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November 17, 2003

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**VIA HAND DELIVERY**

D.C. Zoning Commission
Room 210
441 4th Street, N.W.
Washington D.C. 20001

D.C. ZONING COMMISSION
2003 NOV 17 PM 2:47

Re: Zoning Commission Cases No. 03-12 and 03-13
Capper/Carrollsburg HOPE VI Project
Supplemental Post-Hearing Submission

Dear Members of the Commission:

At its public meeting held on September 8, 2003, the Zoning Commission requested the Applicants to address certain issues raised by the members of the Commission in their discussion of the preliminary and consolidated planned unit developments. In determining how to address those issues, the Applicants looked at a broad range of options, including reducing the number of housing units, changing the mix of housing types, providing additional open space, both public and private, reducing the height and size of the office buildings and adding additional properties to the project. The Applicants carefully considered the full range of implications of changes, including impacts on the city, on the economics of the project and on fulfilling the goals which the D.C. Housing Authority (DCHA) had set as its priorities. The Applicants had further discussions with the Office of Planning to refine their thinking and to coordinate the responses set forth in this submission.

As a result of that two-month process, the Applicants respond as follows:

ZONING COMMISSION
District of Columbia
Case 03-12
Exhibit 78

1.
Inclusion of the Van Ness School

The Applicants met with the Superintendent of Schools and other representatives of the Board of Education with representatives of the Office of

ZONING COMMISSION
District of Columbia
CASE NO.03-12
EXHIBIT NO.78

Planning and the Deputy Mayor for Planning and Economic Development. As a result of that meeting and further consideration, the Superintendent has written to the Office of Planning requesting the inclusion of the Van Ness School into the PUD. A copy of the Superintendent's letter, dated October 28, 2003, is attached as Exhibit A. The Applicants accordingly also submit as Exhibit B the following documents modifying the preliminary PUD submission:

- Revised existing conditions, existing and proposed zoning and site plans; and
- Revised site development data;

The school site is included and is assumed to remain in its current configuration and use, as set forth in the second paragraph of the Superintendent's letter.

2.
Reservations 17A (Square 739) and 19A

The site to be created in Square 739 includes a part of Reservation 17A, a property for which the National Park Service (NPS) transferred jurisdiction to the District of Columbia. While the plat of transfer did not include restrictions on the use of the property, other documents provided by the NPS indicate that the transfer was made for the purpose of allowing the District to use the problem as a trash transfer site. The NPS has indicated that an amendment to the usage transfer of jurisdiction or the execution of a new transfer, through the appropriate process, will be required if the property is to be used for housing, including a mix of market rate and public housing units. The NPS has further indicated that, subject to completion of the requisite process, it has no objection in concept to the uses proposed. The Applicants will work with the NPS to amend the uses allowed under the transfer.

Reservation 19A includes approximately one acre of land owned by the NPS between the site of the Van Ness School and the 600 M Street office buildings and the low-rise residential buildings in Square 882. As requested by the Office of Planning, the Applicants will work with the NPS to determine if Reservation 19A can be included in the second stage PUD.

3.
Relationship of Proposed Development Program and Design
to Achievement of Project Goals

to include 707 units of public housing, the number necessary to get one-for-one replacement for the existing number of units. The one-for-one replacement of public housing units was a key feature in the DCHA's being able to obtain the HOPE VI Grant from HUD for this development. Replacement of the public housing units was feasible only because of a finely-balanced program of funding sources. This balance is such that a material change in any one of the sources, or a material delay in the project, could render it economically infeasible to provide the one-for-one replacement that is so badly needed.

The economic analysis that follows is based upon the financial information that was contained in DCHA's application to HUD for the HOPE VI Grant, along with certain other information that is based on current financial market conditions. It should be noted that DCHA will contribute the land necessary for construction of the 707 public housing units to the development of those units so that there is no land cost for the development of any of the replacement public housing units.

The projected cost to DCHA to build the new 707 new housing units, plus the cost of the new community center now included in the PUD, is as follows:

| | Number of units | Total project cost |
|---|---|---|
| Senior Housing Buildings 1 and 2 | 300 | $32,924,640 |
| Arthur Capper/Carrollsburg townhouse units | 123 | $17,220,000 |
| Multifamily housing in Squares adjacent to Canal Blocks Park | 272 | $37,774,237 |
| Off-site townhouse units at Kentucky Courts | 12 | $1,680,000 |
| Total | 707 | $89,598,877 |
| New community center | | $3,000,000 |
| Total commitment by DCHA | | $92,598,877 |

This is an average cost of just under $127,000 for each public housing unit after deducting the budgeted costs of the community center.

DCHA can only cover the approximately $93 million cost for the replacement public housing and the new community center by "leveraging" the funds available from the HOPE VI grant. This leverage is generated by a combination of funds

consisting of a mix of proceeds from the sale of other land now owned by the DCHA that is within the PUD to the developers, Capper/Carrollsburg Venture LLC, the capitalized value of the income stream from the joint venture between the William C. Smith Company and DCHA for the office building at 250 M Street, a contribution from the District of Columbia, which the Mayor has committed to the project and the sale of Low Income Housing Tax Credits. It should be noted that since public housing units cannot generate income in excess of the amount that it costs to operate those units by HUD regulation, conventional mortgage financing cannot be used for these units because there is no source of income to repay debt.

The HOPE VI Grant totals approximately $34 million. The budget approved by HUD allocates $20,487,590 for construction of public housing. The remainder is used for other purposes under the Grant (e.g., Community and Supportive Services Program, relocation, etc.)

The price that the developers will pay for the land is based on the amount of private development which can be placed on that land. Based on the development scheme proposed in the PUD application, DCHA would receive the following land sales proceeds that it would use to fund costs of the 707 public housing units:

| | Proposed Density | Unit value | Income from land sales |
|---|---|---|---|
| Townhomes | 258 units | Est. $32,400/unit net proceeds to DCHA | $8,359,200 |
| Multi-family rental | 492 units | $20,000 | $9,840,000 |
| Multifamily condominium | | Est. $27,000/unit net proceeds to DCHA | $2,430,000 |
| 600 block office buildings with ground floor retail | 496,000 square feet | $26.00/FAR sq. ft. x 500,000 sq. ft. | $13,000,000 |
| 250 M Street office building with ground floor retail | 236,000 | Est. $345,000 annual payment to the DCHA as part of the venture developing the building | $3,000,000 |
| Total | | | $36,629,200 |

The values for the sales price of townhomes and condominium apartments are based on estimates of gross selling prices. The values are based on current data and are reasonable estimates. The value for the 600 M Street office space is likewise calculated based on the assumed residual value of the land based on current estimates for effective lease rates.

The office building at 250 M Street (Square 769) is owned by Square 769 LLC, a subsidiary of the William C. Smith Company in a venture with DCHA. The distributable income to the DCHA for its share of the venture is estimated to be approximately $345,000. That annualized income stream is capitalized at a 12% rate to yield a value of approximately $3,000,000.

The total that can be raised based on the allocated money from the HOPE VI grant, and the anticipated values that DCHA expects to receive from the sale of the land and the value of the income stream from the 250 M Street office building is therefore approximately $57,116,790, far short of the total $93 million needed. The District government has pledged to provide approximately $4 million of the shortfall.

It is anticipated that the remaining shortfall of approximately $31.5 million, will be raised through the sale of Low Income Housing Tax Credits. For projects financed by tax exempt bonds, the credit is based on the eligible basis of the buildings, which is essentially the construction cost of the public housing units, reduced by certain items. In this case, the tax credit basis is projected to be approximately $79 million. This basis is increased by 130% for projects located in designated areas, including the area of the subject Capper/Carrollsburg development. The eligible basis for tax credit purposes is therefore expected to be approximately $102.7 million.

The tax credits for transactions financed by tax exempt bonds is approximately 35% of the eligible basis over ten years. Investors have been willing to pay between 86% and 91% of the face amount of these credits for Senior Building I, the credits for which are currently on the market. Using 88% (the midpoint of the current bids) as the estimate of the purchase price for all the Low Income Housing Tax Credits, the tax credits are estimated to yield approximately $31.6 million to close the gap.

To summarize, the anticipated sources of funds to cover the estimated $89.6 million cost of the 707 replacement public housing units is as follows:

| Source | Est. Amount |
|---|---|
| HOPE VI Grant | $20.5 million |
| Land Sales | $33.6 million |
| 250 M Street – Estimated Capitalized Value | $ 3.0 million |
| DC Contribution | $ 4.0 million |
| Tax Credit Proceeds | $31.6 million |
| SUB-TOTAL | $92.7 million |
| Less: Cost of Community Center | ($ 3.0 million) |
| TOTAL | $89.7 million |

The ability to fund the replacement of the public housing units is therefore dependant upon a finely crafted balance between the amount of residential and commercial development on the site and estimated market values and dollars derived from the development, as well as the anticipated ability to sell the Low Income Housing Tax Credits. Changes to the development program which reduce the amount of proposed office or market rate residential development will adversely affect revenues and place the public housing replacement goal in jeopardy or, in the alternative, will prevent DCHA from constructing and opening the community center.

In its published 2001 HOPE VI Notice of Funding Availability (NOFA), HUD established a "Soundness of Approach" factor as one of the criteria for selection of proposals. That criterion encourages public housing authority's to demonstrate in their HOPE VI proposals a housing mix as "great as possible ..." The Capper/ Carrollsburg HOPE VI revitalization plan embraces a broad mix of housing types.

Of the total 1,645 housing units, 1,247 or 76% are rental and 398 or 24% are for home ownership. In the rental component, 707 or 57% are public housing and 540 or 43% are market rate. In the home ownership component, 50 units are specifically designated for families eligible for Section 8 assistance (80% of area median income or below) while the remaining 348 units will be targeted to moderate income and market rate buyers. This combination of market, affordable and publicly assisted housing will result in the mixed-income type of community that HUD was seeking in the 2001 NOFA.

While promoting a diversity of housing types, however, the long term viability and sustainability of the community must be addressed as well. Because the perceived "quality" of any neighborhood is the most important factor to attract and retain market rate buyers and renters, especially families with children, and to avoid a re-concentration of the lowest income families, the proportion of public housing units must stay within a reasonable range. The public housing component of the development program is close to 43%, higher than the 1/3 target range HUD discussed in the NOFA.

In the studies of potential changes to the site plan reflecting the comments from the Commission, the Applicants carefully considered two things in particular: how to reduce density and increase open space; and how to further minimize or eliminate acquisition of privately owned properties. The Applicants focused on the core of the townhouse area along the new street being created, 3rd Place, that runs through Squares 798, 799, and 800. Squares 799 and 800 are also where the twenty privately owned properties are to be acquired. In general, for every four townhouses that are removed from the approved PUD, one public housing unit is lost. For every five condominium units lost, one public housing unit is lost. In addition, for every 5000 square feet of office space removed from the plan, one public housing unit is lost. Losing public housing units also reduces the value of the Low Income Housing Tax Credits, which affects the overall financing of the project.

The various alternative unit configurations studied in the affected Squares resulted in a net loss of twenty-four townhouse units. Based on the estimated land proceeds that DCHA expects to realize from the sale of lots for townhouses, this resulted in a loss of $777,600 in proceeds for replacement of public housing. Given the average cost of $127,000 for each public housing unit, this would yield six fewer units. Combined with the loss of 100,000 square feet of office space if the 6th and M Street buildings were reduced from 110 feet to 90 feet as the Commission suggested, resulting in the loss of another twenty units of public housing, the city would be even further away from the goal of one-for-one replacement.

Perhaps more importantly, the loss of these twenty-four townhouse units reduces the home ownership component of the overall project and further erodes the market rate proportion of residency to public housing as well. This raises concerns regarding initial market acceptance and the long-term viability of the market rate component of the community as the project is already above the targeted 1/3 proportion of public housing. It also reduces the tax revenues which the city can

expect to gain from new residents of the project who would have higher incomes versus their demand for city services.

With respect to the mix of units and the suitability of the design for urban living, the site plan reflects the best of the style of development that has come to be known as "new urbanism." The layout of the residential blocks are in keeping with Washington, D.C., traditions. Apartment buildings are placed on wider streets and avenues while the rowhouses are laid out on traditional residential scale blocks. The external architecture of the rowhouses is patterned on the richness and diversity of D.C. traditions. Adherence to these characteristics is ensured by the Design Guidelines included as part of the Preliminary PUD.

The development of the variety of rowhouse types within the low-rise residential portion of the project responds to the overall urban design goals as well as to the specific needs of the populations they will house. The public housing units include an array of units, from two to five bedroom units, with a substantial portion of these (approximately twenty-five percent) designed to accommodate persons with disabilities. The largest rear yards within the project are associated with these units and the Section 8 home-ownership units.

The affordable and market-rate townhouses are patterned on a variation of the traditional rowhouse – with a rear access garage – that is found throughout new urbanist developments in inner city conditions and elsewhere. In keeping with the principles of new urbanism, this unit type preserves the internal characteristics and benefits of the rowhouse while creating the continuity of building fronts and sidewalks that creates pedestrian-friendly streets. The use of this type, with its tuck-under parking, is often found where land values are high; private rear decks are typically included to create private rear space. In the D.C. area market, this type has proved popular particularly with the demographics that are interested in higher-density, mixed-use neighborhoods such as Capper/Carrollsburg dwellings.

Over the last ten years, Eakin/Youngentob has delivered over 2,000 townhomes in the Washington area with similar configurations to those proposed for the Capper/Carrollsburg site, including rear-loaded garages and outdoor space provided in front yards, rear decks, and roof decks. Of those townhomes, nearly 300 have been sold and built within the District of Columbia. The demand and resulting sales pace for these homes has far exceeded that of other residential developments selling nearby and throughout the Washington area. As examples, Harrison Square in Shaw and Capitol Square in Southwest, two recent

Eakin/Youngentob townhouse developments, each sold out their 90+ townhouse units in less than one year. This type of townhouse has been very attractive to many buyers because it offers fee-simple townhouse living with the minimal yard maintenance more typical of a condominium.

The typical Eakin/Youngentob townhouse appeals to a wide range of buyers, including singles, couples, empty-nesters, and families with children. Although historically townhomes have been sold primarily to people who do not have children, Eakin/Youngentob's experience has been that this is more a result of location than product type. Families with children have not yet overwhelmingly embraced urban living in Washington. However, as schools and crime rates improve, the market response is changing. In locations where the services and environment are perceived to be more suitable for children, Eakin/Youngentob has seen more instances of families with children choosing to purchase homes. For example, at the Fallsgrove development in Rockville, Maryland, twenty percent of the townhouse buyers have children. At the Brownstones development in Wheaton, Maryland, sixteen percent have children. This compares with Census data showing that only ten to eleven percent of households on the southeast side of Capitol Hill and in the Southwest redevelopment area have children under the age of eighteen. See the table attached as Exhibit C summarizing data from the 2000 Census.

In addition, although there are no statistics on the subject, Eakin/Youngentob is aware that many couples are having children and staying in their homes. This is true at the Old Town Village community in Alexandria, Virginia, which included identical housing types with no backyards but common green spaces. These units were purchased by young professionals or couples with no children. Rather than move out after a few years, these same people have stayed and started raising families in this housing type due to the benefits of the area's location and the availability of communal green space and neighborhood parks similar to those planned for and surrounding the Arthur Capper/Carrollsburg site.

The configuration and floor plan of a typical Eakin/Youngentob townhome does not preclude families. On the contrary, townhomes incorporate living programs very similar to traditional urban townhomes, including at least three bedrooms and 2½ baths. The provision of parking in an integral, secure garage is generally seen as an amenity for families when compared to alley or street parking. Many single and married women make this a priority in their buying decision. Private outdoor space is provided in front yards, rear decks, and roof decks. Additional active recreation space is provided in pocket parks and open space

consolidated within the community and in nearby parks. A site plan showing the open space available at the ground level in the project is attached as Exhibit D.

To further enhance the attractiveness of the proposed townhouses for families with children, the Applicants offer the following commitments which can be incorporated into the approval of the PUD :

1) Provide purchasers the option to add extra floor area in a fourth floor loft area;

2) Provide at least twenty percent of the market rate townhomes with low, wrought iron fences in public space to define a front yard for children or personal recreation space;

3) Provide rear decks of six feet on public housing units with decks (excluding those corner units which back onto adjoining units, as shown on the plan submitted with the original post-hearing submission); and

4) Provide at least twenty percent of the market rate townhomes with roof decks.

4.
Acquisition of Private Properties

As a result of the density and design analysis discussed above, the Applicants have determined not to reduce the number of properties now in private ownership which must be acquired to achieve the development program. The Applicants note that the site plan contained in the original HOPE VI Grant application contemplated the acquisition of all the thirty-five privately owned properties within the boundaries of the area, except for St. Paul's Church at the southeast corner of 4th and I Streets. Through refinement of the plan, fifteen of those properties are no longer proposed to be acquired as part of the project. Acquisition of only a small portion of the rear of five additional properties in the block bounded by 3rd , 4th, K and L Streets will be needed to complete alley access in that square.

The current site plan requires the acquisition of only ten properties in Square 799 and five properties in Square 800, the block bounded by 3rd, 4th, L and M Streets. This represents approximately 2% of the total area of the project. Of the twenty properties, nine are owner occupied and eleven are held by absentee owners. Of the nine owner occupied properties, three were acquired by their current owners

since the year 2000 (two after the HOPE VI application was submitted), four were acquired in the 1990's and two were acquired prior to 1990.

The rights of the owners of all of those properties will be protected through the procedures and policies of the federal Uniform Relocation Act. In accordance with the requirements of the Act, appraisals of all of the properties have been completed. The next step is for the owners to be sent a written purchase offer along with a summary statement explaining the basis for the offer. The summary statement will include a description of the property and the interest to be acquired, the amount offered as just compensation and a list of buildings and other improvements covered by the offer.

All of the privately owned properties are in the area of the preliminary PUD. The Applicants have indicated that they will either own or control or will have initiated condemnation proceedings for those properties prior to filing a second stage application for those properties. Since the Applicants have additional time to work on the design of the two squares which include privately owned properties, the number of properties which need to be acquired may be reduced by further study. The Applicants will continue to explore whether more of the existing buildings can be retained in private ownership.

5.

Development under the Existing R-5-B Zoning

One of the guiding design principles for the Capper/Carrollsburg project was to create a new neighborhood which knits into the fabric of the existing Capitol Hill neighborhood across the Southeast Freeway to the north and which connected to the Anacostia River through the new neighborhood to be created at the Southeast Federal Center. The overall density and the mix of housing types represents a transitional step up from Capitol Hill to the Southeast Federal Center, or down in the reverse direction.

The Applicants emphasize that the existing zoning of the Capper/ Carrollsburg area is R-5-B, as compared to the R-4 District which applies to the majority of Capitol Hill and the R-5-D/R-5-E/CR proposed to be applied to the Southeast Federal Center. The R-5 Districts by definition are "designed to permit flexibility of design by permitting in a single district ... all types of urban residential development." (11 DCMR 350.1) The R-5-B District is designated for moderate height and density. As shown in the site plan attached as Exhibit E,

(previously submitted as part of the Applicants' first post-hearing submission) a typical R-5-B development would consist of three story walk-up apartment with surface parking at the rear and very little green space on-site. By aggregating open space in common areas and through access to the Marine Barracks playing fields, the proposed development yields much more usable open space than would likely be achieved under R-5-B development.

Both the R-4 and R-5-B Districts allow a maximum lot occupancy of sixty percent. The PUD as proposed, including the Van Ness School but not including the open space associated with the Marine Barracks, has an overall lot occupancy of approximately 53%. Excluding the land area in the Canal Blocks Park, the overall lot occupancy is still slightly less than 60%.

6.
Design of M Street Office Buildings

For the reasons noted above, the Applicants have not reduced the height or gross floor area of the two office buildings in the 600 block of M Street. Those two buildings complement the height and density suggested for the south side of M Street in the zoning proposed for the Southeast Federal Center (CR at 6.0 FAR and 110 feet in height with approval of the Zoning Commission for the area east of the proposed DOT Headquarters).

The total amount of commercial gross floor area in the PUD (in the three office buildings plus the additional ground floor retail in the apartment buildings) is less than the commercial gross floor area now permitted as a matter-of-right on the land within the PUD boundaries. That floor area is distributed in a different way than the current zoning permits, partly to spread the mix of residential uses into the area west of 2nd Street and partly to reinforce the high-rise commercial boulevard concept along M Street.

The 600 block office buildings are adjacent to lower density and height residential buildings to the north. These buildings are programmed at thirty-five to forty feet in height. This is a condition typical of development in Washington, where high-rise corridors are often adjacent to low-rise residential areas, separated only by a public alley. Since the design of the office buildings will require further review by the Zoning Commission in a second stage application, the Commission will have the opportunity to determine whether the specific design proposed requires any further attention to establish a transition to the future residential

uses, possibly including cornices or other design articulation below the top of the buildings to create a stronger horizontal appearance.

7.
Contributions to Canal Blocks Park

The Office of Planning requested the Applicants to restate the basis for funding for the development of the Canal Blocks Park. The Canal Blocks Park comprises Federal Reservations 17 B, C and D between 2nd Street and 2nd Place and I and M Streets. The three parcels are owned by the United States and are under the jurisdiction of the District of Columbia for recreation and related purposes.

The Canal Park Development Association (CPDA) is a non-profit entity authorized by Act of Congress established to work in a joint public/private partnership with the Government of the District of Columbia for the purpose of promoting, fundraising, designing, constructing, and maintaining the Canal Blocks Park. Membership is open to representatives of contiguous landowners, as well as public entities actively participating in the revitalization of the District's near Southeast.

The CPDA has received $2,947,000 in commitments from private landowners, in addition to $2,500,000 in funds received from the U.S. Congress. William C. Smith & Co., Inc., in conjunction with the development of four parcels contiguous to the Canal Blocks Park, including the property within the PUD in Square 769, has pledged $310,000. Mid City Urban LLC and Forest City Enterprises, through their participation in Capper/Carrollsburg Venture, LLC, have pledged $137,000 to CPDA. The JBG Companies, in conjunction with its development of the U.S. Department of Transportation headquarters building, has pledged $2,500,000 for development of the Canal Blocks Park.

8.
Jobs Matrices

As part of the project, the Capper/Carrollsburg Venture LLC will enter into First Source and LSDBE agreements with the appropriate agencies of the District of Columbia Government. In order to give a head start to individuals and community organizations which might want to qualify for the jobs to be created as part of the development, the Applicants have developed a matrix of the types of jobs and a general construction schedule showing when those jobs would be needed.

Those matrices for the low-rise residential development included in the consolidated PUD and for the Senior Building 1 are attached as Exhibit F.

Conclusion

The Applicants believe that they have responded to the issues and concerns raised by the Commission in its prior discussion. The Applicants respectfully request that the Commission grant the two PUD applications at the earliest possible date.

Sincerely,

Whayne S. Quin

M. Carolyn Brown

Steven E. Sher
Director of Zoning and Land Use Services

Attachments

cc: D.C. Office of Planning
Advisory Neighborhood Commission 6D
Advisory Neighborhood Commission 6B

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