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Outline Testimony
Richard R. Harps
Harps & Harps, Inc.

Square 741
Board of Zoning Adjustment Case No. 16601
September 19, 2000

I. Description of neighborhood and trends.

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BZA
Case No. 16601
Exhibit No. 34

Board of Zoning Adjustment
District of Columbia
CASE NO.16601
EXHIBIT NO.34

Harps & Harps, Inc.
Square 741 - BZA Case # 16601
Outline of Testimony of Richard R. Harps

I. Description of neighborhood and trends.

Capitol South, an area bound by South Capitol Street on the west, Capper/Carrollsburg dwellings on the east, the Capitol Grounds and the SE/SW Freeway on the north and M Street on the south, is an area that has begun to experience sporadic commercial office development as a spin-off from the on-going relocation of the US Navy to the Navy Yard. Historically, the area was industrial, underdeveloped and underutilized. Vacant lots, automobile service businesses, and nightclubs predominated the area between 2nd Street and South Capitol Street. M Street, which is the main commercial street in the area, separates the Navy Yard and the Southeast Federal Center from the District owned housing projects located north of M Street and east of 2nd Street. South of M Street, between 1st Street and South Capitol Street, the industrial character of the area remains intact, with automobile service uses, trash recycling facilities and construction yards. Proposals to redevelop this area are in place, although no development has yet to begin.

Uses in close proximity to Square 741 include a large site and structure formerly used by DC DPW as a trash transfer station and currently used for storage and parking for DPW directly across K Street from subject. The US Reservations occupying the middle of 2nd Street are currently used for school bus parking, and a number of residential properties (mostly vacant, boarded up and/or vandalized) are located along the eastern portion of the area.

At the present time the major impact on the entire area is the continuing relocation of US Navy employees from Crystal City, in Arlington, Virginia, to the Navy Yard Complex south of M Street. With the relocation of the government employees, two new office buildings are under construction on the north side of M Street. These two buildings, at 80 M Street, southwest of subject, and 300 M Street, southeast of subject, reportedly pre-leased to various Navy contractors. Another proposed new office building at 12th and M Street also has a significant portion of the space pre-leased. There is likely to be some additional demand for private office space in the area as the Navy relocation nears completion over the next few years.

In addition, the General Services Administration has been promoting the 55-acre site located on the western portion of the original Navy Yard complex as a site for a massive federal government office facility. At the present time, two of the five finalists for the new Department of

Transportation Headquarters complex would use the SEFC. Thus, there exists the possibility of even greater numbers of federal employees and related spin-off private office employment in the future.

As a precursor to these developments, the area north of M Street, between South Capitol Street and the public housing complexes, was rezoned from industrial to C-3-C during the late 1990s. This change allowed for future development of office and residential uses in the area.[1] In addition, the area was recently designated a receiving area under the Downtown Development Overlay District, which permits increases in both development density and building heights under certain specified conditions.

Major 'outside' forces in the area tend to be non-residential in nature. The area immediately to the west of South Capitol Street is industrial and low-density office, with numerous automobile related retail uses. The area immediately north of the Freeway contains the Capitol Power Plant. The area to the south of M Street is generally industrial with retail uses along Sough Capitol and M Streets, and is likely to become more office oriented in the future once GSA's Southeast Federal Center becomes a reality. Finally, the area immediately east is improved with a number of low-density public housing complexes.

Recent asking prices for commercial office land along M Street range from $25 to $30 per FAR. Given the character of the existing, surrounding uses and general market conditions, it is expected that the typical development in the immediate area will be non-residential project. The significant increase in residential rentals and residential land values in other areas of the City indicate, however, that there could be a market for residential units in and around subject. The difficulty is that there is no proven market for such uses at this time. The recent nearby rentals in the Southwest Urban Renewal Area are, with the exception of projects overlooking the Potomac River, well below the rentals achieved in Downtown, near Downtown, or West End areas, where residential land prices have increased the most. (See August 2000 Apartment Rentals)

[1] Generally, residential uses are not currently permitted in the industrial zones.

II. Site Description and Proposed Development - Square 741

Square 741 is located one block north of M Street, in Southeast, Washington, DC. The Square is bound by K Street on the north, New Jersey Avenue on the west, L Street on the south and 2nd Street on the east. Subject, which will contain 48,108 sq. ft. of land once alleys are closed, will occupy the entire square with the exception of a small 770 sq. ft. site at the southeast corner of the square (northwest corner of the intersection of 2nd and L Streets). The site is presently improved with a number of miscellaneous structures, including a one story industrial building and a number of vacant residential and miscellaneous structures. The development of the site assumes a vacant and unimproved site. The site is zoned C-3-C, which permits a 6.5 FAR development to a height of 90 feet. The PUD guidelines for the site permit a maximum height of 130 feet under the Height Act of 1910 and a development density of 8.0 FAR. More importantly, the site is within a receiving area under §1700 of DCMR 11 Zoning, generally known as the Downtown Development Overlay. Under DD, development of the site is permitted to a 10.0 FAR, with the acquisition of sufficient Transferable Development Rights (TDRs) from a sending site within DD. With the existing frontage on New Jersey Avenue, the maximum height will be 130 feet under the 1910 Height Act. As New Jersey Avenue has a right-of-way of 160 feet, the 1910 Height Act would permit a maximum building height of 130 feet.

The proposed development will be a mixed use residential, retail and hotel structure, developed to a maximum density of 9.65 FAR. The breakdown of the site and gross floor area by uses (residential and non-residential) is:

	Site Area	GFA	FAR
Hotel	13,363.6 sf	116,570 sf	8.72 FAR
Residential	34,744.3 sf	347,443 sf	10.00 FAR
Total	48,107.9 sf	464,013 sf	9.65 FAR

Under the zoning, the proposed development of the site would require the acquisition of over 151,312 sq. ft. of TDRs from a sending site in DD.

Use	GFA M/R	GFA Proposed	TDRs Required
Hotel	86,863 sf	116,570 sf	29,707 sf
Residential	225,838 sf	347,443 sf	121,605 sf
Total	312,701 sf	464,013 sf	151,312 sf

III. General Residential Rental Market - August 2000 Apartment Rentals

Current apartment rentals in the nearby Southwest Urban Renewal residential market, the newer apartment buildings located in and around Downtown and the West End area of the City are summarized below. While there has been a large increase in apartment rentals in all areas of the City, the general location of subject and the entire Southwest market to the west, remain at levels well below those found in Downtown and the West End.

Southwest URA - August 2000

Town Center Plaza		Marina Towers	
1001 3rd SW	Utils Included	1100 6th SW	Utils Included
One Bedroom	$845-$915	One Bedroom	$1,185-$1,350
Two Bedroom	$945-$1,015	Two Bedroom	$1,450-$1,500

Capitol Park Towers		Potomac Place	
301 G SW	Utils Included	800 4th SW	Utils Included
One Bedroom	$775-$900	One Bedroom	$929-$999
Two bedroom	$1,040-$1,095	Two Bedroom	$1,109-$1,179

Waterside Towers	
907 6th SW	Utils Included
One Bedroom	$1,100-$1,416
Two Bedroom	$1,400-$1,999

Downtown - Pennsylvania Quarter - August 2000

Lexington		Lansburghs	
400 8th NW	Utils-Ten	425 8th NW	Utils-Ten
One Bedroom	$1,600-$2,050	One Bedroom	$1,650-$1,850
Two Bedroom	$2,550-$3,200	Two Bedroom	$2,256-$2,700

Massachusetts Avenue/Downtown North - August 2000

Massachusetts House		Latrobe	
1234 Mass NW	Utils-Ten	1335 15th NW	Utils-Ten
One Bedroom	$825-$1,025	One Bedroom	$1,500-$1,650
Two Bedroom	$1,325	Two Bedroom	$1,750-$2,000

Mount Vernon Plaza	
930 M NW	Utils-Ten
One Bedroom	$795-$900
Two Bedroom	$900-$925

West End/Downtown - August 2000

Westbrooke		Winston	
2201 N NW	Utils-Ten	2140 L NW	Utils-Ten
One Bedroom	$1,700-$2,300	One Bedroom	$1,400-$1,750
Two Bedroom	$3,000-$4,400	Two Bedroom	$2,300-$2,800

Capital Hill - Proposed

G Street - between 4th and 6th, SE	
Two Bedroom	$1,750+

IV. Need for Relief to Improve Development Feasibility.

At the present time, the apparent trend in the area is for commercial office development along M Street. There is also a reasonable potential for additional commercial office development north of M Street in conjunction with the eventual development of the Southeast Federal Center. The existing residential uses in the area consist of City owned public housing. Rentals in the residential units in the nearby Southwest Urban Renewal area, centered around 4th and M Streets, SW, are significantly below rentals for otherwise similar buildings located in and around Downtown.

Under matter of right development, the site could be developed with a 312,701 sq. ft. structure devoted entirely to office, hotel, residential, retail, or other uses permitted in the C-3-C zone. With the acquisition of TDRs, 481,000 sq. ft. of office development is permitted as a matter of right. The proposed project will contain 464,000 sq. ft. of gross floor area, and be within the height limit and FAR maximums permitted under the receiving zone. The hotel component, which will be developed to a density of 8.72 FAR, will acquire the TDRs necessary to develop that component. The apartment component will be developed to a 10.0 FAR but requires a variance on the requirement to buy TDRs to increase the density from a 6.5 FAR to a 10.0 FAR.

The proposed project will be a pioneering development. There has been no new market rate residential development in the neighborhood for many years. The zoning of the area anticipates a commercial office use. The developments in the Navy Yard and future potential development in the Southeast Federal Center indicate that some residential demand could be created. With no market rate residential supply in the area, these new office workers will continue to live outside the area, and probably outside the City. The principal hope of the developers is that with some supply in place, sufficient numbers of these new office workers will choose to live in the neighborhood, becoming urban pioneers. The difficulty is in developing a sufficient number of units to create a definable market and to create a financially feasible project. The hotel component is needed in order to create the amenities that will support the residential component. The additional density is needed in order to create a sufficient number of units. The question is how to do both and create a feasible project.

Absent one or more subsidies from City or federal entities, a market rate residential rental apartment would not be feasible at this time, especially with a smaller number of

units. The acquisition cost of the site, at approximately $100 per sq. ft., is equivalent to a price of about $15 per FAR. The current price for TDRs is about $15 per FAR foot. Thus, the allocated land value to a 6.5 FAR residential component would be approximately $3,400,000.

Current market rentals for a new high-rise apartment building on the site, assuming that sufficient demand is created by the new office workers, would range between $1.75 per sq. ft. and $2.00 per sq. ft. While the newer buildings around Downtown are at higher rentals, the apparent impact of market forces in the area will keep rentals nearer the nearby Southwest Urban Renewal area and Capitol Hill markets. At these rent levels, the residual land value under a purely market rate project would be in the neighborhood of -$2,100,000. This spread between land value residual (-$2,100,000) and land value cost ($3,400,000) results in a total loss of almost $5,500,000 or -$14,500 per unit. If the developer were required to actually pay for the additional density (over the 6.5 permitted without TDRs), the losses would be even greater, and could approach a spread of -$7,300,000 or -$19,400 per unit. And, as the number of units declines, the losses per unit will grow due to the loss of economies of scale associated with smaller projects.

In order to improve the feasibility of the project, the amenities required for and associated with the hotel will be used by the residential component. In addition, tax free bond financing (which will mandate that 20% of the units be set aside for affordable housing), and other subsidies and benefits will be used to reduce the long term carrying cost and the spread between financing and value. Using these subsidies, the net loss spread between land value (6.5 FAR site) and land residual is reduced to -$650,000, before any TDR acquisition costs. With the hoped for improvements in the overall market, this loss will could be eliminated. However, please note that imposing any additional acquisition costs on the project only serves to make an already marginal proposal even more questionable.

The problem can be summarized, in a somewhat circular fashion, as follows:

- To develop the project, sufficient residential units are needed in order to generate economies of scale;

- The hotel and amenities associated with the hotel are needed to help market and stabilize the residential units;

- The site, under the matter of right density of 6.5, is too small to incorporate a large apartment property and a hotel, thus, the need to develop the site using the height and density permitted in the receiving zone;

- The residential project, at market rates, is not feasible in the current market (negative residual land value) without significant assistance and subsidies which will mandate a 20% affordable housing component in the property;

- The subsidies and benefits to be received from bond financing and other subsidies are expected to be sufficient to offset the loss in revenue from the affordable units and to reduce the overall loss on the project, hopefully creating, in the future, a positive residual land value for the apartment component;

- To develop sufficient residential units, additional density for the apartment component is required;

- The residual land value to the residential component is insufficient to pay for the site (acquisition cost) AND buy TDRs for the apartment component;

Therefore, in order to create an environment where the project can be developed the ability to utilize the density and height permitted in the receiving zone without actually having to buy the TDRs for the residential component must be permitted.

Thus, the requested variance to develop the residential component to the maximum density and height guidelines of the receiving zone without having to purchase TDRs for the residential component is both reasonable and justified.

V. Conclusion

Future development under the current zoning would likely consist of non-residential development until a significant amount of the area has been redeveloped with commercial office and non-industrial uses. The proposed development will create a base upon which other mixed-use developments could expand. Therefore, the relief sought, which will allow for more units as well as a greater probability of success, is an important component of the project, and necessary for development at the current time.

VI. File Attachments:

Certification

Assumptions and limiting conditions

Qualifications

Certification

The Undersigned does hereby certify that, to the best of his knowledge and belief:

The statements of facts contained in this report are true and correct;

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are his personal, impartial, and unbiased professional analysis, opinions and conclusions;

He has no present or prospective interest in the property that is the subject of this report, and he has no personal interest with respect to the parties involved;

He has no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;

His engagement in this assignment was not contingent upon developing or reporting predetermined results;

His compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;

His analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;

He made an inspection of the exterior of the property that is the subject of this report;

No one provided significant professional assistance to the person(s) signing this report;

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, Richard R. Harps has completed the requirements of the continuing education program of the Appraisal Institute.

Disclosure of the contents of this appraisal report is governed by the by-laws and Regulations of the Appraisal Institute.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which he is connected or the MAI or SRA designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communications without the prior written consent and approval of the undersigned.

Richard R. Harps DC CGA #10003

QUALIFICATIONS OF RICHARD R. HARPS, MAI, CRE

Academic: Bachelor of Arts, Economics, The American University, Washington, D.C. 1972.
American Institute of Real Estate Appraisers courses and/or examinations: IA - Basic Principles, Methods and Techniques - 1972; IB - Capitalization Theory and Techniques - 1972; II - Urban Properties - 1973; IV - Condemnation - 1973; VI - Investment Analysis - 1980; IBA - Capitalization Theory & Techniques - 1987; 2-1 Case Studies - 1991, Highest and Best Use and Market Analysis - 1993.
Seminars presented by AIREA, WBR, WDCAR and other organizations.
General: 1971-1983 - John R. Pinkett, Inc., Vice President of Appraisals.
1984 to Present - HARPS & HARPS, INC., President
1996 to Present - HARPS & SCALLAN, LLC/INC.
Qualified as Expert in: District of Columbia Zoning Commission; District of Columbia Board of Zoning Adjustment; District of Columbia Office of Tax and Revenue Board of Real Property Assessments and Appeals; District of Columbia Alcohol Beverage Control Board; Superior Court of the District of Columbia; United States District Court for the District of Columbia; United States Bankruptcy Court for the District of Columbia; Mayor's Agent for Historic Preservation-Chief Administrative Law Judge of the District of Columbia.
District of Columbia Certified General Real Property Appraiser Certificate #10003.
Maryland Certified General Real Property Appraiser Certificate #10177
Virginia Certified General Real Estate Appraiser Certificate #003181
Appraisal/Consulting Experience: Assignments since 1971 include: houses, stores, shopping centers, office buildings, apartment buildings, hotels, unimproved land, air rights, special purpose properties; full and partial takings from office buildings, power plants, stores, houses, railroad rights-of-way, and apartment buildings; condominium conversion, relocation assistance studies, planned unit development analyses, lease analyses, fair rental studies, urban renewal re-use parcels and assessment consulting, valuation and equalization studies.
Partial Client List: Franklin National Bank, First Union National Bank, NationsBank, Citicorp, Federal Deposit Insurance Company, District of Columbia Department of Housing and Community Development, United State National Park Service, Washington Metropolitan Area Transit Authority, U.S. General Services Administration, U.S. Dept. of Justice, Potomac Electric Power Company, Washington Gas Light Company, C & P Telephone Company/Bell Atlantic, Howard University, Columbia Hospital for Women, Exxon Oil Company, Amoco Oil Company, Chevron, Kentucky Fried Chicken, May Department Stores, Swedish Embassy, International Monetary Fund, attorneys, developers and individuals.
Organizations
Appraisal Institute, successor to American Institute of Real Estate Appraisers, MAI designation - Voluntary re-certification through December 31, 2002
Minority Relations Subcommittee, 1980-1981, V.Chrm 1981; National Education Committee, 1983-1984; Division of Courses, 1985; Division of Curriculum, 1981-1982; Board of Examiners - Examinations 1987-1989; and Comprehensive Examination Subcommittee 1983-2000, Chrmn 1987-1989
Washington Metropolitan Area Chapter Appraisal Institute (formed January 1991 by merger of Wash Metro Chapter # 18 AIREA and Wash Metro Chapter of SREA): Board of Directors - 1991-1995; President-1994
Washington Metropolitan Area Chapter #18 AIREA (Merged 1/91 into above): Chapter Admission Committee 1980-83, Chrmn 1983; Chapter External Affairs Committee; Board of Directors, 1988-1990; and First Vice President, 1990
Counselors of Real Estate - CRE designation
Washington D.C. Association of REALTORS®: Zoning Committee (Now New Development/Zoning) 1975-90, Chrm 1981-82; Board of Directors, 1981 to 1986, 1990-1994, 1998; President, 1985
Real Estate Education Foundation (WDCAR) - President 1989
National Association of REALTORS®: Board of Directors 1985-1987, 1992; Executive Committee 1986-1987; REALTORS® Legislative Committee: 1989 Chairman Housing Subcommittee, 1990 Chairman Federal Tax Subcommittee, 1991 Vice Chairman RLC, 1992 Chairman RLC; Real Estate Finance Committee 1989-92; State and Municipal Legislative Committee 1990; Building Advisory Committee 1988, 1990-1993; RPAC Trustee 1989, 1992; Real Estate Lending Working Group Chairman 1991; Public Policy Oversight Group 1993

General Assumptions and Limiting Conditions

This preliminary and limited analysis, the sole function of which is to analyze the effects of a proposed zoning variance on the feasibility of the proposed residential development, has been made with the following general assumptions:

This analysis is not to be used in connection with a Real Estate Syndicate(s) or Securities related activity. Real Estate Syndicate means a general or limited partnership, joint venture, unincorporated association or similar organization formed for the purpose of, and engaged in, investment or gain from an interest in real property, including but not limited to a sale, exchange, trade or development of such real property on behalf of others and which is required to be registered with the United States Securities and Exchange Commission or any state regulatory agency which regulates investments made as a public offering. Securities related activity means but is not limited to transactions involving Real Estate Investment Trusts, Limited Partnerships, Mortgage Backed Securities and any other transaction which is subject to the Securities Exchange Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Advisors act of 1940, or state Blue Sky or securities laws or any amendments thereto.

1. This analysis disregards all site, soil conditions and environmental conditions and assumes that any such conditions that exist would effect all proposed uses equally. Environmental considerations are outside of the field of expertise of this analyst and this analysis assumes that all environmental corrections (including but not limited to conditions covered by any Federal regulations, such as CERCLA or SARA, any local regulation, such as the "District of Columbia Environmental Policy Act of 1989", and D.C. and Federal laws and regulations regarding underground and above grade storage tanks such as the "District of Columbia Underground Storage Tank Management Act of 1990 Amendment Act of 1992") would have been completed prior to any redevelopment of any individual site within the area.

It is recommended that, prior to any acquisition of title or other interest in any property, all appropriate studies, including but not limited to environmental studies, be performed, that all problems and/or conditions that are subsequently uncovered be corrected prior to said transfer, and that the parties seek appropriate professional and legal counsel regarding environmental and other issues.

2. No responsibility is assumed for the legal description or for matters including legal or title considerations. No opinion is intended to be expressed for matters that require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.

3. Existing liens and/or encumbrances have been disregarded. It is assumed that the property is under responsible ownership and competent property management.

4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy. It is assumed that all information known to the client and relative to the analysis has been accurately furnished and that there is no undisclosed information or documents affecting the area.

5. Maps, plats and exhibits, if any, included in the analysis are for illustration only as an aid in visualizing matters discussed within the analysis. No surveys were supplied or made by the appraiser. Exhibits should not be considered as surveys, or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this analysis.
6. No cost estimate for complying with the Americans with Disabilities Act was considered. It is assumed that any new building erected on any site, or any renovation of any existing building on any site would conform to all requirements of ADA.
7. Except as set forth herein, it is assumed that there are no historic implications that would adversely impact the ability to utilize the property.
8. According to the November 15, 1985 National Flood Insurance Maps (#110001 0030B), the area appears to be within Zone C, which is an area of minimal flooding. This map is for flood insurance purposes only; it does not necessarily show all areas subject to flooding in the community or all planimetric features outside the special flood hazard areas. It is assumed that the area is not affected by any factors associated with flooding, or any other hazard.
9. Residential tenancy, as defined under all applicable D.C. or Federal laws or regulations, has been disregarded.
10. The liability of Harps & Harps, Inc. is limited to the client only, not subsequent parties or users, and to the fee actually received by the appraiser. Further, there is no accountability, obligation or liability to any other party. If this analysis is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies of any type present in the property, physically, financially and/or legally. In the event the analysis is placed in the hands of a third party, it is required that such party be made cognizant of any and all limiting conditions resulting from the basis of appraiser's employment and discussions related thereto as well as those set forth in the analysis. Acceptance of and/or use of this analysis by the client or any third party constitute acceptance of the above conditions.
11. Possession of this analysis, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the analyst, and in any event only with proper written qualification and only in its entirety.
12. The analyst herein by reason of this analysis may be required to give further consultation, testimony, or be in attendance at Zoning Commission hearings pertaining to the area, and prior arrangements for such testimony have been previously made.
13. Neither all nor any part of the contents of this analysis (especially any conclusion as to value, the identity of the analyst, or the firm with which the analyst is connected) shall be disseminated to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of the analyst.

14. The conclusions reached in this analysis are based on economic, physical and tax conditions existing as of the effective date of analysis.