

3. As documented in detail below, due to serious structural, material, mechanical, and environmental problems in the Building, rehabilitation of the Building would be prohibitively expensive, such that reuse of the Building pursuant to any combination of the 3 redevelopment scenarios analyzed in this application would result in a significant net economic loss to the Applicant.

Structural Condition

4. As described in the Structural Condition Assessment Report by Keast & Hood Structural Engineers, attached hereto and made a part hereof as Exhibit "D" (the "Structural Condition Assessment"):

(a) The Garage is in "very poor condition," with significant water infiltration from torn flashing, clogged and broken drain pipes, and cracks in the masonry, along with significant damage to flooring. Most of the front façade is coated with salt deposits from efflorescence; several bed joints have turned to friable powder; sections of the plaster stucco covering part of the west wall are peeling off as a result of long-term water intrusion; the interior of the front wall and portions of the side walls are saturated from roof to first floor, with mold growing on all finishes, and advanced deterioration of bricks and mortar behind wall finishes; the front spandrel beams for the second floor and roof suffer from corrosion; and there is significant corrosion where beams pocket into walls. In particular, the building's masonry and concrete have become so saturated that an active, rigorous drying program would take up to two years to sufficiently remove moisture from the structure to allow the building to be occupied.

Extensive repair work is required, including (but not limited to): (i) reconstruction of the entire front wall and portions of the side walls; (ii) repointing of interior and exterior masonry; (iii) removal and replacement of the stucco on the outside face of the west wall; (iv) removal of concrete encasement from internal steel beams, together with beam reinforcement where corrosion is found; and (v) replacement of spandrel beams embedded in front wall, and possibly the rear wall as well.

(b) The costs associated with the rehabilitation measures described in the Structural Condition Assessment are described in Section III below.

Condition of Historic Elements

5. As described in the letter by Civic Visions LP (the "Historic Rehabilitation Analysis"), attached hereto and made a part hereof as Exhibit "M", in addition to the significant required structural repairs to the Building described in the Structural Condition Assessment, further special repairs are required to rehabilitate or reconstruct the Building in accordance with the Secretary of the Interior's Standards for the Treatment of Historic Properties.

(a) For the Garage, historic rehabilitation would require: extensive testing of the condition of the front façade to evaluate proper restoration techniques, and removal and repair or replacement of the wood window frames and the door on the front façade. The Historic Rehabilitation Analysis concludes that, due to the need for extensive repair work documented in the Structural Condition Assessment, the National Park Service would be

unlikely to find that reuse of the Garage would constitute a “certified rehabilitation” eligible for historic tax credits.

(b) The costs associated with the historic rehabilitation measures described in the Historic Rehabilitation Analysis are described in Section III below.

Condition of Building Systems

6. As described in the Existing Mechanical, Electrical, Plumbing, and Fire Protection Conditions Report by Edwards & Zuck, attached hereto and made a part hereof as Exhibit “I” (the “Existing MEP Report”):

(a) For the Garage, (i) all electrical distribution downstream of the service box and meter is obsolete and must be disconnected and removed/replaced; (ii) the fire alarm system is obsolete and must be removed/replaced; (iii) the heating systems have outlived their useful lifespan and should be disconnected and removed/replaced; (iv) there is no gas service in the building; and (v) a fire protection system must be installed.

(b) The costs associated with the existing condition of the building systems described in the Existing MEP Report are described in Section III below.

Environmental Conditions

7. As described in the Phase I Environmental Site Assessment by Pennoni Associates, Inc., attached hereto and made a part hereof as Exhibit “F(1)”, and as supplemented by the Environmental Building Survey by Pennoni Associates, Inc., attached hereto and made a part hereof as Exhibit “F(2)” (the “Environmental Building Survey”):

(a) Pennoni’s comprehensive asbestos survey of the Property revealed asbestos containing materials (“ACMs”) at the Garage (including flooring, window glazing, and roofing material). Pennoni estimates that remediation of these ACMs will cost approximately \$36,000 at the Garage.

(b) Pennoni’s hazardous material survey of the Property revealed a variety of hazardous materials, including fluorescent light tubes and ballasts, a mercury thermostat, emergency light batteries, and ozone-depleting substances. Pennoni estimates that remediation of these hazardous materials will cost approximately \$6,000 at the Garage.

(c) Pennoni’s survey of biological hazards at the Property revealed significant visible mold growth at the Property, and the extensive mold remediation will likely require sanding and encapsulation. Pennoni estimates that remediation of these biological hazards will cost approximately \$80,000 at the Garage.

(d) Pennoni’s lead-based paint survey revealed significant concentrations of lead-based paint throughout the Property. Pennoni estimates that remediation of the lead-based paint will cost approximately \$30,000 at the Garage.

(e) Pennoni estimated that the overall cost of the above-described remediation work, including a 20% fee for oversight by a City of Philadelphia licensed Asbestos Project Inspector during remediation, would amount to approximately \$182,000 for the Garage.

(f) The costs associated with the environmental remediation needs described in the Environmental Building Survey are described in greater detail in Section III below.

8. As described in the environmental remediation cost estimate letter by SCE Environmental Group ("SCE"), attached hereto and made a part hereof as Exhibit "G" (the "Environmental Remediation Cost Estimate"), SCE reviewed the findings of Pennoni's Environmental Building Survey and submitted a proposal to complete full environmental remediation work for the Property. According to SCE, the abatement, removal and off-site disposal of asbestos-containing material, lead-based paint, pigeon guano, mold, and universal waste / hazardous materials would cost \$105,000 for the Garage.

III. POTENTIAL REUSE OF THE BUILDINGS

9. To analyze the potential to reuse the Building, the Applicant evaluated 3 different reuse scenarios, including (1) restaurant/retail, (2) single-family residential, and (3) office use (collectively, the "Reuse Scenarios"). Solomon Cordwell Buenz architects ("SCB") developed schematic designs for the Reuse Scenarios, including square footages for each use, attached hereto and made a part hereof as Exhibit "J".

10. Based on the Reuse Scenarios developed by SCB, Edwards & Zuck produced a Mechanical, Electrical, Plumbing, and Fire Protection Assessment for Reuse Scenarios (the "Reuse MEP Report"), outlining the electrical, fire alarm, mechanical, plumbing, and fire protection systems that would be needed for each scenario. This report is attached hereto and made a part hereof as Exhibit "K".

11. Based on the Reuse Scenarios developed by SCB and the Structural Condition Assessment by Keast & Hood, The Harman Group ("Harman") produced a Structural Reuse Evaluation for each scenario (the "Structural Reuse Evaluation"), attached hereto and made a part hereof as Exhibit "L". For the Garage, reuse would require upgrade of the structural floor framing at the front and sides of the building, removal and replacement of the front façade, and extensive stabilization of exterior load bearing masonry during demolition, among other structural requirements.

12. Based on the Reuse Scenarios by SCB, the Structural Condition Assessment by Keast & Hood, the Existing MEP Report and the Reuse MEP Report by Edwards & Zuck, the Structural Reuse Evaluation by Harman, the Environmental Building Survey by Pennoni, the Environmental Remediation Cost Estimate by SCE, and the Historic Rehabilitation Analysis by Civic Visions LP, INTECH construction services developed cost estimates for each of the Reuse Scenarios, attached hereto and made a part hereof as Exhibit "N(1)". INTECH found that reuse of the Garage would cost approximately \$3 million, depending on the reuse scenario. At the request of the Historical Commission's independent consultant and the consultant's independent cost estimator, INTECH revised its cost estimates for each of the Reuse

Scenarios, attached hereto and made a part hereof as Exhibit "N(2)". INTECH found that the reuse of the Garage under these revised estimates would still cost approximately \$3 million, depending on the reuse scenario.

IV. APPRAISAL AND CITY REAL ESTATE ASSESSMENT

13. As described in the appraisal report by Coyle, Lynch & Company, attached hereto and made a part hereof as Exhibit "O" (the "Appraisal Report"), the current land value that may be attributable to the Building is \$480,000.

14. For 2015 and 2016, the Philadelphia Office of Property Assessment (the "OPA") has assigned an implied fair market value of \$6,300,000 to the area including both the Property and the adjacent property located at 1922-1940 Sansom Street, and has assigned an assessed value of the Building, together with the Coffeehouse and Warwick, at \$756,000. A copy of the OPA's print-out for 1904-1940 Sansom Street is attached hereto as Exhibit "P" and made a part hereof. Although the OPA records refer to 1904-1940 Sansom Street as a single tax parcel, the lots within this parcel were never formally consolidated, such that the Garage, Coffeehouse, and Warwick parcels are likely legally distinct; OPA has indicated that it will review its records to confirm this conclusion.

V. EVALUATION OF REASONABLE USES OR REUSES OF THE PROPERTY

15. Attached hereto as Exhibit "Q" is a report prepared by EConsult Solutions, Inc. (the "EConsult Report") demonstrating that potential reuse of the Property is foreclosed. The EConsult Report analyzes the economic feasibility of all 3 of the Reuse Scenarios, by comparing expected returns for each reuse type with the rehabilitation costs estimates produced by INTECH. The EConsult Report concludes that each scenario would result in a negative return on investment for the property owner. As detailed in the EConsult Report, the report has been updated to confirm the accuracy of its earlier conclusions.

16. The EConsult report evaluated 3 different reuse scenarios, including, for the Garage, (1) restaurant/retail, (2) single-family residential, and (3) office use.

(a) For the Garage, EConsult reviewed the Structural Condition Assessment, the Historic Rehabilitation Analysis, the SCB Reuse Scenarios, the Appraisal, and the INTECH cost estimates, among other reports, and found that the total investment needed to prepare the Garage for reuse (including construction costs, land costs, tenant fit out costs, and other development costs) would amount to \$4.5 million for restaurant/retail use, \$4.2 million for single-family residential use, and \$4.5 million for office use. Based on a detailed review of comparable rental or sales rates, as applicable, taking into account factors such as location, frontage, layout, and ceiling heights, EConsult found that the restaurant/retail use would generate a first year operating income of \$0.1 million and a net present value of -\$2.1 million, resulting in a total overall value created of -\$3.5 million. Single-family residential use would generate a sale value of \$1.8 million and a net present value of -\$2.0 million, resulting in a total overall value created of -\$2.9 million. Office use would generate a first year operating income of \$0.1 million and a net present value of -\$2.3 million, resulting in a total overall value created of -\$3.8 million. The EConsult report concludes that "[t]he expense of renovating and adapting 1918-20 Sansom

Street for [each use] would result in insurmountable financial challenges for the developer. The cost of renovating the building is greater than can be justified by profits made by [each use].”

17. The EConsult Report ends by stating that “[w]e conclude that there is no use to which the [Building] may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses.”

18. The appendices to the EConsult Report include a ten-year pro forma of projected revenues and expenses for the evaluated alternative uses, as well as sensitivity tests analyzing the revenue models under different assumptions. The sensitivity tests review scenarios in which: (1) there were no land or acquisition costs associated with the Property (as opposed to the land costs provided by the Appraisal), (2) the Building was eligible for Federal and State Historic Tax Credits (contrary to the conclusions of the Historic Rehabilitation Analysis that such tax credits would not be attainable), (3) if development rates were 20% less than estimated (as opposed to the detailed INTECH cost estimates based on the conclusions of the other consultant reports referenced herein), and (4) if rental rates and sales prices were 20% greater than calculated by EConsult (as opposed to the results of the reasoned market analysis performed by EConsult). In all the sensitivity tests, EConsult concludes that the reuse projects are not financially viable.

19. The curriculum vitae of the consultants responsible for the reports referenced herein are attached hereto and made a part hereof as Exhibit “R”.

VI. PREVIOUS UNSUCCESSFUL ATTEMPTS TO ADAPTIVELY REUSE THE BUILDING

20. In 1997, the Philadelphia Parking Authority (“PPA”) purchased the 1904-1940 Sansom Street for a total of \$2,205,000 (including \$230,000 for the Coffeehouse, \$1,500,000 for the Warwick, and \$475,000 for the Garage). A joint venture between the Philadelphia Parking Authority (“PPA”) and Moreland Investments subsequently sought to redevelop the 1904-1940 Sansom Street, together with 1907-1915 Walnut Street and 1922-1940 Sansom Street (the “Assemblage”) with a parking garage, movie theater, and retail uses. This plan, eventually pursued by PPA alone, called for removal of the Building. In January 1999, PPA sold a \$65,090,000 bond issue, which earmarked approximately \$30 million for development of the Assemblage.

21. In conjunction with its proposed development of the Property, PPA applied for the removal of the Building pursuant to demolition in the public interest. In response to this application, the Historical Commission approved of the removal of the Garage, the Coffeehouse, and the Warwick, with only the façade of the Coffeehouse to be retained. On appeal, the City’s Board of License and Inspection Review upheld the Historical Commission’s decision. However, the Philadelphia Court of Common Pleas ultimately overturned the Historical Commission’s decision to allow the removal of the Building in the public interest.

22. In 2007, PPA sold the Assemblage to Castleway Properties (“Castleway”) for \$36,700,100. Castleway sought to redevelop the Assemblage, and as part of its proposal sought removal of the entirety of the Warwick and the Garage and a portion of the Coffeehouse.

However, Castleway's proposed project never came to fruition due to the economic downturn of 2008 and the challenges associated with reuse of the Garage, Coffeehouse, and Warwick. Castleway subsequently received multiple offers to purchase the Assemblage, with future development of the Assemblage premised on the removal of the existing buildings. However, Castleway was unable to complete a sale of the Assemblage for over five years. For example, a major national real estate developer and Philadelphia Management Co. negotiated with Castleway for the purchase of the Assemblage in 2014, but ultimately refused to complete the purchase, likely in part due to the prohibitive cost of redeveloping the Building.

23. The Applicant purchased the Assemblage in February 2015 for \$30,000,000, with a total incentive purchase price of \$40,000,000 payable upon the occurrence of certain events.

VIII. FINANCIAL INFORMATION

24. Since at least 1998, the Property has not received any income, but has been subject to carrying costs such as maintenance costs, real estate taxes, and insurance costs. Since the Applicant acquired the Property in February 2015, the Property has continued to receive no income. As of 2015, the Property (including 1904-1940 Sansom Street) incurred annual real estate taxes of approximately \$84,000 and Center City District charges of approximately \$9,500. The Applicant also currently pays an annual insurance premium of approximately \$135,000 for the Assemblage.


IX. CONCLUSION

25. The extremely poor condition of the Building, including the significant structural problems documented in the Structural Conditions Assessment, the failing building systems documented in the Existing MEP Report, the challenges to rehabilitating the Building to secure historic tax credits documented in the Historic Rehabilitation Analysis, the significant quantities of asbestos containing materials, hazardous materials, biological hazards and the high cost of remediation documented in the Environmental Building Survey and the Environmental Remediation Cost Estimate, combined with the prohibitive costs associated with the wide variety of reuse scenarios documented by the INTECH cost estimates and the inability to market the Property to secure a reasonable rate of return documented by the EConsult Report, collectively demonstrate that reuse of the Property is not feasible. Consequently, as demonstrated by this Affidavit and the exhibits attached hereto, the Property cannot be used for any purpose for which they are or may be reasonably adapted because the sale of the Property is impracticable, commercial rental of the Property cannot provide a reasonable rate of return, and other potential uses of the Property are foreclosed.


Further, your deponent saieith not.


Dustin Downey
Senior Vice President
Southern Land Company

Sworn to and subscribed before me
this 8th day of February, 2017.



Notary Public



**CITY OF PHILADELPHIA
PHILADELPHIA HISTORICAL COMMISSION**

1918-1920 SANSOM STREET

**AFFIDAVIT IN SUPPORT OF
FINANCIAL HARDSHIP APPLICATION OF
1911 WALNUT STREET, LLC**

LIST OF EXHIBITS

- A. Deed
- B. Survey
- C. Photographs by George E. Thomas of Civic Visions LP
- D. Existing Structural Condition Report by Keast & Hood Structural Engineers
- E. Intentionally Omitted
- F. Environmental Reports
 - 1. Phase I Environmental Assessment by Pennoni Associates Inc.
 - 2. Building survey analysis by Pennoni Associates Inc.
- G. Remediation Cost Estimate by SCE Environmental Group
- H. Historic Context Report by George E. Thomas of Civic Visions LP
- I. Existing Mechanical, Electrical, Plumbing, and Fire Protection Conditions Report by Edwards & Zuck Consulting Engineers
- J. Schematic Designs for Building Reuse Scenarios by Solomon Cordwell Buenz Architects
- K. Mechanical, Electrical, Plumbing, and Fire Protection Assessment for Reuse Scenarios by Edwards & Zuck Consulting Engineers
- L. Structural Assessment for Reuse Scenarios by The Harman Group Structural Engineers
- M. Historical Rehabilitation Analysis by George E. Thomas of Civic Visions LP
- N. Construction cost estimates for reuse scenarios by INTECH Contractors and Construction Managers
 - 1. October 2015 INTECH Cost Estimate

2. February 2016 INTECH Cost Estimate

O. Appraisal by Coyle, Lynch & Company Valuation Advisory Services

P. Office of Property Assessment data

Q. Analysis of reuse scenarios by EConsult Solutions

R. Curricula vitae

1. Frederick C. Baumbert, CCS, PE, Principal, Keast & Hood Structural Engineers
2. Jan Vacca, P.E., LEED AP, Vice President, The Harman Group Structural Engineers
3. Calogero Patti, P.E., Partner, and James Callahan, PE, LEED AP, Electrical Project Engineer, Edwards & Zuck Consulting Engineers, D.P.C.
4. Clara Wineberg, Associate Principal, AIA, LEED AP BD+C, Solomon Cordwell Buenz Architects
5. William F. Schmidt, PE, Associate Vice President, R. Alan Lloyd, CIH, CSP, Safety and Industrial Hygiene Division Manager, and Angelo C. Fatiga, Division Manager, Pennoni Associates Inc.
6. Dr. George E. Thomas, Ph.D., Member, Civic Visions LP
7. William Schwartz, Co-Founder and Principal; Phil Moses, LEED AP, Principal-in-Charge; Matthew Ritsko, AIA, LEED AP, Project Director; Dave Hofmann, Pre-Construction Director; AND John Neimeister, General Superintendent, INTECH Contractors and Construction Managers
8. John J. Coyle 3rd, MAI, CRE, President and Director of Regional Valuation Department of Coyle, Lynch & Company Valuation Advisory Services
9. Peter Angelides, Principal, EConsult Solutions, Inc.