525 Longfellow St NW – BZA 19100

Nov 3, 2015

525 Longfellow St NW
BZA: 19100
Financial Study

Attached are financial feasibility analyses of identified possible uses for 525 Longfellow ST, NW in Washin ton DC. These have been prepared in collaboration of the applicant and applicable industry norms.

Market Demand: There is a lack of identifiable market demand at the subject site — i.e. neighborhood conditions, site access and visibility. This particular submarket of Petworth does not have many comparable projects.

Economic Assumptions: The applicant has identified a number of variables and assumptions related to representing economic feasibility. Key variables include:

Development Costs

Gross SF / Net SF:	*conversion to net square footage factor for unusable space*
Fixed Costs: land: other fixed elements:	*Do not vary based on project type or size* *Per applicant purchase price (plus settle costs) in March 2015* *Base building surveys, designs, entitlement costs, permit and fees*
Incremental Costs: hard construction:	*Vary based on project type, size, floors, etc..* *Building construction costs that vary by building type (industry norms)*
Soft Costs:	*Design costs, admin, fees, construction period financing, etc (typically 10-15% of all development costs)*

Income & Expense:

Potential Gross Revenue	*Income assuming marketability (see Footnotes for background)*
Operating Expenses:	*Surveillance/security, maintenance, management, insurance*
Net Income:	*Project net income after deduction for operating or sales costs.*

Funding Requirement

Mortgage Debt:	*Applied to rental property: terms depend on product type/risk (N/A)*
Investment/Equity	*the total cost if for sale, cash value (i.e 30%) if leveraging mortgage debt*
yield requirement	*The minimum required return (one-time on total investment for sale, annually on equity for rental)*
Profit/Loss	*Net income minus development/financing cost*

Investment Return Thresholds: The critical need for at-risk real estate development is that the projected income generates enough revenue to justify the commitment of the capital required to pay for the investment. Without sufficient returns, no developer will be able to justify the investment either for themselves, or to attract independent investors. In this case, no experience investor would commit to any of the alternative developments which fail to generate a minimum of a 11% return either on project cost of a one time for-sale venture (and more typically in the 18% to 20% range), or as a annual rate of return on the equity committed to underwrite long term mortgage debt. Real estate development by its nature is a high-risk venture, with many variable, some controllable, and other not. Investors, lending institutes (and consumers) have many other safer (and more liquid) options, with little or no risk (e.g., a diversified portfolio with growth and dividend paying stocks, US treasuries, corporate bonds, annuities, etc.) to accept real estate development projected yields that are not substantially higher.

525 Longfellow LLC
Project: 525 Longfellow St NW
BZA: 19100

Project Description		BZA Request 3 Lots/6 Units			2 Lots / 4 Units	
Units			6			4
Parking		Included			Included	
Gross Living Area			10,776			10,400
Total Saleable			10,776			10,400
Average Gross Square Footage /Unit			1,796			2,600
Development Costs						
Fixed Costs						
building (including settlement costs)		$	572,715		$	572,715
other fixed elements (non variable development costs)[2]		$	163,750		$	163,750
Total Fixed		$	736,465		$	736,465
Incremental Cost						
hard costs (per budget / industry norms)			$155/gsf			$145/gsf
total construction cost		$	1,670,280		$	1,508,000
Total Building Cost		$	1,670,280		$	1,508,000
Total Fixed and Incremental Cost		$	2,406,745		$	2,244,465
Variable Soft Costs			10.00%			10.00%
(fees, admin, consturction period financing)						
Total Soft Costs		$	240,674.50		$	224,446.50
Total Development Cost		**$**	**2,647,419**		**$**	**2,468,911**
total cost per unit						
Income & Expense						
Potential Gross Revenue [3]		$	3,178,920		$	2,610,400
per unit	$300/sf	$	529,820	$285/sf	$	652,600
Cost of Sales	5.00%	$	(158,946)	5.00%	$	(130,520)
Transfer and Recordation	*2.50%*	*$*	*(79,473)*	*2.50%*	*$*	*(65,260)*
Total Project Revenue		*$*	*2,940,501*		*$*	*2,414,620*
Funding Requirements						
Required Investment (total development cost)		*$*	*2,647,419*		*$*	*2,468,911*
yield requirement 11% min return	*11.00%*	*$*	*291,216.14*	*11.00%*	*$*	*271,580.26*
Financing Cost /Yield Requirement		***$***	***291,216***		***$***	***271,580***
Net Income		*$*	*2,940,501*		*$*	*2,414,620*
Development Cost		*$*	*(2,647,419)*		*$*	*(2,468,911)*
Financing Cost /Yield Requirement		*$*	*(291,216)*		*$*	*(271,580)*
Profit / Loss after Financing		***$***	***1,865***		***$***	***(325,872)***

[2] Base building surveys, design, entitliment costs, permits and fees per budget / industry norms

[3] Projected sales price based on neighborhood market conditions adjusted for unit size, basement configuration and location. Note the adjacent row homes have generally sold for roughly 280-400 sq ft. Law of dimineshing returns apply to 4 large units, price per square foot will decrease after 1600 sq ft.

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Parking	Included		Included	
Gross Living Area		10,776		10,400
Total Saleable		10,776		10,400
Average Gross Square Footage /Unit		1,796		2,600
Real Estate Taxes	$	6,500	$	6,500
Legal	$	20,000	$	20,000
Architectual & Engineering	$	105,000	$	105,000
Permitting, Testing & Utility Fees	$	24,000	$	24,000
Insurance	$	8,250	$	8,250
Total Non Variable Costs	**$**	**163,750**	**$**	**163,750**

General Construction	$	441,816	$	353,600
Demolition	$	64,656	$	62,400
Utility Service	$	43,104	$	41,600
Site Work	$	86,208	$	83,200
Foundation	$	134,700	$	130,000
Exterior Finishing	$	96,984	$	93,600
Carpentry	$	161,640	$	156,000
Doors and Windows	$	53,880	$	52,000
Finsihes	$	129,312	$	124,800
Electrical, Mech & Plumbing	$	258,624	$	223,600
Equipment and Rental	$	43,104	$	36,400
Façade Front and Rear	$	70,044	$	67,600
Landscaping	$	32,328	$	31,200
Roof	$	53,880	$	52,000
Total Building Costs	**$**	**1,670,280**	**$**	**1,508,000**