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**RE: I-395 Air Rights, Washington, DC
Economic Impact Overview (\$2010)**

Bolan Smart Associates has been asked to provide a brief overview of the magnitude of economic importance to the District of Columbia of constructing the proposed \$1.5 billion infill development on the consolidated I-395 Air Rights site between Massachusetts Avenue and E Street NW. Not only does this new development represent a more efficient use of underutilized land with a highly positive economic impact – including approximately 260 residents and 8,600 jobs – the project is vital to restoring a critical street grid, enhancing the development potential and value for the entire surrounding neighborhood and beyond.

Based on evaluating a 100% completed project, our findings are summarized below.

A. Direct Annual District Tax Revenue (\$2010): The principal direct tax revenues to the District of Columbia resulting from the completion of this project, including 50 units of affordable housing (@ 80% of AMI), total approximately \$35.52 million (\$2010) per year. The primary components, as summarized in Table 1, are estimated to be comprised of:

- 1) \$23.08 million per year in real estate taxes (compared with \$0.00 as currently owned and improved);
- 2) \$2.48 million in (non-resident or office related) retail taxes attributable to \$33.81 million in on-site taxable retail sales derived from 70,000 gross square feet of restaurant and retail space. (See Table 2);
- 3) \$5.99 million in office use related taxes comprised of franchise taxes and user fees (1,974,827) gross square feet). (See Table 2);
- 4) \$0.56 million in parking taxes from a 1,147 space commercial parking component. (See Table 2);
- 5) \$2.19 million per year in office and retail employment related sales tax revenues, attributable to \$26.56 million in annual taxable sales (\$65 per week retail expenditures / employee). (See Table 2);

- 6) \$0.86 million per year in DC resident income taxes derived from the development of 150 residential units. (See Tables 3 - 4);
- 7) \$0.14 million per year in DC resident retail sales tax revenues, attributable to \$1.96 million in DC based taxable sales. (See Tables 3 - 4);
- 8) \$0.82 million in DC resident related use taxes and fees (residential building operations, resident DMV fees, utility and telecommunications fees, etc.). (See Tables 3 - 4); and,
- 9) \$0.13 million in recurring residential condominium resale transfer and deed recordation taxes assuming a normal 7% rate of annual property turnovers (not including possible refinancing related recordation fees). (See Table 3 - 4).

B. One-time Development Related Revenues: The combination of development permits, initial recordation fees and transfer taxes associated with the proposed development are projected to generate in excess of \$20.0 million of direct District of Columbia tax revenues consequent from the initial development effort (typically generating >\$10 per gsf of building area). Combined with close to \$20.0 million in estimated sales tax collected by the District on construction materials (\$800 million hard construction cost in \$2010 x 55% materials cost x 75% DC taxed at 6.00% sales tax rate) produces a total one-time District project direct revenue impact pushing \$40.0 million.

C. Employment and Economic Activity Benefits: As summarized in Table 1, a total of 7,890 full time equivalent jobs are estimated to be located at the subject development, including 184 retail related jobs, 7,657 office jobs, plus a number of project support jobs, responsible for over \$500.0 million (average \$65,000+ annual income) in annual District based payroll. Assuming that District residents hold 25% to 30% of the jobs, totaling over 1,900 DC resident jobs, the annual direct payroll going to District residents is over \$125.0 million, responsible for over \$10.0 million in annual District of Columbia income taxes. In addition, close to 5,800 full time construction (hard cost) jobs are projected to be created, representing over 700 direct annual construction jobs as part of a 96-month construction period.

D. Project Related DC Residents: The construction of 150 residential living units will result in accommodations for upwards of 260 residents after allowing for a nominal 5.0% average vacancy factor. (See Tables 3 – 4). By creating an additional supply of new multi-family units at this location, not only will new residents currently living outside of the District be attracted to relocate, but those existing DC residents that choose to relocate will free up needed inventory for other prospective DC residents. The direct annual income taxes and other taxes generated by the on-site residential development are outlined in the attached tables.

E. Provision of a Mix of Housing for DC Residents: The inclusion of 50 affordable units, representing 33% of the new residential units, will provide needed homes for a range of households that are currently under housed or otherwise priced out of the marketplace. These moderate income housing units will be limited to DC households earning not more than 80% or less than the Area Median Income, or typically in the range of \$40,000 to \$70,000 per year (\$2010).

F. Public Space Benefits: The positive impact of the proposed project is supplemented by the inclusion of specific public space and streetscape improvements, especially related to the restoration of the original street grid:

Public Space Construction Costs

Restoration of F and G Streets	\$15,000,000
Improvements to existing streets and open spaces	\$10,000,000
Massachusetts Avenue / H Street park	<u>\$ 1,000,000</u>
Total	\$26,000,000

Public Space Annual Expenditures

Street related common area maintenance	\$ 1,000,000
Business Improvement District	\$ <u>280,000</u> (\$0.1498 per net sf)
Total	\$ 1,280,000

H. Other: Dramatically improved pedestrian and vehicle linkages between the Union Station area, Judiciary Square and Gallery Place will undoubtedly add to the combined economic vitality of these parts of the city. Further, the addition of retail space in an otherwise underserved direct vicinity should contribute to creating a higher profile for the immediate neighborhood. The Jewish Historical Society will benefit from being relocated to a more visible and accessible site. Finally, apart from many project specific attributes such as achieving a LEEDS platinum standard, including an advanced on-site storm water retention system and other exemplary project design benefits, the proposed project will assume the costs for compensating parties of prior interest in the subject air rights, releasing the District of liabilities thereof and finally moving forward with this long contemplated and unfinished piece of downtown redevelopment.

I. Phased PILOT Impact: Assuming a phased project delivery starting with the North Block in 2016, followed by the completion of the Central and South Blocks in 2017 and 2018 respectively, the achieved District related annual tax revenue will ramp up accordingly. The completion of the North Block represents \$17.22 million in annual District revenue, growing to \$22.14 million with the addition of the Center Block, and then totaling \$35.52 with the finishing off of the South Block. During this corresponding period, the PILOT applicable to the as yet unbuilt project area will decline from \$1.06 million per year beginning at expected property conveyance as of October 2011, resetting to \$0.54 million in 2016, \$0.36 million in 2017, and burning off completely at projection build out in 2018 (assuming a constant \$60.0 million total project undecked land value assessment as of property conveyance allocated prorata across the total non-institutional gross square footage taxed as applicable at the commercial real property tax rate of 1.85% and the residential rate of 0.85%). The total value of the PILOT spanning the calendar years of 2012 to 2017 approximates \$5.15 million.

**Table 1 - Combined Land Uses: I-395 Air Rights - Washington, DC
ECONOMIC IMPACT SUMMARY - \$2010**

Direct Annual District Tax Revenues				District Tax Revenue	
		<u>taxable value</u>	<u>tax value per sf</u>	<u>RE tax</u>	<u>total</u>
1) Real Estate Tax see Tables 2-4	commercial	\$1,223,396,200	\$598	\$22,632,830	
	market residential condos	\$45,960,000	\$451	\$390,660	
	80% AMI condos	\$9,885,000	\$194	\$58,816	
	total	\$1,279,241,200			\$23,082,305
2) Retail Space Direct Tax (non-real estate) see Table 2	general retail	\$33,810,000		<u>DC related tax</u> \$2,483,425	\$2,483,425
3) Private Sector Office Direct Tax see Table 2		<u>gross DC taxes</u> \$5,985,162		<u>DC related tax</u> \$5,985,162	\$5,985,162
4) Parking Tax see Table 2	commercial	<u>taxable revenues</u> \$4,679,760		<u>DC parking tax</u> \$561,571	\$561,571
5) Employee Related Sales Tax Revenue see Table 2	commercial	<u>taxable sales</u> \$26,555,936		<u>DC retail related tax</u> \$2,190,865	\$2,190,865
6) DC Resident Income Tax see Tables 3-4	market residential condos	<u>total potential</u> \$828,963		<u>DC income tax</u> \$746,067	
	80% AMI condos	\$131,753		\$118,578	
	total	\$977,948		\$864,644	\$864,644
7) DC Resident Retail Expenditures see Tables 3-4	market residential condos	<u>total potential taxable sales</u> \$4,443,120	<u>DC capture</u> 35.0%	<u>DC sales tax</u> \$116,632	
	80% AMI condos	\$779,688	40.0%	\$23,391	
	total	\$5,443,128	\$1,966,111	\$140,023	\$140,023
8) Other DC Resident Related Fees see Tables 3-4	residential condos			\$82,216	
	total				\$82,216
9) Recurring Resale Transfer Fees see Table 3-4			<u>annual unit turnover</u> 7.0%		\$127,422
Total Direct Annual DC Tax Revenue (in eleventh year including real estate taxes)					\$35,515,429
Total Direct Annual DC Tax Revenue (at projection completion net of real estate taxes PILOT)					\$12,433,124
10) Total Direct Annual Tax Revenue By Use	commercial			<u>DC taxes</u> \$33,853,852	
	residential condos			\$1,661,577	
	Total Direct Annual DC Tax Revenue (in eleventh year including real estate taxes)				\$35,515,429

One-time District Revenue (transfer and recordation Taxes, development fees, sales taxes, etc.) \$40,000,000+

		<u>DC residents</u>
Additional Project Related Residents	market residential condos	168
see Tables 3-4	80% AMI condos	91
	total	259

		<u>DC jobs</u>		<u>DC residents</u>
Direct Project Full Time Employment (FTE jobs)	Office	7,657	25.0%	1,914
	Retail	184	35.0%	64
	Parking	15	35.0%	5
	Residential (one job / 80 units)	33	35.0%	12
	Total Permanent FTE Jobs	7,890		1,996
	Temporary Construction FTE Jobs (a)	727	35.0%	255
	Total FTE Jobs	8,617		2,250

Indirect Employment, Economic and Tax Multipliers not considered

Notes:

(a) Construction employment: \$800,000,000 construction cost x 40% direct labor divided by \$55,000 average annual income, equaling 5,818 person years divided by 8.0 years for assumed project completion, realizing 727 construction full time equivalent jobs.

Table 2 - Commercial
I-395 Air Rights - Washington, DC
ANNUAL DIRECT DC TAX REVENUE NET OF MULTIPLIERS - \$2010

Project Description		Direct Project Full Time Employment (a)	
1) General Office	1,974,827 gsf	245 gsf per office job	7,657 office jobs
2) Retail	70,000 gsf	350 gsf per retail job	184 retail jobs
3) Total Building Area	2,044,827 gsf		
4) Parking	1,147 spaces	75 spaces / parking job	15 parking jobs
5)			7,857 total jobs

Real Estate Tax

- 6) General Office Real Estate Value
- 7) Retail Real Estate Value
- 8) Parking (included above)
- 9) Total Taxable Real Estate Value (assessment)
- 10) Real Estate Tax Revenue
- 11) **Total Real Estate Tax Revenue**

Building / Parking		
	one gsf	total gsf
	\$600.00	\$1,184,896,200
	\$550.00	\$38,500,000
100.00% of value	\$598.29	\$1,223,396,200
1.85% commercial tax rate	\$11.07	<u>\$22,632,830</u>
	\$11.07	<u>\$22,632,830</u>

Private Sector Office Direct Tax (75% private occupancy)

- 12) Taxable Gross Revenues (adjusted for 5% vacancy)
- 13) DC Franchise Tax
- 14) Business Personal Property (adjusted for 5% vacancy)
- 15) Business Personal Property Tax
- 16) Other Operating Taxes and Fees (b)
- 17) Total General Office Related Taxes
- 18) **DC Private Office Tax Capture**

	one gsf	total gsf
\$140,000 per employee	\$407.14	\$804,036,707
9.975% on 5% profit on gross	<u>\$2.03</u>	<u>\$4,010,133</u>
\$3,050 per employee	<u>\$11.83</u>	<u>\$23,355,352</u>
\$3.40 per \$100 assessed value	\$0.40	\$794,082
\$0.65 per gsf	<u>\$0.60</u>	<u>\$1,180,947</u>
	<u>\$3.03</u>	<u>\$5,985,162</u>
100.0% DC revenues (c)	\$3.03	<u>\$5,985,162</u>

Retail Direct Tax Revenues

- 19) On-site Taxable Retail Sales (adjusted for 8% vacancy)
- 20) DC Average Applicable Sales Tax (blended general and meals)
- 21) Sales Tax Net of On-Site Residents or Office Tenants
- 22) DC Franchise Tax
- 23) Business Personal Property (adjusted for 8% vacancy)
- 24) Business Personal Property Tax
- 25) Other Operating Taxes and Fees (b)
- 26) Total Retail Related Taxes
- 27) **DC Retail Sales Tax Capture**

	one gsf	total gsf
\$525 per gsf	\$483.00	\$33,810,000
7.75%	<u>\$37.43</u>	<u>\$2,620,275</u>
75.0% not on-site consumers	\$28.07	\$1,965,206
9.975% on 10% profit on gross	\$4.82	\$337,255
\$65.00 FF&E per gsf	<u>\$59.80</u>	<u>\$4,186,000</u>
\$3.40 per \$100 assessed value	\$2.03	\$142,324
\$0.60 per gsf	<u>\$0.55</u>	<u>\$38,640</u>
	<u>\$35.48</u>	<u>\$2,444,786</u>
100.0% DC sales	\$35.48	<u>\$2,483,425</u>

Parking

- 28) Parking Income
- 29)
- 30) **DC Parking Revenue Tax**

	one space	total spaces
\$17.00 per space per work day		
\$4,080 per space per year	<u>\$4,080</u>	<u>\$4,679,760</u>
12.0% of gross revenue	\$490	<u>\$561,571</u>

Employee Related Sales Tax Revenue

- 31) FTE Employee Retail Expenditures Subject to Sales Tax
- 32) **Employee Related Sales Tax**

	one gsf	total gsf
\$65.00 per FTE per week	<u>\$12.99</u>	<u>\$26,555,936</u>
8.25% mostly meals	\$1.07	<u>\$2,190,865</u>

Total Direct Annual Tax Revenue

- 33)

	\$16.56	<u>\$33,853,852</u>
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Notes:

- (a) FTE is full time equivalent employee, assumed at 40 hours per week.
- (b) Operations purchases, utility and telecommunications fees, other business license fees and charges.

**Table 3 - Market Condominiums
I-395 Air Rights - Washington, DC
ANNUAL DIRECT DC TAX REVENUE NET OF MULTIPLIERS - \$2010**

Project Description		Project Related DC Residents
1) Condominiums	150 units	1.75 persons / unit
2) Parking	38 spaces	<u>96</u> occupied units
3) Market Units	100 units	168 total residents
4) Average Size	<u>1,020</u> nsf (net saleable area)	<u>100.0%</u> net residents
5) Total Saleable SF	102,000 nsf (120,256 gsf)	168 DC residents

Real Estate Tax

Building / Parking		
	one nsf	total nsf
6) Condominium Real Estate Value (including parking)	\$550.00	\$52,710,000
7) DC Homestead Exemption	\$67,500 per unit	(\$66.18)
8) Seniors Exemption	not considered	\$0
9) Taxable Residential Real Estate Value	\$450.59	\$45,960,000
10) Parking (included above)		
11) Total Taxable Real Estate Value (assessment)	100.0% of assessment	\$450.59
12) Residential Real Estate Tax	0.85% residential tax rate	\$3.83
13) Total Real Estate Tax Revenue	\$3.83	\$390,660

Residential Direct Tax Revenues

	one unit	total units
14) Average Unit Value	\$550.00 per nsf	\$561,000
15) Required Gross HH Income	27.5% multiple of unit value	\$154,275
16) Taxable Income	75.0% of gross	\$115,706
17) Initial DC Income Tax	\$40,000 of initial taxable income	\$2,200
18) Additional DC Income Tax	8.50% DC tax rate over initial	<u>\$6,435</u>
19) Total Potential DC Income Taxes		\$8,635
20) Income Taxes Adjusted for Average Occupancy	96.0% occupancy	\$8,290
21) Potential DC Residents	90.0% of residents pay taxes	<u>\$7,461</u>
22) Income Tax Revenue Adjusted for Resident Status	100.0% residents	\$7,461
23) Resident Retail Expenditures Subject to Sales Tax	40.0% of taxable income	\$44,431
24) District of Columbia Resident Sales Capture	35.0% of expenditures	<u>\$15,551</u>
25) DC Average Applicable Sales Tax (a)	7.50% blend of categories	\$1,166
26) Other Resident Related Use Taxes and Fees (b)	0.60% of taxable income	\$666
27) Personal Property Tax (not applicable)		\$0
28) Total Residential Direct Tax Revenues		\$9,293

Recurring Property Resale Transfer Fees

29) Annual Re-sales Related Taxes (2.9% combined fees)	7.00% annual unit turnover	\$1.05	\$107,001
30) Annual Refinance Deed Recordation Taxes			not considered

Parking (included with unit purchase)

Total Direct Annual Tax Revenue

31)		\$13.99	\$1,427,007
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Notes:

- (a) Based on blend of sales tax on general goods and services and DC retained sales tax on restaurant related sales.
- (b) Building operations purchases, resident DMV fees, utility and telecommunications fees, other licensing fees and charges.

**Table 4 - 80% AMI Condominiums
I-395 Air Rights - Washington, DC
ANNUAL DIRECT DC TAX REVENUE NET OF MULTIPLIERS - \$2010**

Project Description

1) Condominiums	150 units
2) Parking	0 spaces
3) Affordable Units	50 units
4) Average Size	1,020 nsf (net saleable area)
5) Total Saleable SF	51,000 nsf (60,128 gsf)

Project Related DC Residents

1.9 persons / unit
48 occupied units
91 total residents
100.0% net residents
91 DC residents

Real Estate Tax

6) Condominium Real Estate Value (including parking)	
7) DC Homestead Exemption	\$67,500 per unit
8) Seniors Exemption	not considered
9) Taxable Residential Real Estate Value	
10) Parking (included above)	
11) Total Taxable Real Estate Value (discount for affordables)	70.00% of assessment
12) Residential Real Estate Tax	0.85% residential tax rate
13) Total Real Estate Tax Revenue	

	Building / Parking	
	one nsf	total nsf
	\$260.00	\$13,260,000
	(\$66.18)	(\$3,375,000)
		\$0
	\$193.82	\$9,885,000
	\$135.68	\$6,919,500
	\$1.15	\$58,816
	\$1.15	\$58,816

Residential Direct Tax Revenues

14) Average Unit Value	\$260.00 per nsf
15) Required Gross HH Income	25.0% multiple of unit value
16) Taxable Income	70.0% of gross
17) Initial DC Income Tax	\$40,000 of initial taxable income
18) Additional DC Income Tax	8.50% DC tax rate over initial
19) Total Potential DC Income Taxes	
20) Income Taxes Adjusted for Average Occupancy	96.0% occupancy
21) Potential DC Residents	90.0% of residents pay taxes
22) Income Tax Revenue Adjusted for Resident Status	100.0% residents
23) Resident Retail Expenditures Subject to Sales Tax	35.0% of taxable income
24) District of Columbia Resident Sales Capture	40.0% of expenditures
25) DC Average Applicable Sales Tax (a)	7.50% blend of categories
26) Other Resident Related Use Taxes and Fees (b)	0.60% of taxable income
27) Personal Property Tax (not applicable)	
28) Total Residential Direct Tax Revenues	

	one unit	total units
	\$265,200	\$13,260,000
	\$66,300	\$3,315,000
	\$46,410	\$2,320,500
	\$2,200	\$110,000
	\$545	\$27,243
	\$2,745	\$137,243
	\$2,635	\$131,753
	\$2,372	\$118,578
	\$2,372	\$118,578
	\$15,594	\$779,688
	\$6,238	\$311,875
	\$468	\$23,391
	\$267	\$13,366
		\$0
	\$3,107	\$155,334

Recurring Property Resale Transfer Fees

29) Annual Re-sales Related Taxes (2.2% combined fees)	7.00% annual unit turnover
30) Annual Refinance Deed Recordation Taxes	

Parking

Total Direct Annual Tax Revenue

31)

	\$4.60	\$234,570
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Notes:

- (a) Based on blend of sales tax on general goods and services and DC retained sales tax on restaurant related sales.
- (b) Building operations purchases, resident DMV fees, utility and telecommunications fees, other licensing fees and charges.