

Supplemental Submission to Provide Additional Details on the In-Lieu Fee Cost Estimates Related to the Report on IZ Value for 4500 Massachusetts Ave

To: Zoning Commission, District of Columbia

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Project Site Area: 4500 Massachusetts Ave NW, Washington, D.C. 20016

Purpose

This supplemental submission aims to address a request by the DCZC to provide additional information that went into the calculation for the different IZ values that my report offered.¹

Supplemental information is offered for the production cost method and property value method.

Additional Details On Calculation for Production Cost Method

On the original report submitted for the November 24, 2025 DCZC hearing, this method is described on pages 2-3.

This method calculates an estimated construction cost per square foot for the amount of the property that would be needed for inclusionary zoning. This figure *excludes* parking square footage, soft costs (design and engineering), administrative fees, and profit. It captures an estimate of just the physical cost of equivalent units.

As reminder, the construction cost estimate is \$358. This 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. However, figure includes Davis Bacon Prevailing Wages, which typically increase the cost of construction by about 12%. Thus,

¹ This document supplements “Report of Kris Adhikari,” Ex. 38A
<https://app.dcoz.dc.gov/CaseReport/ViewExhibit.aspx?exhibitId=389877>

reducing \$407 by 12% achieves \$358 per SF. (If built offsite, Davis Bacon Prevailing Wages would very likely apply.)

Moreover, using an objective figure is important given that every project is unique. Different development projects will have countless variables to another, from the building type, to the soil, to the availability of parking for subcontractors, to the impact of tariffs, and countless others. That is why it is important to use an objective third-party figure that removes any unknown variables or biases.

This figure also uses the gross residential floor area, as per DC statute, which is 281,911 square feet. Note that the language offered by DC details that: “An inclusionary residential development for which the primary method of construction does not employ steel or steel and concrete frame structure and which is located in a zone with a by-right height limit of fifty feet (50 ft.) or less shall set aside the greater of ten percent (10%) of the gross floor area dedicated to residential use including penthouse habitable space as described in Subtitle C § 1001.2(d), or seventy-five percent (75%) of its achievable bonus density to inclusionary units plus an area equal to ten percent (10%) of the penthouse habitable space as described in § 2602.1.²

The three factors in this calculation are:

\$358 x 281,911 SF x 10% = \$10.1 million, or

\$358 x 281,911 SF x 15% = \$15.1 million.

Additional Details On Calculation for Property Value Method

On the original report submitted for the November 24, 2025 DCZC hearing, this method is described on pages 3-5.

The factors described in the report, and elaborated upon here, were used to design a project pro forma, which was then used to estimate the value of the property in operations by estimating factors like income, the cost of construction, and supportable amount of debt and equity. Each variation, 100% market rate, 10% IZ, and 15% IZ was designed was intended to model a realistic project that could be built.

My experience modeling projects in pre-development that were subsequently built, completing underwriting with lenders and investors gives me the experience needed to model pro formas accurately and use them to derive approximate property values.

The factors that went into modeling the project were:

²Title 11 DCMR, Section 1003.1 <https://online.encodeplus.com/regs/washington-dc/doc-viewer.aspx?secid=1121#secid-1121>

Market Rate Rental Income: \$6 per SF.

Among all unit types, the proposed project design offers an average of 343 SF per bedroom. Using \$6 per square foot at that level, a two-bedroom unit costs of roughly \$4,116 per month for rent.

This was designed to fall just under the median among five newly built properties in Washington, DC. These projects were Cantata (\$3,799), The Garrett (\$3,835), City Market at O (\$4,300), Glover House (\$3955-\$4583), NOVEL 14th Street (\$4,406). These show that the rental income designed was reasonable.

Hard Cost Estimates: All hard costs are estimated to be about **\$139,485,000** as determined by multiplying the DC estimate of **\$358**.

Soft Cost Estimates: Soft costs are estimated to be about **\$11,159,000**, which is about **8% of the sum of hard costs**.

Financing Cost Estimate: Is estimated to be **\$4,113,000**, which consists of the loan recordation and origination fee, and debt and equity placement fees.

Developer Fee and Reserve Costs Estimates: The sum of reserves and developer fee was estimated to be **\$5,471,500**. This *excludes* any of the IRR on equity, which is designed out of cash flow.

The IRR on equity: As designed out of cash flow is **12.7% IRR for the four years** it would take to build and stabilize the property. This was based on the past 31 years of REIT data. Thus, any equity contribution was designed to earn this amount after four years, as would be reasonable for an investor or developer to expect. For example, to justify a \$55 million equity investment, the project would have to return about \$90 million to that investor after four years.

Cost of Land: Once the other factors were solved for, I backed into a cost of land. I designed that this would be the value paid to Wesley. This figure changed based on whether the project was modeled as 100% market rate, or having 10-15% IZ. The real figure or payment structure is not known to me, whether a lump-sum payment, ongoing lease, or some combination; but finding a logical cost of land was an important way to check the math.

Other Terms: Other factors were determined based on the current economic climate, and erred on mild conservatism. Such as the loan terms, 2.5% annual income escalation, and 3.5% annual expense escalation.