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March 18, 2016

*By Hand Delivery*

Jonathan E. Farnham, Ph.D.  
Executive Director  
Philadelphia Historical Commission  
City Hall, Room 576  
Philadelphia, PA 19107

Re: 1906-1920 Sansom Street – Supplementary Financial Hardship Analysis

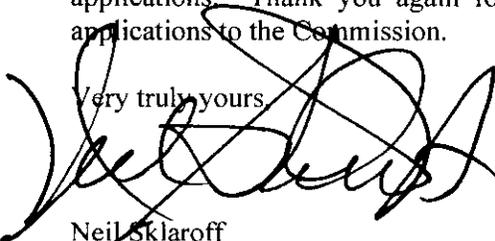
Dear Dr. Farnham:

As you know, we represent 1911 Walnut Street, LLC (Southern Land Company), the owner of the above-referenced properties, which were the subject of two of the financial hardship applications submitted by Southern Land on October 29, 2015, updated by letter report dated February 2, 2016. We understand that the Historical Commission's independent consultant, Real Estate Strategies, Inc. ("RES"), has requested additional information regarding the reuse scenarios Southern Land studied for 1906-1920 Sansom Street. Specifically, RES requested that Southern Land analyze alternative cost estimates provided by RES's subconsultant, International Consultants, Inc., and an alternate residential apartment scenario that assumes a greater number of smaller apartments in the building.

In response to RES's request, we enclose herewith twenty two (22) copies of a Supplement to Financial Hardship Analysis for 1906-1920 Sansom Street, prepared by EConsult Solutions. As documented in this updated analysis, none of the alternative scenarios is financially feasible.

Please let us know if you or RES require any additional information regarding Southern Land's applications. Thank you again for your consideration, and we look forward to presenting the applications to the Commission.

Very truly yours,



Neil Sklaroff

Enclosures

DMEAST #24704652 v1

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cc: Mr. Dustin Downey  
David M. Gest, Esquire



economics | policy | strategy

March 17, 2016

Jonathan E. Farnham, Ph.D.  
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 Philadelphia Historical Commission  
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 Philadelphia, PA 19107

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**Re:** Supplement to Financial Hardship Analysis for 1906-1916 Sansom Street and 1918-1920 Sansom Street

Dear Dr. Farnham,

Econsult Solutions, Inc. (ESI) has prepared this supplemental letter report to respond to questions raised by Real Estate Strategies, Inc. (RES), the Historical Commission's independent consultant, and RES's subconsultant, International Consultants, Inc. (ICI), regarding the applicant's financial hardship application. These questions relate to construction costs, the number of apartment units, and storage units in the basement of 1906-1916 Sansom. We have updated our financial feasibility analysis to address these questions. Table 1 summarizes the financial results of our analysis for 1906-1916 Sansom and Table 2 summarizes the financial results of our analysis for 1918-1920 Sansom Street.<sup>1</sup> Table 4 summarizes the financial results of our robustness (or "sensitivity") analysis for both buildings.

The result of our analysis, described in the balance of this letter, is that even by altering certain assumptions as requested by RES, no scenario for either building is financially feasible. Thus the conclusion of our October 28, 2015 letter report, and the February 2, 2016 supplemental letter report, that there is no use to which these buildings may be reasonably adapted given the cost of renovations and the revenues that can be expected by those uses, remains unchanged.

**Table 1: 1906-1916 Sansom – NPV and Summary of Value Created (\$M)**

	Apartment	Condominium	Office*	Hotel	Micro Apartment
Total Cost	\$19.9	\$21.7	\$19.9	\$20.6	\$19.9
NOI	\$0.3	\$6.1	\$0.3	\$0.7	\$0.4
Completed Project Value	\$4.3	\$5.1	\$4.0	\$7.3	\$5.2
Value Created	-\$15.6	-\$16.6	-\$15.8	-\$13.3	-\$14.7
Net Present Value	-\$10.5	-\$12.5	-\$10.5	-\$7.6	-\$9.7

\*Note that the results of our financial analysis for the Office scenario would not change in any substantive way if the offices were designed as coworking space, as opposed to traditional office spaces.

<sup>1</sup> Numbers in tables may not add precisely due to rounding.

**Table 2: 1906-1916 Sansom – NPV and Summary of Value Created (\$M)**

	Restaurant / Retail	Single Family	Office
Total Cost	\$4.5	\$4.2	\$4.5
NOI	\$0.1	\$1.8	\$0.1
Completed Project Value - 2015	\$1.0	\$1.3	\$0.7
Value Created	-\$3.5	-\$2.9	-\$3.8
Net Present Value	-\$2.1	-\$2.0	-\$2.4

This letter reflects information available to us at the time of submission. Should additional information come to light, we reserve the right to revise our analysis.

The analysis in this supplement is the same as in our previous submissions, except for the changes noted below.

### Construction Costs

We have received two updated sets of construction costs, one from Intech Construction (Intech) and one from International Consultants, Inc. (ICI). Table 3 shows the original cost estimates from Intech and ICI, as well as the revised cost estimates. The revised cost estimates from Intech are generally less than their original cost estimates, whereas the revised cost estimates from ICI are generally greater than their original cost estimates. Accordingly, the difference between the estimates has generally diminished.

Intech has informed us that although Intech believes that its original cost estimates accurately reflected the construction costs required for each building, Intech has revised its cost estimates by altering certain assumptions as recommended by ICI to take a more conservative approach. ICI revised its cost estimates after gaining additional information from Intech and the applicant regarding the current condition of the buildings and the scope of required construction work.

**Table 3: Original and Revised Cost Estimates (\$M)**

Scenario	INTECH		ICI	
	Original	Revised	Original	Revised
<b>1906-1916 Sansom</b>				
Apartment	\$15.6	\$14.2	\$12.6 - \$13.1	\$12.9
Condominium	\$16.6	\$15.7	\$13.3 - \$13.9	\$14.3
Office	\$14.5	\$14.0	\$11.2 - \$11.8	\$12.8
Hotel	\$15.4	\$14.6	\$12.6 - \$13.1	\$13.3
Micro Apartment	none	none	none	none
<b>1918-1920 Sansom</b>				
Retail	\$3.0	\$3.1	\$2.4 - \$2.5	\$2.7
Single Family	\$3.2	\$3.0	\$2.4 - \$2.5	\$2.7
Office	\$3.0	\$3.1	\$2.4 - \$2.5	\$2.9



We base our analysis on the revised Intech costs, and use the revised ICI costs when we conduct a robustness / sensitivity analysis (below).

### **Other Changes to the Analysis**

Additional changes to our analysis include:

- Additional apartment on the ground floor (1906-1916 Sansom): In the residential scenarios, we have included an additional unit on the ground floor. This unit is assumed to be 575 square feet, making the residential area a total of 16,000 square feet.
- Storage Units in Residential Scenarios (1906-1916 Sansom): We assumed that each residential scenario would include 10 storage units, renting for \$50 per month.
- NPV as a measure of value: We report the results of a Net Present Value (NPV) analysis in addition to the "value created" measure used in previous applications.

RES also suggested the inclusion of a retail use on the ground floor of 1906-1916 Sansom. However, the existing model already includes a 750 square foot retail space, so we did not change the model in that regard.

The financial analysis shows that the Net Present Value (at 10%) ranges from -\$7.6 million to -\$12.5 million for the 1906-16 Sansom scenarios, and from -\$2.0 million to -\$2.4 million for the 1918-20 Sansom scenarios. The Internal Rate of Return is undefined.

### **Robustness Analysis**

We have also updated the same robustness analysis that we conducted in Appendix 2 of our October 28, 2015 letter report and in our supplemental letter report. This analysis tests the robustness of the financial results presented in the hardship application by exploring a number of alternative financial assumptions, including:

- If there was no land cost or acquisition cost associated with the property;
  - As described in the October 28, 2015 letter report, we estimate that 1906-16 Sansom has land costs of \$2,100,000, and 1918-20 Sansom has land costs of \$480,000, based upon the appraisal analysis conducted by Coyle, Lynch & Company.
- If 1906-16 Sansom and 1918-20 Sansom were eligible for Federal and State Historic Tax Credits;
  - As described in the October 28, 2015 letter report, we believe that historic tax credits would not be available for this property, based on the historic rehabilitation analysis performed by Civic Visions LP.
- If development costs were at the level estimated by ICI; and
  - This assumption is used as an alternative to the October 28, 2015 letter report's alternative assumption of development costs being 20% less than originally estimated by Intech.



- If rental rates and sales prices were 20% greater than calculated.
  - The final two tests were chosen for sensitivity purposes only.

We also addressed the financial ramifications of all of these alternative assumptions together.

The results of the robustness analysis are shown in Table 4 below, which shows the net present value created in each alternative reuse scenario. The first column shows the baseline scenario, updated for new costs and other assumptions as described above. The next four columns show the effect of each individual assumption change, with all other assumptions the same as in the baseline. The final column shows the results when all four assumptions are changed at the same time (i.e., zero land cost, assumes federal and state historic tax credits, ICI development costs, and rents / sales at 120% of estimated value).

For both buildings, the NPV is negative for all alternatives, the value created is negative for all alternatives, and the IRR is undefined for all alternatives. Therefore, no reuse scenario is financially feasible under these alternative reuse assumptions.

**Table 4: Net Present Value for Alternative Scenarios (\$M)**

	Base Scenario	\$0 Land Cost	Federal and State HTC Eligible	ICI Development Cost	Rents / Sales at 120%	Cumulative
<b>1906-1916 Sansom</b>						
Apartment	-\$10.5	-\$9.0	-\$7.2	-\$9.3	-\$9.8	-\$4.1
Condominium	-\$12.5	-\$10.8	-\$8.9	-\$11.1	-\$11.5	-\$5.1
Office	-\$10.5	-\$9.0	-\$7.2	-\$9.4	-\$9.8	-\$4.2
Hotel	-\$7.6	-\$6.1	-\$3.3	-\$6.4	-\$7.5	-\$1.7
Micro Apartment	-\$9.7	-\$8.2	-\$6.4	-\$8.5	-\$8.8	-\$3.1
<b>1918-1920 Sansom</b>						
Retail	-\$2.1	-\$1.8	-\$1.3	-\$1.8	-\$1.9	-\$0.5
Single Family	-\$2.0	-\$1.7	-\$1.2	-\$1.8	-\$1.8	-\$0.4
Office	-\$2.4	-\$2.0	-\$1.5	-\$2.1	-\$2.2	-\$0.9

#### **RES Micro-apartment Scenario**

RES also asked us to analyze a scenario for 1906-1916 Sansom in which there are 40 micro-apartments, including the ground floor, renting for \$33 per square foot, using the ICI cost estimates as the base. In addition, the scenario assumes zero land costs and a full historic tax credit. In this analysis, there are 970 square feet of retail space on the ground floor and 17,000 square feet of residential space, including the balance of the ground floor, excluding hallways. Any amenities, such as a fitness center and bicycle storage, are assumed to be in the basement. There are no architectural drawings for the ground floor of this scenario, so we have assumed the same rentable area on the ground floor as on the 7<sup>th</sup> floor. However, the entryway would likely consume more space on the ground floor than the upper floors, so this estimate likely includes too much rentable space. The results of this analysis indicate a Net Present Value of -\$4.1 million. Table 5 provides more detail. This RES micro-apartment scenario is not financially feasible.



**Table 5: Net Present Value for Requested RES Micro Apartment Scenario (\$M)**

	RES Micro Apartment
Total Cost	\$12.7
NOI	\$0.4
Completed Project Value	\$5.1
Value Created	-\$7.6
Net Present Value	<b>-\$4.1</b>

Please feel free to contact us with any questions regarding our analysis.

Regards,



Peter Angelides, Ph.D., AICP  
March 17, 2015

