ROBERT CHARLES LESSER & CO., LLC
REAL ESTATE ADVISORS

July 15, 2002

District of Columbia Board of Zoning Adjustment
Washington, D.C.

SUBJECT: Economic Viability Analysis Regarding Application for Variances for Condominium Development at 6th and G Streets, N.W. (Case Number 16897)

Dear Board Members:

Robert Charles Lesser & Co., LLC (RCLCo) has undertaken an economic feasibility analysis of the condominium development that The JBG Companies has proposed for 6th and G Streets, N.W. Specifically, we have evaluated whether the requested variances will be necessary for the project to be developed, given market and financial realities.

Our analysis clearly shows that it would not be economically feasible to develop the project without the requested relief, given the exceptionally small site and the resultant effects on economic feasibility. No rational developer, investor or lender would proceed with a project with the development profit and internal rate of return that could be anticipated under this scenario.

If it were not for the extraordinarily small size of the site, condominium development in this location would be financially feasible without variances. For this analysis, we analyzed the development that would be possible on this small site with the requested variances: 100% lot occupancy, no provision of rear yard, reduced recreational space and reduced percentage of recreation space located outdoors. We found that the development that would be possible with such variances would generate returns that are the minimum required to proceed with such a project. In other words, if the variances are not granted, proceeding with such a development is not economically feasible. The number of units and saleable square footage that would be possible with the requested relief is the minimum necessary to result in an economically feasible project.

With the lower density that would be necessary without the requested variances, lost sales revenue from reducing the number of square feet that can be sold will far outweigh the relatively small reduction in project cost. Project costs diminish less rapidly than project size because many major construction and site expenses – including site work, excavation, elevators, common area construction and roof – remain essentially constant for both higher density and lower density development on the site. Spreading these costs over fewer units and fewer saleable square feet will result in a project that is not economically feasible.

Board of Zoning Adjustment
District of Columbia
CASE NO.16897
EXHIBIT NO.38
Case No. 16897
Exhibit No. 38

Feasibility of Development Without the Requested Relief

Exhibit 1 shows key assumptions regarding what could get built on the site without the requested relief. It would only be possible to accommodate 42 condominium units with an average size of 1,055 square feet, or a total of only 44,310 saleable square feet. (It would also be possible to include and sell 12 parking spaces.) The unit mix and average unit size will have to be different than with the requested relief because of the shallower footprint and the need to keep the core areas a constant size. A larger proportion of one-bedroom units will be required, and it will not be possible to provide generously-sized two-bedroom den units as would be done with the requested relief as discussed below.

As shown on Exhibit 2, development profit as a percentage of sales proceeds would be only 4.5%. Developers, lenders and investors generally require projected development profits of 15%-20%, with as low as 13% potentially acceptable in a market with considerable upside potential, so this level of profits would clearly be entirely unacceptable.

Similarly, as also shown on Exhibit 2, the unleveraged internal rate of return (IRR) for the development without the requested relief would be only 10.1%. This compares to a range of 25%-30%, with an absolute minimum of 20%, that is considered sufficient to proceed with a project of this type.

It is not surprising that it would be difficult to develop an economically feasible new residential development with only 42 units on only 0.15 acres (6,375 sq. ft. of land), an extraordinarily small site for residential development. Downtown residential development sites are more typically in the range of about 15,000 to 45,000 sq. ft. (approximately one-third acre to one acre), and almost always have considerably more units to spread the development costs over. According to the Downtown DC Business Improvement District, the 6th and G Condominium development is the only new construction residential development under construction or planned downtown with less than 100 units, and 57% of the other developments have more than 200 planned residential units. The Mather Building is the only development with fewer units, but it is an historic rehab project that has different development economics. Apartment projects under construction and planned downtown have sites ranging in size from 14,875 sq. ft. for AvalonBay's Phase II to 44,833 for Paradigm's 450 Massachusetts Avenue.

Feasibility of Development with the Requested Relief

Exhibit 3 shows the key assumptions regarding what could get built on the site with the requested relief. It would still only be possible to accommodate 46 condominium units, but the average size would be 1,155 square feet, or a total of 53,123 saleable square feet, because it will be possible to include more spacious two-bedroom den units as well as one-bedroom and two-bedroom units. This is a more diverse product mix that will serve a broader range of the market. (As with the other scenario, it would also be possible to include and sell 12 parking spaces.)

As shown on Exhibit 4, development profit as a percentage of sales proceeds would be 13.2%. As noted above, developers, lenders and investors are generally looking for

projected development profits of 15%-20%, with as low as 13% potentially acceptable in a market with considerable upside potential. Therefore, this level of projected profits would be the bare minimum that would enable developers, lenders and investors to proceed with this type of project, and they would probably do so only because they believe there is a reasonable probability that prices will be higher than those currently projected. (If the site were larger, profits would be even better, without the need for variances.)

Similarly, as also shown on Exhibit 4, the unleveraged internal rate of return (IRR) for the development with the requested relief would be 19.9%%. As with the development profit, this is at the very low end of the acceptable range–normally 25%-30% is required, with an absolute minimum of 20%.

Because the development profit and internal rate of return with the requested variances are at the very low end of what is economically feasible, or even slightly below the feasible range, it would not be economically feasible to develop the project without the requested relief and the 53,123 sq. ft. of saleable space in 46 units that the variances will make possible.

Conclusion

Based upon our analysis, we have concluded that the project is just barely economically viable with the requested relief, and clearly not viable without the requested relief, because of the effects of the exceptionally small site on economic feasibility. In other words, the development can only be built if the requested relief is approved, and cannot be built if the requested relief is not granted.

Qualifications

Robert Charles Lesser & Co., LLC (RCLCo) is the nation's leading independent real estate economics consulting firm. The firm works on over 400 projects each year for regional, national and international real estate companies, corporations, institutional investors, international and domestic private investors, municipalities, counties, nonprofit organizations and financial institutions.

In particular, RCLCo has conducted market and financial analyses for proposed condominium developments for many of the nation's preeminent developers and investors, including numerous projects in Washington, D.C., and surrounding suburbs.

Leonard Bogorad, Managing Director in the Washington, D.C., area office of RCLCo, has over 25 years of experience in market and financial analysis of real estate projects, including many in Washington and surrounding suburbs. Mr. Bogorad's resume is appended to this report.

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We hope that this economic analysis and accompanying exhibits are helpful to you in deciding on the requested relief for the 6th and G Condominiums.

Very truly yours,

ROBERT CHARLES LESSER & CO., LLC

Leonard Bogorad

Leonard Bogorad
Managing Director

Enclosure (Exhibits 1 – 4 and resume)

6TH AND G STREET CONDOMINIUM
WITHOUT REQUESTED RELIEF: 42 UNITS

12.12.00

EXHIBIT 1: DEVELOPMENT BUDGET PROJECTIONS
KEY ASSUMPTIONS

Construction parameters

Land area	6,375	Land SF	0.15	acres
Max floor-to-area ratio	9.1	FAR	115.00	Units/acre
Height limit	120	Feet	12	Floors
Average floorplate	5,100	GRSF	80%	CVR
Residential Building efficiency factor			76.5%	
Total Building Efficiency			76.5%	
Average unit size			1,055	
Number of Units			42	

Building area

Residential Building Area	44,310	NRSF &	57,908	GRSF
Artist Loft Space	0	NRSF &	0	GRSF
Retail Building Area	0	NRSF &	0	GRSF
Above-grade garage	N/A	NRSF &	N/A	GRSF
Below-grade garage	N/A	NRSF &	N/A	GRSF
Total building area	44,310	NRSF &	57,908	GRSF

Parking parameters

Garage square footage	6,375	GRSF
Parking efficiency:	531	GRSF/space
Above & below-grade parking:	12	spaces
Parking ratio:	0.29	/unit

Presale Period	12 months		
Overlap	0 months		
Sales Pace	**3.5 per month**		
Timing			
Pre-development period	0 months	Commencement date	08/31/02
Construction period	17 months	End of pre-development	08/31/02
(Settlement period overlap)	0 months	Delivery date	01/31/04
Settlement period	7 months	Completion date	08/31/04
Hold period	0 months	End Date	08/31/04
Total development period	24 months		

Rates of increase

Annual CPI growth	3.00%
Analysis base year ending	Aug-02
Brokerage Commissions	4.75%
Debt ratio (% of development costs)	70%

Sources: The JBG Companies; Robert Charles Lesser & Co., LLC

Selling parameters (2003$)

Unit Type		%	# Units	SF		Price/SF	Price/Unit
Unit A	2BR + Den	0%	-	1,339	$	351	469,980
Unit B	1BR	50%	21	810	$	354	286,357
Unit C	2BR	50%	21	1,300	$	351	455,841
Total / average		100%	42	1,055	$	351.75	371,099

Condominium Fee (per month)	$	350

Other income parameters

Net condominium unit upgrade revenue per unit					$	5,000.00
Retail income ($/SF/MO)					$	-
sold on delivery						
Parking income	**# Spaces**					
Garage parking space	12	30,000	per space	360,000		N/A
Reserved Parking						N/A
Garage, 2nd spaces				-		N/A
Total/Avg Income	12	30,000	per space	360,000		N/A

Market Settlement Schedule

Period		Rate		Time	
Unit A					
Pre-Sell	01/31/04	0	units	--	# mos
Stage 1 (startdate)	02/01/04	0	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	0	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	0	units per mo	2	# mos
Total				0	Units
Unit B					
Pre-Sell	01/31/04	8	units	--	# mos
Stage 1 (startdate)	02/01/04	3	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	2	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	0	units per mo	2	# mos
Total				21	Units
Unit C					
Pre-Sell	01/31/04	8	units	--	# mos
Stage 1 (startdate)	02/01/04	3	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	2	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	0	units per mo	2	# mos
Total				21	Units

6TH AND G STREET CONDOMINIUM
WITHOUT REQUESTED RELIEF: 42 UNITS
EXHIBIT 2: FINANCIAL ANALYSIS

Date Revised: 07/15/02
Date Printed: 07/15/02

SALES PRO FORMA
FOR 24 MONTHS ENDING Aug-2004

	$	/UNIT	$/NRSF
Gross Sales	$ 16,541,521	$ 393,846	$ 373.31
Parking Sales	360,000	8,571	8.12
Project Selling Expenses	(802,822)	(19,115)	(18.12)
Cost of Sales (excl. financing)	(14,551,726)	(346,470)	(328.41)
		-	
Subtotal	1,546,973	36,833	34.91
Operating Income (during 7 mos. sale period)			
Condominium Fees	81,741	1,946	1.84
Retail Income	-	-	0.00
Total Operating Income	81,741	1,946	1.84
Operating Expenses			
Fixed and Variable	(20,413)	(486)	(0.46)
Real Estate Taxes	(23,189)	(552)	(0.52)
Total Operating Expenses	(43,602)	(1,038)	(0.98)
Subtotal Net Operating Income	38,138	908	0.86
Ground Rent[1]	-	-	-
Net Profit before financing costs	1,585,111	37,741	35.77
Financing Costs			
Financing fees	(261,931)	(6,236)	(5.91)
Debt: Interest Expense at 6.5%	(558,230)	(13,291)	(12.60)
Equity: Imputed Interest at 6.5%	(457,503)	(10,893)	(10.33)
Net Income incl. financing costs	307,447	7,320	6.94

Sources: The JBG Companies; Robert Charles Lesser & Co., LLC

COSTS
Aug-2002 - Aug-2004

	$	/UNIT	$/NRSF
DEVELOPMENT COSTS			
Acquisition Costs	4,160,000	99,048	93.88
Hard Costs	8,735,138	207,979	197.14
Soft Costs	1,656,588	39,443	37.39
Financing Costs	782,023	18,620	17.65
Total Costs	15,333,749	365,089	346.06
TOTAL CAPITALIZATION			
Capitalized Value of Ground Lease	-	-	-
Construction Loan	11,230,275	267,387	253.45
Equity	4,103,474	97,702	92.61
Total Cash Development Costs	15,333,749	365,089	346.06
Interest on equity	457,503	10,893	10.33
Total Gross Development Costs	15,791,251	375,982	356.38

PROFITS
Aug-2004

		% of Sales
DEVELOPMENT PROFIT		
(inclusive of interest on debt)	764,950	4.5%
INTERNAL RATE OF RETURN (UNLEVERAGED IRR)	10.1%	

6TH AND G STREET CONDOMINIUM
WITH REQUESTED RELIEF: 46 UNITS

EXHIBIT 3: DEVELOPMENT BUDGET PROJECTIONS

KEY ASSUMPTIONS

12/12/00

Construction parameters

Land area	6,375	Land SF	0.15	acres
Max floor-to-area ratio	10.2	FAR	115.00	Units/acre
Height limit	120	Feet	12	Floors
Average floorplate	6,375	GRSF	100%	CVR
Residential Building efficiency factor			81.5%	
Total Building Efficiency			81.5%	
Average unit size			1,155	
Number of Units			46	

Building area				
Residential Building Area	53,123	NRSF &	65,183	GRSF
Artist Loft Space	0	NRSF &	0	GRSF
Retail Building Area	0	NRSF &	0	GRSF
Above-grade garage	N/A	NRSF &	N/A	GRSF
Below-grade garage	N/A	NRSF &	N/A	GRSF
Total building area	53,123	NRSF &	65,183	GRSF

Parking parameters

Garage square footage	6,375	GRSF
Parking efficiency:	531	GRSF/space
Above & below-grade parking:	12	spaces
Parking ratio:	0.26	/unit

Presale Period	12 months		
Overlap	0 months		
Sales Pace	**3.8 per month**		
Timing			
Pre-development period	0 months	Commencement date	08/31/02
Construction period	17 months	End of pre-development	08/31/02
(Settlement period overlap)	0 months	Delivery date	01/31/04
Settlement period	7 months	Completion date	08/31/04
Hold period	0 months	End Date	08/31/04
Total development period	24 months		
Rates of increase			
Annual CPI growth			3.00%
Analysis base year ending			Aug-02
Brokerage Commissions			4.75%
Debt ratio (% of development costs)			70%

Sources: The JBG Companies; Robert Charles Lesser & Co., LLC

Selling parameters (2003$)

Unit Type		%	# Units	SF		Price/SF	Price/Unit
Unit A	2BR + Den	48%	22	1,339	$	351	469,980
Unit B	1BR	28%	13	750	$	354	265,146
Unit C	2BR	24%	11	1,265	$	351	443,568
Total / average		100%	46	1,155	$	351.37	405,776

Condominium Fee (per month)	$	350

Other income parameters

Net condominium unit upgrade revenue per unit					$	5,000.00
Retail income ($/SF/MO)					$	-
sold on delivery						
Parking income	**# Spaces**					
Garage parking space	12	30,000	per space	360,000		N/A
Reserved Parking						N/A
Garage, 2nd spaces				-		N/A
Total/Avg Income	12	30,000	per space	360,000		N/A

Market Settlement Schedule

Period		Rate		Time	
Unit A					
Pre-Sell	01/31/04	6	units	--	# mos
Stage 1 (startdate)	02/01/04	2	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	2	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	3	units per mo	2	# mos
Total				22	Units
Unit B					
Pre-Sell	01/31/04	6	units	--	# mos
Stage 1 (startdate)	02/01/04	1	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	1	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	1	units per mo	2	# mos
Total				13	Units
Unit C					
Pre-Sell	01/31/04	3	units	--	# mos
Stage 1 (startdate)	02/01/04	2	units per mo	3	# mos
Stage 2 (startdate)	05/01/04	1	units per mo	2	# mos
Stage 3 (startdate)	07/01/04	0	units per mo	2	# mos
Total				11	Units

6TH AND G STREET CONDOMINIUM
WITH REQUESTED RELIEF: 46 UNITS
EXHIBIT 4: FINANCIAL ANALYSIS

Date Revised: 07/15/02
Date Printed: 07/15/02

SALES PRO FORMA
FOR 24 MONTHS ENDING Aug-2004

		$	/UNIT	$/NRSF
Gross Sales		$ 19,832,332	$ 431,138	$ 373.33
Parking Sales		360,000	7,826	6.78
Project Selling Expenses		(959,136)	(20,851)	(18.06)
Cost of Sales (excl. financing)		(15,698,167)	(341,265)	(295.51)
			-	
Subtotal		3,535,029	76,848	66.54
Operating Income (during 7 mos. sale period)				
Condominium Fees		75,121	1,633	1.41
Retail Income		-	-	0.00
Total Operating Income		75,121	1,633	1.41
Operating Expenses				
Fixed and Variable		(21,655)	(471)	(0.41)
Real Estate Taxes		(34,761)	(756)	(0.65)
Total Operating Expenses		(56,416)	(1,226)	(1.06)
Subtotal Net Operating Income		18,705	407	0.35
Ground Rent[1]		-	-	-
Net Profit before financing costs		3,553,734	77,255	66.90
Financing Costs				
Financing fees		(282,567)	(6,143)	(5.32)
Debt: Interest Expense	at 6.5%	(596,787)	(12,974)	(11.23)
Equity: Imputed Interest	at 6.5%	(513,901)	(11,172)	(9.67)
Net Income incl. financing costs		2,160,478	46,967	40.67

Sources: The JBG Companies; Robert Charles Lesser & Co., LLC

COSTS
Aug-2002 - Aug-2004

	$	/UNIT	$/NRSF
DEVELOPMENT COSTS			
Acquisition Costs	4,160,000	90,435	78.31
Hard Costs	9,387,201	204,070	176.71
Soft Costs	2,150,967	46,760	40.49
Financing Costs	860,650	18,710	16.20
Total Costs	16,558,817	359,974	311.71
TOTAL CAPITALIZATION			
Capitalized Value of Ground Lease	-	-	-
Construction Loan	12,101,955	263,086	227.81
Equity	4,456,862	96,888	83.90
Total Cash Development Costs	16,558,817	359,974	311.71
Interest on equity	513,901	11,172	9.67
Total Gross Development Costs	17,072,718	371,146	321.38

PROFITS
Aug-2004

		% of Sales
DEVELOPMENT PROFIT		
(inclusive of interest on debt)	2,674,379	13.2%
INTERNAL RATE OF RETURN (UNLEVERAGED IRR)	19.9%	

LEONARD BOGORAD is Managing Director in the Washington, D.C., office of Robert Charles Lesser & Co., LLC, the nation's leading independent real estate advisory firm. He has over 25 years of experience in a wide range of market and financial analysis, economic development, metropolitan growth analysis, and impact assessment capacities concerning real estate and development issues throughout the United States.

Particular specialties of Mr. Bogorad include residential developments of all types, including multifamily rental apartment complexes, condominiums, congregate and assisted living facilities, and attached and detached single-family homes; retail developments; large-scale mixed-use projects and master-planned communities; hotels and resort developments; office and industrial projects; and metropolitan development trends. He frequently advises developers and retailers on product programming, sales forecasting, and site selection. He has also developed innovative models to analyze the demand for specialized types of development, such as retirement communities and low-income tax credit projects.

Mr. Bogorad has also assessed the fiscal and economic impacts of real estate developments, highways, and transit stations throughout the country and has developed strategies for downtown improvement, neighborhood and housing revitalization, and economic development for many local governments. He and his firm have developed the MOA (Metropolitan Opportunity Analysis) methodology to facilitate understanding of how and why metropolitan areas grow.

Mr. Bogorad has been involved with market analysis of hundreds of projects in the Washington, D.C., area, for public clients such as the D.C. Housing Authority, Montgomery County, Fairfax County, the City of Alexandria, Loudoun County and Prince William County, as well as for such private clients at The Peterson Companies, KSI, JPI, Post Properties, Bozzuto & Associates, Holladay Corporation, Forest City, JBG Companies, Summit Properties, and many others. He has conducted revitalization studies for such clients as Fairfax County and the City of Charlottesville.

After graduating from Harvard University, Mr. Bogorad received a Masters in City Planning degree from the University of Pennsylvania. He has spoken for such organizations as the Urban Land Institute, the National Association of Senior Living Industries, and the Northern Virginia Building Industries Association, and has written articles published in The Journal of Real Estate Development, Mortgage Banker, Corridor Real Estate Journal, Industrial Development, Tax Credit Advisor, The Washington Post, Real Estate Finance Journal, Urban Land, Washington Business Journal, and other publications. He is a full member of the Urban Land Institute and serves on the Residential Development Council and on the ULI Washington District Council Executive Committee and Workforce Housing Committee.

Representative engagements include:

- Fiscal and economic impact analysis for Downtown Silver Spring (Foulger-Pratt and Argo Investment Co.)
- Fiscal and economic impact analysis and financial analysis for National Harbor, Prince George's County (Peterson Companies)

- Market analysis for East Capitol Dwellings and market and financial analysis for Capper/Carrollsburg HOPE VI developments, including residential, retail and office market analysis (D.C. Housing Authority)
- Market and fiscal impact analysis and economic development strategies for 14 commercial areas (City of Charlottesville)
- Market analysis and economic development analysis for downtown Chattanooga, TN (River Valley Partners)
- Market analyses of rental apartments in Southeast D.C. and Columbia Heights (KSI Services)
- Revitalization market analysis, including residential, retail, hotel and office, with subsequent financial analysis (Fairfax County, VA)
- Market and financial analysis for disposition and potential adaptive reuse of Texaco Headquarters, Purchase, NY (Texaco, Inc.)
- Fiscal impact analysis of retail development, Laurel, MD (Petrie Ventures)
- Residential, retail, office, hotel and industrial market analysis and fiscal impact analysis for transit oriented development (Loudoun County, VA)
- Market and financial analysis for rental apartments and condos, Washington, DC (Louis Dreyfus Group)
- Market and financial analysis for rental apartments and condos, Washington, DC, and suburbs (JBG Properties)
- Market analysis of mixed-use development associated with West Virginia University, Morgantown, WV (McCoy 6)
- Economic development consulting, including fiscal impact analysis, financial analysis, and market analysis (City of Upper Arlington, OH)
- Retail market analysis, 7th Street, NW, Washington (JPI)
- Rental apartment market analysis, downtown DC (Summit Properties)
- Rental apartment market analyses, downtown and upper NW, DC (Clark Realty Capital)
- Market analysis, fiscal impact analysis, and charrette, Potomac Yard, Arlington and Alexandria, VA (Crescent Resources and Commonwealth Atlantic)
- Retail market impact analysis, Prince George's County, MD (Peterson Companies)
- Market analysis for acquisition and renovation of office building in downtown Bethesda (Rockwood Capital)
- Market analysis for proposed market-rate and tax credit apartments, Wheaton, MD (Housing Opportunities Commission)
- Market and financial analysis for rental and condominium apartments at Friendship Heights (New England Development)