



**REAL ESTATE STRATEGIES, INC.**

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February 14, 2017

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

Dear Dr. Farnham:

In accordance with our engagement letter, Real Estate Strategies, Inc. ("RES"), with assistance from our subcontractor, International Consultants, Inc. ("ICI"), has prepared this letter report summarizing the findings of our analysis of a Financial Hardship Application (the "Application") submitted to the Philadelphia Historical Commission (the "Commission"). The Application was submitted by 1911 Walnut LLC ("the Applicant"), an affiliate of Southern Land Company ("Southern Land") and proposes the demolition of the building located at 1918-20 Sansom Street (the "Garage") in Philadelphia. The building is located in the Rittenhouse-Fitler Residential Historic District and is listed as contributing to the historic character of the neighborhood.

The following paragraphs summarize information presented in the Application, describe the RES assignment, as well as the procedures and analyses completed during the course of the assignment, and present the RES findings and conclusions. The standard terms and conditions applicable to our work with the Commission are also included.

**BACKGROUND**

The Applicant is seeking approval to demolish the Garage. The Application submitted to the Historical Commission includes an Affidavit and Exhibits containing supporting documentation pursuant to the Financial Hardship provisions of the Philadelphia Historical Commission Rules and Regulations.

After demolition has been completed, the Applicant is proposing redevelopment of the cleared site, together with the parking lot located west of the Garage building at 1922-40 Sansom Street and 1907-15 Walnut Street, which is the former location of the Eric Rittenhouse Theaters and two adjoining buildings that were damaged by a fire during March 1994. The Applicant will preserve the vacant buildings located at 1904 Sansom Street (the "Coffee Shop") and 1906-16 Sansom Street (the "Warwick"), which are also in the Historic District and listed as a contributing structures.

The Garage was built in 1910 as a parking garage. In its most recent configuration, it was used as a funeral home by Oliver H. Bair; however, it has been vacant since 1997. The front of the structure has a slab-on-grade foundation at grade with Sansom Street. There is a small basement in the rear of the structure to house the mechanical room. The existing structure stretches from Sansom Street to Moravian Street; its configuration is rectangular. The building contains a total of 5,284 square feet on two levels and is built out to the property lines on all four sides. The Sansom Street façade has carved limestone ornamentation, but this façade reportedly was added in the 1950's, when the structure was converted from a parking garage to commercial use.

In 1997, the Philadelphia Parking Authority ("PPA") purchased the Garage, the adjacent parking lot, the Warwick, the Coffee Shop, and 1907-15 Walnut Street (together, "the Assemblage") and developed a plan to build a parking garage, movie theater and retail space. In 1997, PPA vacated the Garage, the Warwick and the Coffee Shop in anticipation of demolishing them, preserving only the façade of the Coffee Shop. PPA applied to the Philadelphia Historical Commission for permission to demolish the Garage, the Warwick and the Coffee Shop in the public interest. Permission was granted by the Commission; however, the Philadelphia Court of Common Pleas eventually overturned the Commission's decision that the removal of the buildings was in the public interest.

In 2007, PPA sold the Assemblage to Castleway Properties ("Castleway") which sought to redevelop the Assemblage and also proposed demolishing the Garage, the Warwick and part of the Coffee Shop. Castleway's plan did not proceed because of the economic downturn of the Great Recession of 2008/2009. Castleway then attempted to sell the Assemblage but was not successful in completing a sale until February 2015, when it was purchased by the Applicant. The Affidavit submitted by the Applicant on February 8, 2017 seeks a determination of financial hardship by the Historical Commission, because the Garage "cannot be used for any purpose for which it is 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."

## **ASSESSMENT METHODS**

The Commission retained RES to evaluate the documentation in the Application, analyze information supplied by the Applicant, and offer recommendations addressing the Applicant's request for a determination of financial hardship. As a basis for our evaluation and analysis, RES has performed the following procedures:

- Conducted reviews of the *revised* documentation supplied by the Applicant including the Affidavit of February 8, 2017, Exhibits, and other materials to gain an understanding of the basis for the requested financial hardship determination.
- Inspected the interior and exterior of the Garage, Coffee Shop, the Warwick, the Adjoining Lots, and the surrounding area to understand the context in which potential redevelopment alternatives would operate if implemented.

- Met with or interviewed representatives of the Applicant, the Preservation Alliance for Greater Philadelphia, Center City Residents Association, private developers, and other interested parties to ask about other uses that might have been considered for the Garage and to obtain additional information and a better perspective about the history of the Garage and potential redevelopment options.
- Retained International Consultants, Incorporated (“ICI”) as a subcontractor to RES to analyze the cost estimates prepared by INTECH Construction Services (“Intech”) and included as Exhibit N of the Affidavit to evaluate the reasonableness of the estimates.
- Reviewed redevelopment scenarios and underlying assumptions for the Garage that were proposed and assessed in the October 28, 2015 financial analysis prepared by Econsult Solutions (“Econsult”) and subsequently incorporated in their February 8, 2017 report, which is Exhibit Q of the Application.
- Surveyed commercial lease rates and lease terms and sales prices of single-family homes in the area surrounding the Garage to further test the reasonableness of the pricing assumptions in the Econsult analysis.
- Researched the development potential of the Garage for other potential uses that might be considered.
- Requested sensitivity analyses by Econsult and reviewed the results included in their supplemental report dated March 17, 2016.
- Compared the information in the Application with requirements specified in the Philadelphia Historical Commission Rules and Regulations and developed conclusions about the existence of a financial hardship.

## **FINDINGS AND CONCLUSIONS**

### **Documentation of Marketing**

Based on the RES review of the *revised* Application, there is no documentation indicating that the Garage has been marketed. Section VI, paragraphs 22 through 25 of the Affidavit describes the marketing efforts of the entire Assemblage by both the PPA and Castleway. However, the Application does not contain documentation indicating that the Garage was marketed separately from the Assemblage or the Adjoining Lots.

The Applicant has stated that marketing the Garage would be futile and impracticable because the Applicant’s financial analysis of potential reuse alternatives produced only negative returns. RES is aware of a Memorandum Opinion (Woodland Terrace Homeowners et al v. Philadelphia Board of License and Inspection Review), which found that an applicant was not required to list a property that is the subject of a financial hardship application with a broker. Nevertheless, some form of marketing would confirm the results presented by the Applicant.

Absent market exposure of some kind, the conclusion that no developer would be interested in redeveloping the Garage cannot be substantiated.

### Cost Analysis

As subcontractor to RES, ICI provided specialized cost estimating expertise and has reviewed cost-related information, in particular Exhibit N, *Construction cost estimates for reuse scenarios by INTECH Contractors and Construction Managers* for the Garage. These cost estimates are the same as were presented in the original Application. During their 2016 review and evaluation, ICI's procedures included the following:

- A walk through of the Garage, the Coffee Shop and the Warwick on January 15, 2016 with representatives of the Applicant, Keast & Hood Structural Engineers, the Historical Commission and RES.
- Initial preparation by ICI of revised cost estimates based on their review of documentation in the Application.
- Attendance at a meeting at the Historical Commission on February 12, 2016, at which there was initial discussion about the cost estimates in the Application with representatives of the Applicant and their consultants, including initial cost-related comments and questions by ICI. Based on the discussions, Intech made an initial round of revisions to their cost estimates.
- Attendance at a follow-up meeting on February 16, 2016 held to review cost estimates. The meeting was attended by ICI and representatives of Intech, Keast & Hood, and the Applicant and included a detailed review and discussion of the cost estimates prepared by Intech and the cost estimates and comments by ICI. The parties identified points of agreement related to specific costs and areas where there continue to be disagreements about specific line item costs.

Table 1 below provides summary information for the various reuse scenarios presented in the *revised* Application for the Garage building. Included is the original estimate in the Application by Intech, the revised Intech estimate based on comments and discussion at the meetings on February 12 and 16, 2016, and ICI's estimates of additional savings.

**Table 1**  
**Comparison of Development Costs for the Garage**

The Garage - 1918-20 Sansom Street	Intech Totals Application	2/16/2016 Adjusted Intech Totals	ICI Estimated Total	Difference Adjusted Intech/ICI
<b>Reuse Scenarios:</b>				
1) Restaurant/Retail (Core & Shell)	\$2,978,749	\$3,078,959	\$2,749,523	\$329,436
2) Residential - Single-Family Home	\$3,159,372	\$3,004,701	\$2,726,637	\$278,064
3) Offices (Core & Shell)	\$3,039,391	\$3,139,603	\$2,853,439	\$286,164

Sources: Intech Construction Services; International Consultants, Inc.

## **RES Assessment of Reuse Strategies and Analyses**

After reviewing the *revised* Application, RES assessed the potential reuse strategies and analyses compiled for the Garage as presented in the Affidavit and Exhibits. The uses analyzed by Econsult (Exhibit Q of the *revised* Application) considered the same three potential scenarios as in the original Application, which are restaurant/retail, single-family residential, and office uses. Econsult's original report in October 2015 addressed three properties on Sansom Street proposed for demolition. Their revised report, which is dated February 8, 2017, includes just the Garage. However, the assumptions used by Econsult in their February 2017 report are based on research conducted and information compiled for their October 2015 report.

Econsult has stated that industrial, garage parking, hotel, and residential apartment uses were not considered to be reasonable. RES agrees with this conclusion by Econsult. Since the east and west walls of the Garage are located along the property line, it is not feasible to create additional windows in the building. Without additional windows, it would be impossible to develop more than eight rental apartments or ten hotel rooms. Neither of these scenarios is economically feasible. Similarly, there may be the ability to create approximately 20 parking spaces (assuming stacked parking on the ground floor and a single deck of parking on the second floor); however, the revenue stream is not sufficient to finance the construction costs to convert the building and provide a reasonable return to the owner. Also, the front façade of the Garage would need to be dramatically altered if it were to be converted to a parking facility. Finally, there is limited demand for industrial space in the Rittenhouse Square neighborhood of Philadelphia. Such a use would produce lower returns than the office scenario analyzed by Econsult in their February 8, 2017 report.

### **Restaurant/Retail**

To determine whether there have been increases in retail rents since the October 2015 time frame of the Econsult research, RES tested the retail rent assumptions used by Econsult. At that time, Econsult assumed the Garage could command rents of \$52 per square foot (triple net) for the ground floor and \$27 per square foot for the second floor. RES surveyed rents in the area surrounding the Garage during February 2017 and identified six comparable ground floor spaces offered for rent and three second floor spaces. The results of our research are contained in Table 2 on the following page.

The asking rents for ground floor retail identified by RES, range from \$25 to \$65 per square foot, triple net, with an average of \$49 per square foot. Asking rents for second floor spaces were between \$18 and \$48 per square foot, triple net, with an average of \$34. The higher priced second floor space is located on a very desirable block of South 18<sup>th</sup> Street, a prominent north-south street in the Rittenhouse Square neighborhood. RES identified the space most comparable to the Garage, which is a 1,500 square foot ground floor retail store located at 2103 Sansom Street and leasing for \$48 per square foot, triple net. Another comparable ground floor retail space is the 3,161 square foot space available at 2212-14 Walnut Street and leasing for \$25.00 per square foot, triple net. Second floor in the same building is leasing for \$18 per square foot, also triple net. Based on our analysis of comparable rents in the area surrounding the Garage, RES has determined that the October 2015 rent assumptions by Econsult are still valid.

**Table 2**  
**Summary of Retail Asking Rents in the 19103 Zip Code**

Address	Sq. Ft	Lease Terms	Rent/Sq. Ft.
<b>Ground Floor</b>			
2212-14 Walnut St. 1st Fl	3,161	NNN	\$25.00
161 N. 21st St	1,200	Modified NNN	\$42.00
2013 Sansom St.	1,500	NNN	\$48.00
1530 Locust	2,000	NNN	\$50.00
1719 Chestnut St. 1st & 2nd Fl	6,000	NNN	\$65.00
23-25 S. 19th St.	1,000	NNN	\$65.00
<b>Average</b>			<b>\$49.17</b>
<b>Second Floor</b>			
2212-14 Walnut St. 2nd Fl	2,987	NNN	\$18.00
1630 Walnut St. 2nd Fl	2,500	NNN	\$35.00
125 S. 18th St. 2nd Fl	817	NNN	\$47.74
<b>Average</b>			<b>\$33.58</b>

*Sources: Loopnet.com and interviews conducted by Real Estate Strategies, Inc. in February 2017*

In summary, RES agrees with Econsult's conclusion that retail or restaurant space is not an economically feasible reuse of the Garage. In a supplemental report dated March 17, 2016 and in Appendix 2 of their report dated February 8 2017, Econsult summarized the results of sensitivity analysis for the Garage using assumptions by ICI in their cost estimates of \$2.7 million, \$0 land acquisition costs, 120 percent higher rents, and an infusion of Federal and State Historic Tax Credits. Even with these more favorable assumptions, the restaurant/retail scenario is not economically feasible.

#### **Single-Family House**

RES also reviewed recent sale prices of single-family houses in the Rittenhouse/Fitler/Logan Square neighborhood (the 19103 zip code) to determine whether there have been any changes in home prices since Econsult's October 2015 report. At that time Econsult identified nine single-family home sales in the area with an average per square foot sales price of \$416. Econsult then adjusted the per square foot cost of the Garage to \$325, given its location on a less desirable street than the other sales. RES identified 17 single-family homes sold in the 19103 zip code since September 2016. Table 3 on the following page includes summary information for these recent sales. The houses range in size from 1,428 to 5,000 square feet with prices ranging from \$279 to \$701 per square foot. The average price is \$409 per square foot.

**Table 3**  
**Summary of Recent Sales of Single-Family Houses in the 19103 Zip Code**

Address	Year Built	Sale Date	Sales Price	Sq. Ft	Price/Sq. Ft.
2032 Arch St.	1980	11/16	\$599,000	1,691	\$354.23
2043 Rittenhouse Sq.	NAV	12/16	\$645,000	1,665	\$387.39
2030 Arch St.	1970	12/16	\$669,000	2,252	\$297.07
212 S. 24th St.	NAV	12/16	\$700,000	2,300	\$304.35
2135 Cypress St.	1900	12/16	\$770,000	1,428	\$539.22
316 S. Smedley St.	1900	9/16	\$807,500	1,780	\$453.65
2411 Delancey St.	NAV	11/16	\$830,000	1,728	\$480.32
2410 Cypress St.	NAV	12/16	\$885,000	2,372	\$373.10
2226 Locust St.	NAV	12/16	\$900,000	2,440	\$368.85
2209 Spruce St.	NAV	12/16	\$1,050,000	2,790	\$376.34
2139 Cypress St.	1900	12/16	\$1,095,000	1,561	\$701.47
2011 Pine St.	NAV	12/16	\$1,120,000	4,020	\$278.61
2222 Delancey St.	NAV	8/16	\$1,250,000	4,095	\$305.25
2219 Saint James Pl.	1870	1/17	\$1,275,000	2,961	\$430.60
2216 Saint James Pl.	1870	8/16	\$1,650,000	4,685	\$352.19
205 S. 22nd St.	NAV	11/16	\$2,250,000	5,000	\$450.00
1808 Delancey St.	NAV	12/16	\$2,325,000	4,690	\$495.74
<b>Average</b>					<b>\$408.73</b>

Sources: Trulia.com, Zillow.com and Real Estate Strategies, Inc., February 2017

While RES agrees with Econsult that the location of the Garage is not as desirable as many of the comparable sales in the area, the ability to create a completely renovated house at the Garage with many modern amenities, including off-street garage parking in the rear of the building and a sizeable roof deck, along with other new development taking place along Sansom Street could result in a higher sale price. However, even at the unadjusted average per square foot price of \$409, the estimated sales price would be \$1.7 million, assuming a 4,200 square foot house. This size is based on the RES assumption that the rear of the 5,280 square foot Garage building would be converted to a two-car garage. Even with ICI's cost estimate of \$2.7 million in Table 1 and no acquisition cost, the development costs exceed the sales price estimate for conversion to a single-family house by \$1.0 million. Thus, RES has concluded that this use is not financially feasible.

#### **Office**

RES also researched rental rates for office space to determine whether there had been any changes since Econsult's October 2015 research. At that time, Econsult assumed the Garage could command rent of \$25 per square foot for the entire building. RES surveyed rents in the area surrounding the Garage and found seven comparable office spaces for rent. The results of our research are contained in Table 4 on the following page.

**Table 4**  
**Summary of Office Rents in the 19103 Zip Code**

Address	Sq. Ft	Lease Terms	Rent/Sq. Ft.
1700 Race St.	3,025	Modified Net	\$12.70
100 N. 20th St.	5,256	Plus Electric	\$21.00
244 S. 22nd St.	1,200	NNN	\$21.48
235 S. 17th St.	18,000	Modified Net	\$25.00
2019 Walnut St.	1,850	Modified Gross	\$25.95
2300 Chestnut St.	4,074	Modified Gross	\$31.00
1725 Spruce St.	162	Modified Gross	\$38.88
<b>Average</b>			<b>\$25.14</b>

*Sources: Loopnet.com and interviews conducted by Real Estate Strategies, Inc. in February 2017*

The office rents range from \$13 to \$39 per square foot with an average of \$25, which is the rent that Econsult assumed. Based on the comparable rents in Table 4 in areas near the Garage, RES has concluded that Econsult's rent assumption from October 2015 continues to be valid.

RES also agrees with Econsult's conclusion that development of office space at the Garage is not economically feasible. In the supplemental report dated March 17, 2016 and Appendix 2 of the February 8, 2017 report, Econsult presented a sensitivity analysis for the Garage using the ICI cost estimate of \$2.9 million, \$0 land acquisition costs, 120 percent higher rents and an infusion of Federal and State Historic Tax Credits. Even with all of these favorable assumptions incorporated in the analysis, the office building reuse is not economically feasible.

## CONCLUSIONS AND RECOMMENDATIONS

RES concurs with the findings in the Econsult report that no alternative use of the Garage is likely to generate an economically feasible reuse of the structure. From a development perspective, the reuse potential of the Garage is adversely affected by the building's deteriorated condition and its configuration. As stated previously, there are no windows on either the east or west façades, which makes the structure difficult to reuse while also preserving its historic properties and its eligibility for Historic Preservation Tax Credits. RES agrees with Econsult that the value generated by any potential new use, as measured by the Net Present Value, is insufficient to produce a reasonable rate of return on the required investment.

## TERMS AND CONDITIONS

Except as specifically provided herein, RES has not ascertained the legal and regulatory requirements that might be applicable. This letter report is based on estimates, assumptions and other information developed from research of the market, our knowledge of the real estate industry and



Jonathan E. Farnham, Ph.D.

February 14, 2017

Page 9

other factors, including information provided by the Philadelphia Historical Commission. The sources of information and bases of the estimates and assumptions are stated in this letter report. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results will vary from those described herein, and the variations may be material.

Further, RES has not evaluated management's effectiveness nor are we responsible for future marketing efforts and other management actions upon which actual results will depend. This letter report is intended for use by the Philadelphia Historical Commission in evaluating the Financial Hardship Application and supporting documentation for the building located at 1918-20 Sansom Street in Philadelphia. We have no responsibility to update this letter report to account for events and circumstances occurring after completion of our work, which is the date of this report.

If you have any questions or would like to discuss our procedures and findings, please call me at (610) 240-0820.

Very truly yours,

A handwritten signature in cursive script that reads "Margaret B. Sowell".

Margaret B. Sowell, CRE  
President