BOLAN SMART ASSOCIATES, INC
1150 K STREET, NW, SUITE 1211, WASHINGTON, DC 20005 • (202) 371-1333

Testimony of Eric Smart, Bolan Smart Associates
Zoning Commission Case No. 14-13
Penthouse Text Amendments
April 29, 2015

BSA appreciates the opportunity to speak before the Zoning Commission again on this matter

Last fall, Bolan Smart Associates provided a feasibility and economic impact analysis pertaining to the proposed alternatives, focusing on economic incentives and disincentives to promoting affordable housing and District tax revenues To recap, a one-for-one residential provision @ 50% AMI affordability was found to be an insurmountable economic disincentive Alternatively, the proposed application of existing IZ provisions at an 80% AMI level against the additional penthouse floor area was found to provide for some modest positive economic incentive Finally, for commercial buildings, were the proposed payments to the Housing Production Trust Fund (HPTF) to exceed 50% of the land FAR value, development feasibility of providing additional rooftop space quickly diminishes.

I would like to address the following subset provisions regarding some of the economic related aspects of the proposed Alternative 1 now being considered

Section 411 8 – Separating the gross floor area (GFA) count from the underlying FAR adds some economic incentive, and importantly, when not capped at 0 37, means that there is no artificial barrier to maximizing the benefits when the one-for-one setback limits are already achieved.

Section 411.18 – The same comment as above applies to the permitted uses of a possible second penthouse level if otherwise permitted under the Height Act. Allowing for market based uses to a potential second level will enhance the possible economic incentive, and thereof advance affordable housing objectives, not to mention adding to District General Revenue tax proceeds.

Section 411.20 – Allowing penthouse changes to be approved as a minor modification to previous PUDs is critical to implementation, since the expense of underwriting a full zoning process may not be economically warranted, with time and cost impacts for others as well (including the Zoning Commission)

ZONING COMMISSION
District of Columbia
CASE NO.14-13
EXHIBIT NO.76

Section 414.13 – The 50% contribution to the HPTF is consistent with avoiding creating a development disincentive The concept provides for flexibility in maximizing the intent of directing resources towards providing for affordable housing

Chapter 26, Inclusionary Zoning – I have two points to address:

1. First, an alternative suggestion regarding expanding the IZ provisions to provide a deeper level of affordability @ 50% AMI, rather than 80%, presents a serious economic hurdle for non-stick built construction. I have attached to this testimony a supplemental Table 2 that mirrors our feasibility analysis provided last October that demonstrated a minor developer positive return assuming an 80% AMI income cap Imposing a 50% AMI requirement reduces the developer return essentially to zero, which given the overall risks of development, is insufficient to secure financing

2 Second, it is important that the ability to contribute 50% of the assessed FAR value to the HPTF should also be available for residential projects, and not just non-residential properties. This concern is due to: (a) the limited amount of floor area that may be available for residential use in the penthouse, and; (b) under the IZ provision, in many instances the available gross square footage will not add up to one unit, or a whole unit multiple

Thank you

Table 2 (supplement to Table 2, October 2014 submission)
Roof Top Penthouse Residential Economic Feasibility: 8% IZ

			Bldg Market Rate	IZ	Roof Top Penthouse Unit		
1)	Residential (sale or rental valuation)						
2)	Assumptions			8% of market units			
3)				50% AMI / partial unit			
4)	unit size	1,000 gsf	1,000 gsf	80 gsf		1,000	gsf
5)	net square foot	84 0% ratio	840 nsf	67 nsf	82 0% ratio	820	nsf (less efficiency factor)
6)	land	varies	$100 / gsf	$100 / gsf		$0	/ gsf
7)	construction	$200 / gsf	$200 / gsf	$200 / gsf	130 0% of bldg	$260	/ gsf (extra one-off costs) [1]
8)	soft costs	25 0%	$75 / gsf	$75 / gsf	125 0% of mrkt	$94	/ gsf (added unique elements)
9)	investor return	18 0%	$68 / gsf	$68 / gsf	18 0%	$64	/ gsf
10)	Total Cost / SF		$443 / gsf	$443 / gsf		$417	/ gsf
11)			$527 / nsf	$527 / nsf		$509	/ nsf
12)	Total Cost Per Unit		$442,500	$35,400 partial unit		$417,425	
13)	AMI Subsidy / Offset		$0	NA	IZ line 20	$21,400	
14)	Operating Cost Differences [2]		$0	$0	some, but not quantified		
15)	Required Unit Price		$442,500	$14,000 [3]	lines 10 plus 11	$438,825	break even price
16)			$527 / nsf	$175 / nsf		$535	/ nsf
17)							
18)	Building Market Unit Price		$442,500	$14,000		$431,964	building market price / nsf
19)			$527 / nsf			$527	/ nsf
20)	Gain / Loss		$0	($21,400)	lines 18 minus 15	$3 675	if priced at building market
21)				partial unit	lines 20 div by 15	*0.8%*	develop return over break even
22)	Penthouse Premium Unit Price				5 0% over bldg	$453,563	if with penthouse premium [4]
23)							
24)	Gain / Loss				lines 22 minus 15	$14 738	if priced at penthouse premium
25)					lines 24 div by 15	*3.4%*	develop return over break even

Notes

[1] One-off costs include less efficient ratio of common area (elevator stairwells, hallways, service closets), less efficient exterior wall to interior space ratio probable unique utility stacking requirements and need to buffer and coexist with building mechanical systems and other roof top uses

[2] Higher operating costs per square foot of added penthouse space compared with building average not quantified, but likely to be 10% to 25% higher due to building fixed costs per floor to maintain common elements (elevator, stairwell, hallways, service closets) and private spaces subject to more exterior elements plus less interior economies of scale

[3] Affordable unit pricing = $175,000 @ 30% gross income requirement to unit price ratio assuming 50% of Area Median Income (AMI) of $52,000

[4] Penthouse pricing premium over building market limited due to required setbacks restricting views and inclusion of other rooftop uses

Bolan Smart Associates Inc (04/15)