KINGS CREEK LLC

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Re: 2329/2335 Champlain St. N.W. Application for Zoning Modification, Financial Feasibility Analysis

This report represents the results of the feasibility analysis that was undertaken regarding possible development options for 2329/2335 Champlain St. NW Washington DC. Attached are six tables and one report which provide the data to support the conclusions below.

The four theoretical matter-of-right development options that were studied by the applicant include:

1. Demolition and removal of the entire building from the site, and development of a new building as a matter of right.
2. Use of the existing building in accordance with the existing retail and office Certificates of occupancy.
3. Conversion of the existing building to residential use
4. Partial demolition of the existing building to reduce the lot occupancy to 60%, with the construction of a new third level to the building, to achieve 1.8 FAR.

The analysis demonstrates that it is economically infeasible to redevelop the properties under existing zoning restrictions in order to achieve the community desired conversion to residential use.

1. Demolition and removal of the existing building alone, without factoring in the cost of the new construction, would result in a loss of $6,532,000, which is the amount invested thus far since the denial of the prior BZA Application plus approximate demolition costs in order to attempt to use the site for a viable productive use. This amount would add $ 347 per square foot to the cost of each unit that would be constructed in a matter-of- right development on this site. Assuming $ 275 per square foot construction costs, the total costs per square foot at $623 (275+347) which exceeds the estimated net revenue of $449 per square foot.
2. Use of the existing building for retail and office use under the exiting certificates of occupancy is not viable. The value of the building based on historic market lease rates would be $695,000 (see Donnelly Report, Page 3) As this is less than the current project costs of $ 6,532,000 (see Table IV, Bottom), this option is economically infeasible. The applicant has attempted to lease the property for these uses in the commercial marketplace with Cassidy and Pinkard for over a year but has not been able to find any tenants.

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3. Converting the existing structures to residential condominiums would result in a loss of approximately $4,992,439. (Table II, Page 3). This option is economically infeasible.
4. The partial demolition and build-out to 1.8 FAR scenario would result in a loss of $6,405,345. (Table III, Page 3) . This option is economically infeasible.

None of the above matter-of-right alternatives is economically viable due to a number of factors including:

A. The lack of a demonstrated demand in the marketplace for retail or office use of the existing building at this location; and
B. The extensive costs associated with matter of right development on this site, either for use of the existing building as such, or the partial demolition with a limited additional floor, or total demolition and reconstruction of a matter- of right residential building, which in each case would exceed the revenue that would be generated from such development. These costs include:
    i. Above-normal building foundation costs due to substandard soils below the existing building;
    ii. Extensive land and building costs on the site, which were necessitated by the petroleum contamination of the site from leaking underground storage tanks to the north, and remediation and stabilization of the building foundation, which has settled into subsurface fills; and
    iii. Additional remediation of the soil contamination, a condition necessary to facilitate financing development of residential condominiums.

The only economic solution lies in building a larger building incorporating the in place structural improvements, allowing for marginally lower construction costs per square foot of finished residential space as well as land and remediation cost components to be spread over a broader base. Although this scenario anticipates a loss of $132,774, (Table I, Page 3) it represents the only means of recapturing the substantial investments to date.

The principal reasons of the costs incurred to date stem from a confluence of the excessive costs associated with remediating petro- chemically impacted soils, the financing and legal burdens of developing such a site, and the costs associated with unstable soils and fill that exist under the property.

It is important to note the following:

1. This analysis does not incorporate any standard development fees or contractor overhead and profit, or standard cost of equity normally due a developer and builder for the period of 2000 to 2005, which is estimated to be $1,893,000. (Table VI, Cost of Equity and Equity Analysis, Bottom)

2.The $6,532,930 (Table IV, Bottom) basis represents the costs to date, which are a necessary component in any development of this site. The project costs (Table IV, Bottom) include:

$3,072,242 (Costs incurred due to remediation of contaminants)
$1,394,000 (Costs incurred due to Foundation/Stabilization)
$1,295,000 (Land Costs)
$771,688 (Soft Costs 2000-06)

3.The analysis of partial demolition and total demolition of the entire building do not include additional project costs associated with the likelihood of historic landmark designation of the building if demolition was attempted.

4. The land value stated at $1,295,000 is less than the city's current assessment at approximately $2,000,000. Given the anticipated loss scenarios of 5 to 6 million dollars, even a land value of zero would not make the project viable.

Dominique Kostelac, owner 2329/2335 Champlain St.