

Jeffrey C. Utz
jutz@goulstonsturrs.com
202-721-1132

Lawrence Ferris
lferris@goulstonsturrs.com
202-721-1135

October 30, 2024

Via IZIS

Anthony Hood, Chairperson
District of Columbia Zoning Commission
441 4th Street, NW, Suite 200-S
Washington, DC 20001

Re: **Z.C. Case No. 08-30: Application for the Extension of Time of the Approved Design Review in Square 700, Lot 879¹ (“Property”)**

Dear Chairperson Hood:

SCD 25 M LLC (the “**Applicant**”) hereby requests a two (2)-year extension of the period to apply for a building permit under the Design Review approved for the Property in Z.C. Order No. 08-30 (the “**Order**”) pursuant to Subtitle Z § 705.2 for the good cause shown herein. The Order approved the development of a mixed-use project occupying the entire eastern half of Square 700 along Half Street, SE, between N and M Streets, SE, with office and retail uses occupying the Property and residential and retail uses occupying the southern portion of the development site (collectively, the “**Project**”). The first phase of the Project approved for the southern portion of the development site has been completed and the Applicant has invested significant resources and efforts towards moving the second phase forward for redevelopment of the Property. However, in light of the current economic and market conditions for commercial office development, approval of this time extension is necessary to allow the Applicant additional time to continue seeking financing to enable development of the Project to be completed.

An agent authorization letter for this Application is attached as Exhibit A, and a copy of Z.C. Order No. 08-30 is attached as Exhibit B.

I. Project Background

The Property is in the Ballpark neighborhood at the southwest corner of M and Half Streets, SE, one block north of Nationals Park. The Property constitutes the northern portion of Record Lot 49, which encompasses the entire eastern half of Square 700 occupying the block bounded by

¹ When Z.C. Order No. 08-30 was approved, the Property was designated as Lot 857 in Square 700. The Property is now designated as Lot 879 in Square 700.

M Street, SE to the north, Half Street, SE to the east, N Street, SE to the south, and Van Street, SE to the west.

A. The Order

The Order granted Design Review approval under the Capitol Gateway (CG) Overlay Zone, and associated special exception and variance relief, for redevelopment of Record Lot 49 with the Project, a single building divided into two main phases: first, a mixed-use development with residential and retail uses occupying the southern portion of the Record Lot 49; and, second, a mixed-use building with office and retail uses occupying the Property. The first residential and retail phase on the southern portion of Record Lot 49 was completed in 2019. The Order provides that the Design Review approval remains valid for a period of five (5) years following issuance of the final Certificate of Occupancy for the first phase of the Project, within which time an application for a final building permit completing the Project must be filed. *See* Z.C. Order No. 08-30 (Exhibit B) at Condition 11. A final Certificate of Occupancy was issued for the residential building on the southern portion of Record Lot 49 on December 3, 2019. *See* Certificate of Occupancy No. CO20000513 (attached as Exhibit C). Accordingly, the Order remains valid as to the Property until December 3, 2024.

Since approval of the Order, the Commission has approved several modifications to the Project, summarized in the following table:

Order	Date	Summary
08-30A	June 17, 2011	Minor modification for various design elements, including building elevations, roof plan, and slight reduction in ground-floor retail space.
08-30B	May 13, 2016	Modification to design of first phase mixed-use residential/retail building on the southern portion of Record Lot 49 (not including the Property), including the elimination of office use.
08-30C	July 1, 2016	Modification to design of second phase office building proposed for Property to modify ground-floor lobby space and roof and add new outdoor terraces.
08-30D	March 3, 2020	Modification to design of second phase office building proposed for Property to modify ground floor, second-floor windows, roof, and terrace railings.

II. The Commission Should Grant the Requested Time Extension

A. Standards of Review of Time Extension Request

The standards for a time extension are enumerated in Subtitle Z § 705.2 of the Zoning Regulations. The Commission is authorized to extend a Design Review provided that:

- (a) The extension request is served on all parties to the application by the applicant and all parties are allowed thirty (30) days to respond;*
- (b) There is no substantial change in any of the material facts upon which the Commission based its original approval of the application that would undermine the Commission's justification for approving the original application; and*
- (c) The applicant demonstrates with substantial evidence one (1) or more of the following criteria:*
 - (1) An inability to obtain sufficient project financing for the development, following an applicant's diligent good faith efforts to obtain such financing, because of changes in economic and market conditions beyond the applicant's reasonable control;*
 - (2) An inability to secure all required governmental agency approvals for a development by the expiration date of the order because of delays in the governmental agency approval process that are beyond the applicant's reasonable control; or*
 - (3) The existence of pending litigation or such other condition, circumstance, or factor beyond the applicant's reasonable control that renders the applicant unable to comply with the time limits of the order.*

11-Z DCMR § 705.2.

For the following reasons, the Applicant satisfies the requisite standards for the Commission to approve this request for a two (2)-year extension of the Order.

B. Time Extension Request and Applicant's Satisfaction of the Standards for Granting Time Extension

The Applicant requests a two (2)-year extension of the period to apply for a building permit for the final component of the Project consisting of development of a mixed-use office and retail building on the Property, such that the Order will remain valid through December 3, 2026. Since approval of the Order and completion of the first phase of the Project on the southern portion of Record Lot 49, the Applicant and its development team have devoted significant efforts, and invested substantial resources, towards moving the final phase of the Project forward, as discussed in detail below, including exploring alternative designs and uses for the building in order to realize a successful final completion of the Project. However, the Applicant has faced the continued challenges predominating the market for new office space and the overall office market, including severe difficulties in securing financing for new office construction, necessitating this extension request.

As discussed in detail below, the Applicant meets all of the standards for the requested time extension.

C. Service on Parties

This request is being served on Advisory Neighborhood Commission (“ANC”) 8F; the ANC was the only party to the original Design Review application.² The Applicant asks that the Commission not place this request on its meeting agenda until the 30-day period has lapsed.

D. No Substantial Change of Material Facts

There has been no substantial change in any material facts that would undermine the basis for the Commission’s original approval of Z.C. Order No. 08-30, as updated in the subsequent modifications approved in Z.C. Orders No. 08-30A—08-30D. As noted above, the first component of the Project, located immediately south of the Property, has been completed. The second and final component of the Project, proposed for the Property, remains consistent with the design and program reviewed by the Commission, as currently approved, even as the Applicant continues to explore potential alternative designs and uses for the proposed building to enable development to move forward, which, if deemed feasible, would be submitted to the Commission for review as a modification of the Design Review approval.

E. Good Cause Shown

There is good cause to grant the requested extension in this case due to economic and market conditions beyond the Applicant’s reasonable control. Specifically, the significant challenges predominating the current underlying conditions for commercial office development continue to place severe restrictions on the ability to move the final component of the Project forward to construction. In particular, high interest rates and elevated construction costs have continued to impact the ability to underwrite the Project, and outreach to the Applicant’s internal lender for financing has proved unsuccessful given the overall market and project challenges. The fundamental shift in the office market resulting from the COVID-19 pandemic and associated transition to long-term increases in work-from-home have continued to pose critical challenges to office markets across the country and in the District, in particular, where office vacancy rates remain at record levels and currently sit at approximately 22% based on the most recent estimates.³ These conditions have culminated in significant capital market challenges, namely: substantial losses in valuation for commercial office properties (even including negative values in some

² When the Order was approved, the Property was within the boundaries of ANC 6D. The Property is now located within the boundaries of ANC 8F.

³ The challenges facing the District’s office market have been widely documented and reported. *See, among others:* <https://www.cbre.com/insights/figures/washington-dc-office-figures-q3-2024>; <https://cw-gbl-gws-prod.azureedge.net/-/media/cw/marketbeat-pdfs/2024/q3/us-reports/office/washington-dc-office-marketbeat.pdf?rev=f4a01eb4429844369471bd4709f69ab6>; and <https://www.wsj.com/real-estate/washington-dc-office-market-trouble-058d4fdf>

cases); a dramatic spike in interest rates for office developments; and an acute lack of available financing such commercial development.

Despite these significant and fundamental challenges in market conditions, the Applicant has continued to devote substantial resources towards moving development of the Property forward. The following chart summarizes the approximate sums expended by the Applicant in furtherance of this effort:

Cost Category	Amount
Architectural (including Structural)	\$564,000
Landscape	\$22,500
Public Space	\$50,000
Legal: Transactional and Zoning	\$48,500
Civil Engineering	\$222,500
Other Consultants	\$2,500
Marketing	\$29,500
General & Administrative	\$759,500
Total Expenditures to Date	\$1,699,000

The Applicant's extensive efforts to move the final phase of the Project forward towards development have included performing public utilities improvements for the Property—namely, moving the gas line into the adjacent right of way—as well as establishing agreement with the Washington Metropolitan Area Transit Authority regarding future development. In addition, the Applicant has continued to provide support to the Capitol Riverfront Business Improvement District and neighboring property owners for maintenance and improvements along Half Street SE. Meanwhile, the Applicant has also continued to invest in the Project's completion by investigating design options, including potential adjustments to the Project design and alternative development concepts for the Property, and by conducting multiple construction pricing estimates to better establish development feasibility, while also advertising and marketing the site to further support development.

The Applicant continues to remain committed to developing the Property to realize the global vision for this block of Half Street, SE immediately north of Nationals Park, as demonstrated by the substantial financial investment and significant efforts detailed above. Nonetheless, given the severe challenges in the current market for commercial office development, additional time is needed for the Applicant to continue to seek financing and study adjustments to the proposed development to realize the Project's completion, including exploring alternative designs and uses that would render development feasible. Accordingly, there is good cause for extension of the Design Review approval.

III. Exhibits

In support of the Application, attached are the following Exhibits:

Exhibit A – Letter of Authorization from the Applicant
Exhibit B – Z.C. Order No. 08-30
Exhibit C – Final Certificate of Occupancy for Residential Building

IV. Conclusion

For the foregoing reasons, the Applicant requests that the Commission grant the requested time extension. Please feel free to contact the undersigned if you have any questions or comments regarding this application.

Respectfully Submitted,

/s/
Jeffrey C. Utz

/s/
Lawrence Ferris

Certificate of Service

I hereby certify that a copy of the foregoing document and enclosures were sent to the following by first-class mail, email, or by hand delivery by no later than October 30, 2024.

Office of Planning
Attn: Matthew Jesick
Matthew.jesick@dc.gov

District Department of Transportation
Attn: Erkin Ozberk
erkin.ozberk1@dc.gov

ANC 8F
8F@anc.dc.gov

ANC 8F02
Attn: Rick Murphree
8F02@anc.dc.gov

/s/ Lawrence Ferris