BOLAN SMART ASSOCIATES, INC.

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July 9, 2002

DC Board of Zoning Adjustment
441 4th Street, NW, Suite 210–S
Washington, DC 20001

Re: BZA Application No. 16892
Square 377, Lots 35, 819, 821, 852, 853 and portion of public alley to be closed
920-942 F Street, NW

Dear Members of the Board:

Bolan Smart Associates Inc. is pleased to transmit herewith its economic analysis pertaining to the above referenced properties. As indicated in the attached report, our analysis shows that the applicant, Douglas Development Co., will incur substantial extraordinary costs or forgo major sources of revenue due to the development requirements imposed on this project.

We look forward to answering any questions you may have concerning this analysis.

Very truly yours,

Lewis Bolan
Principal

BZA
Case No. 16892
Exhibit No. 37

Board of Zoning Adjustment
District of Columbia
CASE NO.16892
EXHIBIT NO.37

ECONOMIC ANALYSIS

Background

Douglas Development Corporation (Douglas Development), or related entities, is seeking to develop an office building at 920-942 F Street, NW. The property, located in Square 377 in downtown Washington DC, is recorded as Lots 35, 819, 820, 821, 852 and 853. The property is located within the Pennsylvania Avenue National Historic Site and within the Downtown Historic District.

The subject property is improved with the facade of the Atlantic Building, a landmark designated on the DC Inventory of Historic Sites, six smaller scale commercial structures and one larger building:

- Lots 852 and 853 improved with 920, 922-924 and 926 F Street, NW;
- Lots 819, 820 and 821 improved with 938, 940 and 942 F Street, NW; and
- 932-936 F Street NW, the six-story Lane Bryant Building, constructed in 1969, that wraps behind the older commercial structures to 10th Street, NW.

The site encompasses 35,289 square feet of land. The current permitted floor area ratio (FAR) allows for a structure of 255,719 square feet, which equates to an overall FAR of 7.25. The applicant is seeking approval for a building that is 288,311 square feet which represents an overall FAR of 8.17 (less than a 1.0 FAR increase). In total, the applicant seeks to build 32,592 square feet more space than is currently permitted (a 12.75% increase in total square footage).

There are a number of economic reasons that justify why this additional FAR should be granted. Without this relief, the project is not financial feasible.

Approach and Findings

Douglas Development is seeking permission to build an additional 32,592 square feet of space. Bolan Smart Associates values that additional floor area ratio (FAR) at between $100 and $110 per FAR foot. In other words, the applicant is seeking relief from the District of Columbia whose estimated value is between $3,259,000 and $3,585,120. The inherent development challenges of this site are twofold: 1) the higher than normal development costs primarily due incorporating

multiple smaller scale buildings with historic components into one project; and 2) the revenues that the applicant must forego due to historic preservation and land use requirements that have been imposed on this development amount to a loss of more than $9,500,000.

Specifically, there are seven components which account for the loss to the Douglas Development Corporation that exceed $9,500,000:

1. Lost Revenues By Relinquishing Most Valuable Corner Office Space

The most valuable space in any downtown office building is the corner space that offers the best views and houses a firm's most senior executives. The additional natural light combined with the added prestige from such space typically commands a considerable rental premium in the leasing market. Potentially, the most valuable portion of this site is the corner of 10th and F Streets, NW. However, this corner of the project contains three smaller historic buildings that need to be fully rehabilitated and have development setback requirements. Furthermore, there is some question as to whether or not floors two and three of the older buildings will line up precisely with the new structure. Accordingly, these buildings may not be fully integrated into the new structure.

It is estimated that the applicant is giving up an area of 61 feet by 58 feet, or 3,538 square feet per floor of corner space. Multiplying 3,538 square feet by nine floors yields a total of 31,842 square feet of what would normally have been the most desirable, prestigious and expensive space in the building. This amount of square footage would have likely rented for an additional $3.00 per square foot above the average rental rates elsewhere in building, were it truly corner space. Valuing this loss of revenue, using a stabilized occupancy market capitalization rate of 8.5%, indicates a diminution of value amounting to **$1,123,835.**

2. Providing 6,000 Square Feet of Residential Space On-Site

The applicant is obligated to provide 6,000 square feet of residential space in the new structure. Bolan Smart Associates estimates that this residential space will rent for $17.00 per square foot less than would be the case were it developed as office space. As office space, the 6,000 square feet could rent for $35.00 per square foot, net of expenses/triple net (assuming similar delivery costs for office and residential space). As residential space, the developer would be very fortunate if a project of such small size could realize $18.00 per square foot ($2.50 psf / month gross rent less $1.00 psf / month in operating costs and real estate taxes).

This rental rate differential capitalized at an office market rate of 8.5% lowers the value of the building by $1,200,000. In addition, the developer is obligated to give up an estimated 250 square feet of ground floor retail space to allow for entry to the apartments. That further reduces the value of the building by $62,500, based on a retail rental rate of $30.00 per square foot, triple net, at a 12.0% retail capitalization rate.

In total, the zoning provision requiring 6,000 square feet of residential space on-site results in a loss of value amounting to **$1,262,500.**

3. Providing 35,000 Square Feet of "Other Preferred Uses"

Bolan Smart Associates estimates that one half of this space could be rented at prevailing market rental rates. However, the remaining half totaling 17,500 square feet, limited to arts and art related organizations including the 11,000 square feet dedicated cabaret space, would likely be rented at a minimum of $10.00 less than prevailing market rents either for ground floor or lower level retail space.

Using an 8.5% office capitalization rate indicates that the value of the building is further diminished by **$2,058,825.**

4. Providing 3,744 Square Feet of Office Lobby Museum Space

A "normal" office building lobby typically consists of approximately 2,000 square feet. However, the applicant is obligated to provide additional museum space totaling 1,744 square feet in the lobby for a total of 3,744 square feet. Shalom Baranes Associates estimates the cost of providing this additional museum space is $250,000. In addition, this 1,744 square feet of museum space would otherwise be ground floor retail space that could be rented at an estimated $30.00 per square foot, triple net. Using a 10.0% retail capitalization rate suggests a diminution of value for the building amounting to $532,200.

In total, provision of this lobby museum reduces the value of the building by **$773,200.**

5. Increased Cost of Façade

The footprint of the proposed building is such that it will require more linear feet of perimeter façade than is normal in a downtown Washington office building. A typical downtown Washington office building is either square or rectilinear, which represents the most efficient way of enclosing space. The various "zigs and zags" that are required in this structure, in addition to the multiple setbacks, add

substantially to the cost of the façade. The architects for this project, Shalom Baranes Associates, estimate that the additional cost of this façade, over and above what one would normally be expected in a building of this square footage, amounts to **$1,500,000.**

6. Incorporation of Architectural Artifacts into the New Structure

Plans for this building call for a number of architectural artifacts and details to be incorporated into a portion of the new structure. Some of these artifacts have been removed from buildings formerly on the site and stored, and are to be reinstalled in the new structure. Others will be specially fabricated and incorporated into the building. Examples include: metal elevator cages, mantels, special doors, and architectural woodworking not typically found in a new downtown office building. Douglas Development has estimated the additional costs for these 18,500 square feet of historic preservation zone rehabilitation at $50.00 per square foot which equates to a total of **$925,000.**

7. Lost Revenues Due to Inefficient Building Core Location (on 9th and 10th Floors)

Typically, the top two floors of any downtown office building command the highest rents. They offer the most prestigious location in a building, providing the greatest amount of light, scenic views and are more immune to street noises and distractions compared to that of the lower floors. Unfortunately, no rental rate premiums can be charged for floors 9 and 10 of the proposed building because the location of the building's core (elevators, fire stairs, rest rooms, etc.), being so close to the F Street frontage, compromises the layout, efficiency and attractiveness of these two floors. The F Street side of the building, normally the most desirable exposure at this location, in effect becomes the most difficult portion of both floors from a layout standpoint.

The 9th floor will have 23,881 square feet of FAR space. The 10th floor will have 16,806 square feet of FAR space – a total of 40,687 square feet. We estimate that the rent for these two floors could likely be $3.00 per square foot lower than would be the case were the building's core in less intrusive location than the architect was able to configure. Capping this reduction in rental income using a capitalization rate of 8.5% results in the building losing **$1,436,012** in value.

8. Incremental Cost of Historic Rehabilitation of Three Buildings

The three smaller buildings total 11,814 square feet of space and are planned for full rehabilitation. Shalom Baranes Associates estimates the premium for rehabilitation, over new construction, is approximately $50.00 per square foot, for a total cost of **$590,700.**

SUMMARY OF ECONOMIC DEVELOPMENT LOSSES
Land Use and Development Constraints

Zoning Requirements	**Value Impact**
1. Lost Revenue by Relinquishing Most Valuable Office Space	($1,123,835)
2. Provide 6,000 Square Feet of Residential Space On-Site	($1,262,500)
3. Provide 35,000 Square Feet of "Other Preferred Uses"	($2,058,825)
4. Provide 3,744 Square Feet for Lobby Museum Space	($773,200)
Subtotal:	***($5,218,360)***

Historic Building / Preservation Implications	**Premium Development Cost**
5. Increased Cost of Façade	($1,500,000)
6. Incorporation of Architectural Artifacts into the New Structure	($925,000)
7. Lost Revenue Due to Inefficient Building Core Location	($1,436,012)
8. Incremental Cost of Historic Rehabilitation of Three Buildings	($590,700)
Subtotal:	***($4,451,712)***

Total Economic Impact on Building Development **($9,670,072)**