SCF Management, LLC

1433 T St., NW Suite T10 Washington, DC 20009

Phone 202-232-0330 fax 202-506-7253

2724 11th St., NW Construction Budget

With Basement Units

Without Basement Units

Item	Cost		
Windows	\$ 83,000.00	\$ 70,000.00	
New Roof, Gutters & Facial Board	\$ 82,000.00	\$ 82,000.00	
New Electrical	\$ 200,000.00	\$ 100,000.00	
New Plumbing	\$ 275,000.00	\$ 150,000.00	
New HVAC	\$ 175,000.00	\$ 140,000.00	
Resanding Floors and New Floors	\$ 90,000.00	\$ 75,000.00	
New Walkways & Retaining	\$ 100,000.00	\$ 50,000.00	
Point up building and painting	\$ 100,000.00	\$ 100,000.00	
Sprinkler System	\$ 82,000.00	\$ 65,000.00	
Doors	\$ 35,000.00	\$ 24,500.00	
Countertops	\$ 84,000.00	\$ 58,800.00	
Appliances	\$ 125,000.00	\$ 87,500.00	
Cabinets	\$ 100,000.00	\$ 70,000.00	
PEPCO (Utility Tie-In)	\$ 40,000.00	\$ -	
Bathroom & Common Area Tile	\$ 125,000.00	\$ 87,500.00	
Drywall & Carpentry	\$ 250,000.00	\$ 175,000.00	
Painting	\$ 125,000.00	\$ 87,500.00	
Trash Removal	\$ 50,000.00	\$ 35,000.00	
Demolition	\$ 60,000.00	\$ 42,000.00	
Structural Repairs-Silman Report	\$ 250,000.00	\$ 250,000.00	
Architect and Engineering	\$ 110,000.00	\$ 80,000.00	
Permits & Licenses	\$ 25,000.00	\$ 25,000.00	
Excavation	\$ 220,000.00	\$ -	
Environmental & Lead Abatement	\$ 200,000.00	\$ 200,000.00	
Total	\$ 2,986,000.00	\$ 2,054,800.00	
General Contractor Fee (6%)	\$ 179,160.00	\$ 123,288.00	
Subtotal	\$ 3,165,160.00	\$ 2,178,088.00	
Interest Carry (7% for 18 months)	\$ 332,341.80	\$ 228,699.24	
Total Development Costs	\$ 3,497,501.80	\$ 2,406,787.24	

Exhibit A

Pro Forma with Basement Units - 2724 11th Street, NW Exhibit B

	2015	2016	2017	2018	2019	2020
RENTAL INCOME	\$200,000	\$335,000	\$540,000	\$545,000	\$550,000	\$590,000
EXPENSES						
Management & Marketing	\$30,000	\$50,000	\$40,500	\$37,000	\$37,000	\$38,000
Maintenance & Repairs	\$25,000	\$15,000	\$10,000	\$10,000	\$10,000	\$10,000
Utilities	\$35,000	\$30,000	\$31,000	\$32,000	\$33,000	\$35,000
Professional Expenses	\$150,000	\$50,000	\$10,000	\$10,000	\$10,000	\$10,000
Taxes	\$21,000	\$35,000	\$35,000	\$36,000	\$37,000	\$37,500
Insurance	\$17,000	\$18,000	\$18,000	\$18,000	\$18,000	\$18,500
Renovation Fees	\$7,000	n/a	n/a	n/a	n/a	n/a
Misc. Expenses	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
TOTAL EXPENSES	\$295,000	\$190,000	\$154,500	\$154,500	\$155,000	\$159,000
Operating Income	(\$95,000)	\$145,000	\$385,500	\$390,500	\$395,000	431,000
LESS Vacancy/Collections Prediction	N/A	\$10,200	\$64,800	\$65,400	\$66,000	\$70,800
LESS Debt Service on note of \$3,500,000 @ 5% over 15 years	\$200,000	\$320,000	\$320,000	\$320,000	\$320,000	\$320,000
Net Cash Flow	(\$295,000)	(\$165,200)	\$20,700	\$25,100	\$29,000	\$60,200

Pro Forma without Basement Units - 2724 11th Street, NW

Exhibit B

	2015	2016	2017	2018	2019	2020
RENTAL INCOME	\$200,000	\$348,000	\$360,000	\$372,000	\$384,000	\$402,000
EXPENSES						
Management & Marketing	\$20,000	\$24,500	\$25,500	\$26,000	\$27,000	\$29,000
Maintenance & Repairs	\$25,000	\$15,000	\$10,000	\$10,000	\$10,000	\$10,000
Utilities	\$20,000	\$22,000	\$23,000	\$25,000	\$25,500	\$26,000
Professional Expenses	\$100,000	\$30,000	\$10,000	\$10,000	\$10,000	\$10,000
Taxes	\$21,000	\$22,000	\$25,000	\$26,000	\$27,000	\$27,500
Insurance	\$17,000	\$18,000	\$18,000	\$18,000	\$18,000	\$18,500
Renovation Fees	\$7,000	n/a	n/a	n/a	n/a	n/a
Misc. Expenses	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
TOTAL EXPENSES	\$220,000	\$141,500	\$121,500	\$125,000	\$127,500	\$131,000
Operating Income	(\$20,000)	\$206,500	\$238,500	\$247,000	\$256,500	\$271,000
LESS Vacancy/Collections Prediction	N/A	\$41,760	\$43,200	\$44,640	\$46,080	\$48,240
LESS Debt Service on note of \$2,400,000 @5% over 15 years	\$140,000	\$228,000	\$228,000	\$228,000	\$228,000	\$228,000
Net Cash Flow	(\$160,000)	(\$63,260)	(\$32,700)	(\$25,640)	(\$17,580)	(\$5,240)