

Report Analyzing Potential Inclusionary Zoning In-Lieu Fees for Proposed Development Project

To: Zoning Commission, District of Columbia

Submitted By: Kris Adhikari, Real Estate Finance Consultant

Project Site Address: 4500 Massachusetts Avenue NW, Washington, D.C. 20016

Purpose

This report provides a financial analysis estimating the value of Inclusionary Zoning (“**IZ**”) requirements for the proposed residential development project at 4500 Massachusetts Ave (the “**Project**”). The Project is located at a site owned by The Wesley Theological Seminary (“**Wesley**”) and is to be developed and operated by Landmark Properties (“**Landmark**” or “**Developer**”). The Project aims to build housing for students. The goal of the analysis is to offer a reasonable range that the Developer could pay as an in-lieu fee for IZ since they do not plan to offer onsite affordable housing.

Context on the Fee Ranges Offered

Note that these are estimates. I used my background and experience as a developer to model different scenarios that ranged from 0 to 15% onsite affordable housing. By that, I identified how much it would cost to create IZ housing onsite. The scenarios I modeled identify how project feasibility and the value of IZ change given different methodologies.

The two methodologies offered are the **Production Cost and Property Value Methods**. More than one methodology is offered to reflect the reality that **these are estimates intended to offer a range that the Zoning Commission and other partners involved in the project can use to establish a fee**. While individual values may be subject to question, taken together, the outputs produced, and figures used to formulate them, represent evidenced and reasonably estimated information (as discussed in subsequent sections of this report).

Key Findings

The analysis concludes that the value of an IZ requirement between 10-15%, for the proposed Project, falls between a low-end of \$9,900,000 and a high-end of

\$15,145,000. This is a wide range that represents two different methodologies and two different percentages of IZ.

The \$8,000,000 figure offered by the Developer appears to insufficiently capture the value of affordable housing as designed by IZ requirements.

Estimated Value Using Production Cost Method

Methodology for Production Cost Method

This uses an estimated per square foot (“**per SF**”) cost of construction for the entire site, and extrapolates that same cost to the amount of square footage that would be subject to IZ. It is a common method of calculating IZ and, methodologically, roughly aligns with what is described on the Developer’s October 24, 2025 “**Pre-Hearing Statement.**”

In context, this method multiplies the cost of construction by the “total residential floor area”¹ square footage needed for IZ.

Key Inputs and Context for Production Cost Method

- Cost of Construction: \$358 per square foot.

This figure uses an objective dollar amount offered by the Washington, D.C. Department of Housing and Community Development (“**DHCD**”) in its 2024 RFP. DHCD identifies \$407 per SF as the maximum cost of new construction for affordable housing.² This figure includes Davis Bacon Prevailing Wages, which typically increase the cost of construction by about 12%. Thus, reducing \$407 by 12% achieves \$358 per SF.

Of relevance, this figure was published in 2024 and excludes any time escalation. Time escalation in a typical climate may result in about a 4% annual increase in construction costs, and can be as high as 12% annually when construction is booming or tariffs hamper supply chains. Excluding time escalation makes \$358 a very reasonable figure to use.

¹Title 11 DCMR description of IZ, Section 1001.4 (Subtitle C-77): “IZ requirements and modifications shall apply to both the existing and the increased gross floor area.”

https://dcoz.dc.gov/sites/default/files/dc/sites/dcoz/publication/attachments/Title%2011%20DCMR%202016_1.pdf

²Page 27 of DHCD Fall 2024 Consolidated Request for Proposals

https://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/DHCD%20Consolidated%20RFP%20Fall%202024%20%28update%29%2009.25.24_0.pdf

- Assumed Square Footage and Bedroom Counts: All inputs related to the building design came directly from the drawings and figures offered by the Developer's October 2025 Pre-Hearing Statement.
- Residential Gross Floor Area: 281,911 square feet.

Is the sum of square footage on the residential floors. Includes residential units plus circulation, amenity space, and equipment rooms on residential floors. Excludes any floors dedicated to parking.

Washington, D.C.'s IZ program, "requires affordable set-asides for all projects creating 10 or more units (including both new and rehabilitation, and both rental and for-sale projects) across most zoning districts... The required set-aside is either 8-10 **percent of total square footage** or 50-75 percent of the additional density granted via the bonus—whichever is larger."³

In-Lieu Fee Cost Estimate for Production Cost Method

The fee range is between **\$10,097,000 for 10% IZ** and **\$15,145,000 for 15% IZ**.

Estimated Value Using Property Value Method

Methodology for Property Value Method

This identifies how much the value of the property changes when modeling different levels of IZ. This is similar to calculating the NPV of the property when it is fully stabilized. It uses an anticipated Net Operating Income ("**NOI**") and a market cap rate to determine the value. Using the NOI and market cap rate in this manner is a common method used to determine property value in lieu of a full appraisal.

Using this method consists of first calculating an estimated property value for 100% market rate; then calculating the property value when incorporating a percentage of onsite IZ (on the same total number of units); and last, subtracting their difference.

In context, this method subtracts stabilized property values between fully MR and 10% IZ; and fully MR and 15% IZ.

Key Inputs and Context for Property Value Method

- Market Rate ("**MR**") Rent Per SF: \$6.00 per SF.

³Evaluating Inclusionary Zoning Policies, Claudia Aiken, Housing Solutions Lab, 2023:
https://www.localhousingsolutions.org/wp-content/uploads/2023/07/Evaluating-Inclusionary-Zoning-Policies_V3.pdf

The nature of this housing development, which uses large unit configurations to offer student housing, makes it appropriate to estimate rental income on a per SF basis rather than a per unit basis.

This is because a high number of very large unit configurations are uncommon in residential apartments, and because students themselves may rent it on a per-room basis rather than a per-unit basis. Using a cost estimate per SF normalizes differences such as that, so we can more accurately consider and compare them.

Among all unit types, the proposed project design offers an average of about 343 SF per unit. Using \$6 per unit at that level, a two-bedroom unit costs of roughly \$4,116 per month for rent. This estimate falls just under the median among five newly built properties in Washington, D.C., which, as of November 2025, are asking between \$3,793 to \$4,406 for two-bedroom unit.⁴

- Necessary Equity Return for the Developer: 12.7% IRR.

The maximum equity contribution is established by designing for cash flow to repay the equity investor a 12.7% IRR over four years on top of the equity contribution that is modeled to begin construction. 12.7% was set by using a 31-year average of REIT data.⁵

- Rents for Affordable Units: \$3.60 per SF. Which is 60% of the \$6.00 per SF used for MR rents based on anticipated affordability level.*
- Loan Terms: Industry standard figures, 6.5% interest, 30 year mortgage, 1.2 DSCR, and 70% LTC leveraging.
- Assumed Square Footage and Bedroom Counts: All inputs related to the building design came directly from the drawings and figures offered by the Developer's October 2025 Pre-Hearing Statement.

⁴ Cost citation: The 2BR apartment rents from November 2025 that were used for reference were Cantata (\$3,799), The Garrett (\$3,835), City Market at O (\$4,300), Glover House (\$3,955-4,583), NOVEL 14th Street (\$4,406). These were used to show what current asking rents are for comparable, new construction properties in this market.

⁵NAREIT Annual Returns by Investment and Property Sector: <https://www.reit.com/data-research/reit-indexes/annual-index-values-returns>

In-Lieu Fee Cost Estimate for Property Value Method

The fee range is between **\$9,918,000 for 10% IZ** and **\$15,135,000 for 15% IZ**, which are based on potential property values as estimated below:

100% Market Rate (MR) Development: \$236,390,000 value.

90% MR, 10% IZ Development: \$226,472,000 value.

85% MR, 15% IZ Development: \$221,255,000 value.

***Supplemental Note on Property Value Method: Alternative Incomes**

As noted in the context provided on the Market Rate Rent Per SF estimate between pages 3 and 4, “per SF” rent was used instead of estimated per unit rents to conservatively adjust for the proposed Project’s unit sizes, which are atypical for affordable family housing, and create a more consistent comparison between MR and affordable units.

However, if per unit rent was used and the income for affordable units was modeled on 1) the current unit mix and 2) the 2024-25 DHDC published rent schedule for 60% MFI units, income and property value would have decreased in both IZ scenarios, resulting in a higher value for IZ. The difference given 10% IZ would go from \$9.9 million to \$18 million, and for 15% IZ would go from \$15.1 million to \$23 million. This would show 10-15% IZ to have even greater community value at this site and increase the estimated range for IZ in-lieu fees.

To be conservative in estimating the difference, this alternative income method was not used in the primary analysis offered above. Because if a project like the one proposed incorporated onsite IZ, it may choose to modify its unit mix to try and modestly decrease the cash flow impacts of the affordable units. This supplemental note is offered to shed light on both the valuation considerations and the reasonableness of the methodology used.

Conclusion

This report provides a financial analysis on the potential value of incorporating IZ at the student housing development located at 4500 Massachusetts Avenue. The analysis identifies both the cost of producing 10-15% IZ and the value of a site that has 10-15% IZ, when compared to one that is 100% MR. These estimates produced show a range of values and costs that exceed the \$8,000,000 that was offered by the Developer to compensate for this loss.

Enclosure

Appendix 1: Qualification Statement and CV

Appendix 1

Qualification Statement and CV

Kris Adhikari

My qualifications as an expert in real estate finance and modeling come from years as a practitioner who has firsthand experience developing hundreds of units of housing for families, seniors, people at-risk of homelessness, and people with special needs. I bring unique insight into real estate finance, having worked on an array of deals considered highly complex, that required significant creativity to pencil, and then required highly scrutinized detail to prove underwriting for lenders and investors.

I have experience that runs the gamut from early feasibility to post-construction stabilization and asset management. This includes modeling projects in pre-acquisition feasibility stages that have subsequently been built, leading complex transactions to buy tax credit investors out of partnerships, and working with various construction typologies and delivery methods including wood frame, steel and concrete, traditional stick-built and modular (factory-built) construction.

Education:

M.P.A., Specialization in Public Finance from New York University, 2026 (in progress)
B.A. with Honors in Urban Studies from the University of California at Berkeley, Department of City and Regional Planning, 2015

Work Experience:

SHIFT Capital (Philadelphia, PA) – 2025

- Produced financial modeling for a multi-year investment to offer fee-based guarantor services.
- Produced financial analyses and investment takeout strategies for SouthWorks, a masterplan development in Ithaca, NY.
- Provided feasibility analysis for other properties in Philadelphia and Southern California.

Santa Clara County Housing Authority (San Jose, CA) – 2021-2024

The Buena Vista: 105 homes on 4.5 acres serving low-income residents in Palo Alto, CA.

- Sole project manager of a complex “hybrid” development, with both affordable rental housing and low-income homeownership, for a highly politicized development of significant public interest.

Final Report: IZ Value for 4500 Massachusetts Ave

- Secured about \$30,200,000 in new funding from competitive pools, including the largest funding award that the State of California has ever made to a mobile home park (MORE program funds).
- Submitted for entitlements in December 2023 and received entitlements in August 2024. Presented at other commissions including the Architecture Review Board in advance of City Council.
- Modeled and incorporated an affordable homeownership program from scratch, working directly with Executive Management including the CFO and Co-Executive Director of our 400+ employee organization. Subsequently led resident communication around it.
- Assembled and managed over 20 consultants and a total development budget of about \$140,000,000.
- Led public communication with residents and local stakeholders from 2022-24.

Senior Housing Acquisitions:

- Negotiated the simultaneous purchase of three senior housing properties in San Jose, CA.
- Worked with the County Assessor to remove \$2 million in accrued property taxes.
- Secured \$18,000,000 in funding.
- Established corporate governance structures for the three properties including setting up new legal partnerships and LLCs.
- Conducted feasibility analyses including PRAC-to-RAD conversions.

Other Achievements:

- Managed a staff member and oversaw their work.
- Provided financial feasibility analysis to the City of Campbell in relation to an RFP they considered to publicly offer land for housing development.

MidPen Housing Corporation (Foster City, CA) – 2016-2021

Sunset Creek: in Fairfield, CA is a 76-unit, 4% tax credit redevelopment for families and formerly homeless.

- Worked on the project from conception through completion.
- Secured all funding awards, including closing \$15,700,000 construction loan with Bank of America, and leading the permanent loan conversion with Bank of America.
- Closed equity with the investor, also Bank of America.
- Organized all construction activity.
- Development completed in December 2019.

Posolmi Place: in Sunnyvale, CA is a 24-unit, 9% tax credit development for an at-risk of homelessness population.

- Worked on project from conception through completion including securing all funding awards, closing a \$10,158,464 construction loan with Silicon Valley Bank and leading the permanent loan conversion with Silicon Valley Bank.
- Closed equity with the investor National Equity Fund.
- Organized construction activity and temporary offsite relocation for tenants.
- Development completed in April 2020.

1178 Sonora Court: in Sunnyvale, CA is a seven-story 176-unit development.

- The development achieved substantial completion, receiving its Temporary Certificate of Occupancy in November 2025, following the design and unit mix I led for City approval in 2020.
- Led the \$12.5M land acquisition for 1.25 acres and guided early actions for the project including due diligence, site acquisition, financial modeling, assembling the most important consultants (including architect and general contractor).
- Successfully submitted an entitlement application in less than six months from the time of site acquisition.

Other:

- Urban Land Institute, Developers of Color Cohort Member, 2022-23.
- Alameda County Commissioner, Measure B and Measure A Bond Oversight Committee, 2017-19.
- Published research: “Walkable Neighborhood Systems,” in the peer-reviewed journal *Growth and Change*, Wiley-Blackwell June 2016.