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

Square 37 Map Amendment
Zoning Commission Case 00-27

Existing:	R-5-B
Preferred:	R-5-E
Alternatives:	C2C or CR

I. History of Assessments of land and improvements in southern portion of Square 37

II. Effect of Zoning on Real Estate Tax Appraisals (Assessments?) – General

III. Projections of Change to Valuations and Tax assessments of Properties in Southern Portion of Square 37 (for each 12,000 square feet of land area) and for Taxable Income of Residents

Under R-5-B zoning
Under R-5-E zoning
Under C-2-C zoning
Under CR zoning

IV. Conclusion: Changing the Zoning to anything more permissive than R-5-B will result in higher land valuations and higher real property tax revenues. Actual development of vacant lots within the area will result in significant increments to the base for real estate "improvements." Development of residential properties that appeal to those for whom the District becomes, or remains, their "home" for tax purposes will increase revenue from income tax returns as well. Of all the zones listed, R-5-E has the potential to generate the greatest overall tax revenues for the District.

ZONING COMMISSION
District of Columbia
Case 00-27
Exhibit 80

ZONING COMMISSION
District of Columbia
CASE NO.00-27
EXHIBIT NO.80

Harps & Harps, Inc.
Square 37 Zoning Commission Case 00-27
Outline of Testimony of Richard R. Harps

I. History of Assessments of land and improvements in southern portion of Square 37

Historical trend in land assessments for properties located in Square 37.

North of Alley			Land Assessments per sq. ft. of Land		
		Site SF	TY 1995	TY 2000	TY 2005
37/Gibson (C2C)	1140 23rd[1]	14,776 sf	$107	$180	$488
37/853 (C2C)	2300 M Office	14,219 sf	$497	$395	$495
37/854 (C2C)	2350 M Hotel	32,522 sf	$326	$291	$495
Weighted Average			$313	$288	$493

South of Alley			Land Assessments per sq. ft. of Land		
		Site SF	TY 1995	TY 2000	TY 2005
37/810 (R5B)	1115 24th Row	1,726 sf	$110	$38	$202
37/811 (R5B)	1117 24th Row	1,726 sf	$110	$38	$202
37/831 (R5B)	1121 24th Apt	8,412 sf	$36	$73	$245
37/836 (R5B)	1101-11 24th DC	15,950 sf	$142	$59	$93
37/837 (R5B)	2301 L DC	18,948 sf	$142	$89	$140
37/855 (R5B)	1120 23rd	11,866 sf	$72	$39	$107
Weighted Average			$111	$65	$139

Historical trend in total property assessments (combining land and improvements) for properties located in Square 37.

North of Alley			Total Assessments per sq. ft. of Land		
		Site SF	TY 1995	TY 2000	TY 2005
37/Gibson (C2C)	1140 23rd	14,776 sf	$733	$607	$1,604
37/853 (C2C)	2300 M Office	14,219 sf	$1,155	$1,427	$2,684
37/854 (C2C)	2350 M Hotel	32,522 sf	$698	$674	$1,435
Weighted Average			$812	$832	$1764

South of Alley			Total Assessments per sq. ft. of Land		
		Site SF	TY 1995	TY 2000	TY 2005
37/810 (R5B)	1115 24th Row	1,726 sf	$164	$114	$324
37/811 (R5B)	1117 24th Row	1,726 sf	$164	$110	$323
37/831 (R5B)	1121 24th Apt	8,412 sf	$124	$151	$290
37/836 (R5B)	1101-11 24th DC	15,950 sf	$190	$128	$192
37/837 (R5B)	2301 L DC	18,948 sf	$167	$151	$222
37/855 (R5B)	1120 23rd	11,866 sf	$72	$39	$107
Weighted Average			$147	$120	$206

As expected, the higher density sites have much higher land assessments than the lower density sites, and as developed, much higher total property assessments in comparison to the lower

[1] The total land assessment and total property assessment for the Gibson were computed by summing the individual assessments for each of the 79 condominium lots shown for the property.

density sites. Looking only at the residential property on the north half of the square (1140 23rd), the land assessments, in comparison to the weighted average for the south half of the square, is over three times greater ($488 vs. $139). Looking at the total property assessment, the assessment is almost eight times greater ($1,604 vs. $206).

It is also apparent that the mixed use nature of the CR and C-2-C would allow for even greater differentials, due to the higher assessment typically applied to commercial properties, on a unit basis. The one office building in the north half of Square 37, 2300 M Street, has a total property assessment 13 times greater ($2,684 vs. $206). Thus, with commercial development ratios of one-third (C-2-C) to one-half (C-R), compared to the R-5-E classification, higher assessments would be possible under these two alternatives. For a 12,000 sq. ft. site, however, the difficulty in incorporating both commercial and residential uses within the same structure would tend to force development to either all commercial, at the lower FAR, or all residential.

II. Effect of Zoning on Real Estate Tax Assessments

Zoning is the underlying basis for most developments in the District of Columbia. As real estate is typically put to it maximally productive use, the densities and uses permitted under the various zoning regulations form the basis for future development. Land with less restrictive zoning is typically developed with more intensive uses – Downtown C-4 office buildings contain more gross floor area per sq. ft. of land than do peripheral sites zoned C-3-A, a much more restrictive zoning category. As the ultimate value of a property is based on its ability to produce revenue to the owner, the greater density permitted on a given site, the greater potential for value.

As an example – using a value of $450 per sq. ft. for residential condominiums with a 1,000 sq. ft. average unit size, a property that contains 10 units would be valued at $4,500,000. If that property were located on a 10,000 sq. ft. site, i.e. developed to a 1.0 FAR, the total value of the land and improvements would be $4,500,000 for that site. IF, on the other hand, the site could be developed with 20 units, i.e., developed to a 2.0 FAR, then the total value of that property, located on the 10,000 sq. ft. site, would be $9,000,000. Thus, by increasing the density permitted on a site, the value of the improved property increases dramatically.

Assessments in the City are based on the market value of the property being assessed. Thus, by increasing the allowable development on a site, the total developable density on that site rises, the potential value of the finished property rises, the resulting assessment on the property rises, and the real estate tax revenue generated by that property rises.

Again, using Square 37 as an example, the total assessments, both land, and land and improvements, offers a clear indication of the increased tax revenue generated by the higher density developments.

Total Land Assessment

Sq 37 Land Assessment	Land SF	1995	2000	2005
North of Alley	61,517 sf	$19,248,221	$17,729,046	$30,350,620
South of Alley	58,628 sf	$6,493,318	$3,835,862	$8,150,220
Difference	4.93%	196.43%	362.19%	272.39%

Total Land Assessment per Sq. Ft. of Land

Square 37 Land Assessment	Land SF	1995	2000	2005
North of Alley	61,517 sf	$313	$288	$493
South of Alley	58,628 sf	$111	$65	$139
Difference	4.93%	182.51%	340.49%	254.90%

Total Property Assessment (Land and Improvements)

Sq 37 Total Assessments	Land SF	1995	2000	20
North of Alley	61,517 sf	$49,944,068	$51,189,217	$108,528,630
South of Alley	58,628 sf	$8,646,821	$7,008,133	$12,090,290
Difference	4.93%	477.60%	630.43%	797.65%

Total Property Assessment (Land and Improvements) Per Sq. Ft. of Land

Sq 37 Total Assessments	Land SF	1995	2000	2005
North of Alley	61,517 sf	$812	$832	$1,764
South of Alley	58,628 sf	$147	$120	$206
Difference	4.93%	450.47%	596.12%	755.50%

III. Projections of Change to Valuations and Tax assessments of Properties in Southern Portion of Square 37 (for each 12,000 square feet of land area) and for Taxable Income of Residents

Under R-5-B zoning
Under R-5-E zoning
Under C-2-C zoning
Under CR zoning

History of Land Assessments per Sq. Ft. of Land - West End

Prop. Address		TY 1995	TY 2000	TY 2005
2300 M - Office	C2C	$497	$395	$495
2400 M - Land	C2C	US Gov	US Gov	$450
2350 M - Hotel	C2C	$326	$291	$495
2600 Pa – Condo	C2C	--	--	$865
1140 23rd - Condo	C2C	$107	$180	$488
Average	C2C	$310	$289	$559

Prop. Address		TY 1995	TY 2000	TY 2005
2300 N - Office	CR	$492	$392	$456
2301 M - Office	CR	$319	$201	$515
2550 M - Office	CR	$525	$449	$523
1221 24th-Resid	CR	--	--	$421
2401 M - Hotel	CR	$260	$215	$468
Average	CR	$399	$314	$477

		TY 1995	TY 2000	TY 2005
2324 L - Res Conv	R5B	$189	$109	$312
2324 26th+ Walkup Apt	R5B	$189	$109	$312
1121 24th - Apt	R5B	$36	$73	$245
1128 25th Res Conv	R5B	$137	$94	$211
1132 25th Res Conv	R5B	$121	$40	$211
1136 25th Row Bldg	R5B	$141	$43	$224
1120 23rd Lot	R5B	$72	$39	$107
1010 23rd Res Conv	R5B	$68	$61	$200
Average	R5B	$119	$71	$228

While there have been no new R-5-E residential developments constructed during the recent past in subject's neighborhood, the residential newer development in both the CR and C-2-C (1221 24th and 2600 Pa) have both been residential developments. And, The Residences at the Ritz (1155 23rd Street), a PUD on an underlying R-5-D site, has a land assessment of in excess of $1,000 per sq. ft.[2] Thus, it is clear that a substantial increase in assessment would be expected were a site to be rezoned from R-5-B to R-5-E.

[2] While all 133 units were not totaled, eight randomnly chosen units had a land assessment ranging from $880 per sq. ft. up to $1,500 per sq. ft. with an average of over $1,300 per sq. ft.

Preliminary Estimates of Potential Income Taxes

Please note that this preliminary analysis does not include consideration of sales taxes, multiplier effects, percentage of permanent residents vs. non-taxable, or numerous other factors affecting the actual municipal revenues that might be generated by an occupied condominium. This analysis is intended solely to offer an indication of the difference in relative tax revenues between a development under the existing zoning (R-5-B) and a development under R-5-E or other similar density classification.

Assumptions:

Unit Size	1,000 sf average
Unit Price	$480/sf
Household Income	Set at a level sufficient to qualify for mortgage financing at 90% of purchase price
Mortgage	5.5% interest 30 year constant[3]
Real Estate Taxes	90% purchase price, homestead exemption
Insurance	$1,000 per annum
Income Tax	6% average income tax rate All occupants are permanent DC residents

Estimated Real Estate and Income Tax	
Unit Size	1,000 sf
Unit Price	$480
Price of Unit	$480,000
Mortgage Loan/Value	90%
Mortgage Amount	$432,000
Annual Mortgage Payment	$29,434[4]
Real Estate Tax	$3,782[5]
Insurance	$1,000
Total Housing Cost	$34,216
Income Require	30%
Minimum Income	$114,000
Estimated Income Tax	6%
State Income Tax	$6,840

Based on this preliminary analysis, the total real estate taxes and income taxes that might be received by the City under the R-5-B, R-5-E, C-2-C and CR zones for a 12,000 sq. ft. lot zoned residential in this location would be summarized as set forth below. Please note that the total unit count on the C-2-C and CR zones have been adjusted for the loss of saleable floor area due

[3] Current rates: 30 year fixes-6.48%, 15 year fixed-5.88%, 1 year ARM-4.29%
[4] Annual payment at 5.5% interest rate on 30 year constant.
[5] 90% of purchase price less $38,000 Homestead Exemption times $0.96 tax rate

to the difficulty in placing required residential recreation space on a site as small as 12,000 sq. ft.[6]

Income and RE Tax from Residents IF ALL Owner Occupants

Zone	Units	Real Estate	Income Tax	RETax+ Income	Incr over R5B
R-5-B	22	$3,782	$6,840	$233,684	
R-5-E	72	$3,782	$6,840	$764,784	227.27%
CR	67	$3,782	$6,840	$711,674	204.55%
C-2-C	67	$3,782	$6,840	$711,674	204.55%

[6] While it would be reasonable to be able to absorb more of the residential recreation space outside of the saleable area on a larger development, a 12,000 sq. ft. site, with its reduced roof area available for anything other than mechanical equipment presents fewer alternatives to meet the requirements. Therefore, some reduction in gross saleable area is likely. Both C-2-C and CR require 15% residential recreation space. This analysis utilizes a reduction in saleable GFA of 7.5%, or one-half of the requirement. Neither the R-5-B nor the R-5-E have a similar requirement, therefore, there would be no deduction for residential recreation space on these two zoning categories.

IV. Conclusion: Changing the Zoning to anything more permissive than R-5-B will result in higher land valuations and real property tax revenues. Actual development of vacant lots within the area will result in significant increments to the base for real estate "improvements." Development of residential properties that appeal to those for whom the District becomes, or remains, their "home" for tax purposes will increase revenue from income tax returns as well.

Of all the zones listed, R-5-E has the greatest potential to generate revenues for the District.

Comparison and analysis of existing and requested zoning classifications as they pertain to Square 37.

Zone	Current R-5-B	Proposed R-5-E	Proposed C-2-C	Proposed C-R
Height	50 ft.	90 ft.	90 ft.	90 ft.
Floor Area Ratio				
Maximum	1.8 FAR	6.0 FAR	6.0 FAR	6.0 FAR
Maximum Non-Residential	NA	NA	2.0 FAR	3.0 FAR
Lot Occupancy				
Residential	60%	75%	80%	75%
Other			100%	100%
Resid. Recreation Space	--	--	15%	15%
Rear Yard	4"/ft.	3"/ft.		3"/ft.
Min	15 ft.	12 ft.	15 ft.	12 ft.
Residential Parking	1 for 2 units	1 for 4 units	1 for 4 units	1 for 3 units

Approximate Development Potentials for 12,000 sq. ft. site located in the southern half of Square 37

Residential Density Potentials

Prospective Site 12,000 sf

Zoning	Gross Floor Area	Units
R-5-B	21,600 sf	22
R-5-E	72,000 sf	72
CR	72,000 sf	[7]67
C-2-C	72,000 sf	67

[7] While it would be reasonable to be able to absorb more of the residential recreation space outside of the saleable area on a larger development, a 12,000 sq. ft. site, with its reduced roof area available for anything other than mechanical equipment presents fewer alternatives to meet the requirements. Therefore, some reduction in gross saleable area is likely. Both C-2-C and CR require 15% residential recreation space. This analysis utilizes a reduction in saleable GFA of 7.5%, or one-half of the requirement. Neither the R-5-B nor the R-5-E have a similar requirement, therefore, there would be no deduction for residential recreation space on these two zoning categories.

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Summary of Recent Residential Land Sales

Sale No.	Address	Square	Sale Date	Area	Zone	FAR (Max)	Price /FAR
1	2600 Pa	4N	Jan-00	7,316 sf	C2C	6	$56.95
2	2400 M	25	Sep-00	53,437 sf	C2C	6	$40.31
3	1120 NH	71	May-03	28,375 sf	C2C	5.5	$76.89
4	1441 RI	210	Sep-01	22,432 sf	R5E	6	$60.16
5	1111 11th	341	Feb-02	16,837 sf	DD/R5E	6	$39.10
6	1001 L	341	May-03	17,477 sf	DD/R5E	6	$57.55
7	1301 M	245	Nov-03	42,157 sf	R5E	6	$65.86
8	1440 RI	211	Dec-03	7,902 sf	R5E	6	$80.00
9	1515 15th	209	Jan-04	12,604 sf	C3A/Arts	4.5	$42.60
10	1529 14th	241	Jan-04	13,126 sf	C3A/Arts	4.5	$77.03
			Maximum according to agent			4	$86.66

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, Advance Sales Comparison and Cost Approach - 2000
Seminars presented by AIREA, AI, GWCAR, 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; United States Bankruptcy Court, District of Maryland; United States District Court, District of Maryland.
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: First Union National Bank, NationsBank, Citicorp, Federal Deposit Insurance Company, District of Columbia Department of Housing and Community Development, District of Columbia National Capital Revitalization Corporation, 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, Verizon, Howard University, Columbia Hospital for Women, Exxon Oil Company, Amoco Oil Company, Chevron, Kentucky Fried Chicken, May Department Stores, Swedish Embassy, International Monetary Fund, International Bank for Reconstruction and Development (World Bank) attorneys, developers and individuals.
Organizations

Appraisal Institute, successor to American Institute of Real Estate Appraisers, MAI designation - Voluntary re-certification through December 31, 2007
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 1983-2004, Chrmn 1987-1989, Vice-Chairman 2004

Washington Metropolitan Area Chapter Appraisal Institute (formed January 1991 by merger of Wash Metro Chapter # 18 AIREA and Wash Metro Chapter of SREA): President-1994

Counselors of Real Estate - CRE designation

District of Columbia Building Industry Association

Washington D.C. Association of REALTORS®: New Development/Zoning Committee 1975-90, Chrm 1981-82; Board of Directors, 1981 to 1986, 1990-1994, 1998; President, 1985

Real Estate Education Foundation (WDCAR) - President 1989

Lambda Alpha International – International Land Economics Fraternity

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; Real Property Operations Committee, 2004

Greater Washington Board of Trade - Board of Directors, 1985

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 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;

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

He inspected the subject property;

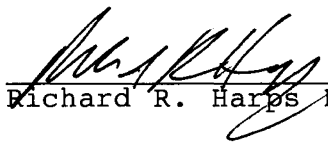
No one provided significant professional assistance to the person(s) signing this report;

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 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 appraisers or the firm with which they are 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