



2. The Warwick is a seven story, five bay brick apartment building constructed circa 1903. The building has been vacant since 1997. As documented in the Historic Context Report, the cornice of the building has been removed. Overall, the building is currently in extremely poor condition, as discussed in more detail below.

3. The Garage is a two story, three bay building constructed circa 1910. Originally constructed as a garage, the building was most recently used as the Oliver H. Bair funeral home beginning in the 1980s, but has been vacant since 1997. The building is currently in extremely poor condition, as discussed in more detail below.

4. Photographs of the Buildings taken by Civic Visions LP are attached hereto and made a part hereof as Exhibit "C".

5. As documented in detail below, due to serious structural, material, mechanical, and environmental problems in the Buildings, rehabilitation of the Buildings would be prohibitively expensive, such that reuse of the Buildings pursuant to any combination of the 11 redevelopment scenarios analyzed in this application would result in a significant net economic loss to the Applicant.

#### *Structural Condition*

6. 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 Coffeehouse is in "very poor condition," with significant water infiltration, masonry deterioration, and advanced wood decay. The center of the first floor collapsed due to decay of wood joists and is considered "dangerous," areas of the second and third floor have buckled due to water exposure, and the basement suffers from large fungal blooms and a collapsed ceiling.

Rehabilitation and adaptive reuse of the Coffeehouse would require extensive repair work, including (but not limited to): (i) replacement of the first floor framing, which would require temporary bracing of the bearing walls to brace the weakened foundation walls against earth pressure; (ii) replacement of approximately 20% of the remaining joists and rafters throughout the building; (iii) replacement of all roof sheathing, flashing and drainage; (iv) replacement of the basement floor "mud slab"; (v) lowering of the basement floor to ensure proper clearances and underpinning of the foundation walls; (vi) repointing of all exterior walls, which will require removal and replacement of the plaster stucco on the front elevation; and (vii) repointing of approximately 30% of the interior faces of exterior walls. In addition, all repointing and plaster work should not take place until after the masonry has been dried out for approximately eight months under the supervision of a specialty contractor.

(b) The Warwick is in "fair to poor condition," with significant water infiltration, severe damage to the cinder concrete floor slabs, masonry deterioration, and roof damage. The building's concrete has virtually no reinforcement, there are significant amounts of spalling on the face of the exterior brick, a substantial number of limestone sections have fractured, a substantial portion of the roof framing and sheathing is decayed, and there is

advanced corrosion of the basement columns where they are embedded in the floor slab. In particular, the cinder concrete floor slabs have become severely corroded at the sixth and seventh floors and on much of the first floor due to high moisture levels, a condition worsened by lack of heat and minimal ventilation, causing the cinder concrete elements to release acids from coal-fired cinders that have attacked and compromised the metal mesh of the draped slab system, rendering these floors unsafe. (For more information on the problems associated with cinder concrete, refer to the articles attached hereto and made a part hereof as Exhibit "E".)

Extensive repair work is required, including (but not limited to): (i) replacement of the entire roof structure, including rebuilding portions of the parapet; (ii) replacement of the entire sixth and seventh floor and much of the first floor, with further investigation of the need to replace the second floor; (iii) reinforcement of the bases of the corroded columns; (iv) replacement of spalled brick; (v) repair of fractured limestone elements; (vi) repair of exterior steel fire balconies before their eventual removal; (vii) removal and replacement of wood flooring in several locations; and (ix) repointing of stone and brick elements. In addition, before commencing repairs, the masonry needs to dry for a period of at least eight months under the supervision of a specialty contractor.

(c) 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.

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

#### *Condition of Historic Elements*

7. 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 Buildings described in the Structural Condition Assessment, further special repairs are required to rehabilitate or reconstruct the Buildings in

accordance with the Secretary of the Interior's Standards for the Treatment of Historic Properties.

(a) For the Coffeehouse, historic rehabilitation would require: removal of the damaged terra cotta elements on the north façade by a professional conservator, study and repair of the terra cotta hanging system, and reinstallation; reopening of previously in-filled windows on the rear wing of the building and installation of modern wood windows; replacement of portions of the partially rotted front façade windows; and replacement of the front door. 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 Coffeehouse would constitute a "certified rehabilitation" eligible for historic tax credits.

(b) For the Warwick, historic rehabilitation would require: removal of previous brick pointing repairs, new repointing, and new bricks matching the color, texture, and detail of the historic brick; replacement of spalled brick; replacement of the missing cornice; removal and replacement of interior plaster and wire lath (due to the presence of hazardous materials, including asbestos); and repair or replacement of the failing cinder concrete slab system. 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 Warwick would constitute a "certified rehabilitation" eligible for historic tax credits.

(c) 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.

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

#### *Condition of Building Systems*

8. 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 Coffeehouse, (i) the electrical system has outlived its useful lifespan and must be replaced/removed; (ii) the fire alarm system is obsolete and has been disconnected and abandoned and must be replaced; (iii) the mechanical system is out of use and must be removed entirely and replaced; (iv) the sanitary system piping is in poor condition and corroded throughout and must be replaced; and (v) a fire protection system must be installed.

(b) For the Warwick, (i) the electrical system has outlived its useful lifespan and must be replaced/removed; (ii) the fire alarm system is obsolete and has been

disconnected and abandoned and must be replaced; (iii) the existing boiler and associated equipment has outlived its useful lifespan and must be removed and replaced; (iv) the sanitary system piping is in poor condition and corroded throughout and must be replaced; and (v) sprinklers must be installed within the building.

(c) 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.

(d) 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*

9. 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 Properties revealed asbestos containing materials ("ACMs") at the Coffeehouse (including pipe insulation and roofing material), the Warwick (including flooring, plaster walls and ceilings, and roofing material), and the Garage (including flooring, window glazing, and roofing material). In particular, the ACMs at the Warwick amount to more than approximately 115,000 square feet. Pennoni estimates that remediation of these ACMs will cost approximately \$9,000 at the Coffeehouse, \$436,000 at the Warwick, and \$36,000 at the Garage.

(b) Pennoni's hazardous material survey of the Properties revealed a variety of hazardous materials, including fluorescent light tubes and ballasts, mercury thermostats, emergency light batteries, smoke detectors, ozone-depleting substances, transformers/capacitors, and an oil storage tank. Pennoni estimates that remediation of these hazardous materials will cost approximately \$6,000 at the Coffeehouse, \$3,000 at the Warwick, and \$6,000 at the Garage.

(c) Pennoni's survey of biological hazards at the Properties revealed significant visible mold growth at the Properties, including on plaster, trim, and flooring. In addition to complete removal of the contaminated elements, mold remediation will likely require removal of structural framing such as roof and floor joists, and/or sanding and encapsulation. At the Warwick, Pennoni observed a large amount of bird excrement (pigeon droppings) throughout the building, with significant contamination on the upper floors. Pennoni estimates that remediation of these biological hazards will cost approximately \$40,000 at the Coffeehouse, \$120,000 at the Warwick, and \$80,000 at the Garage.

(d) Pennoni's lead-based paint survey revealed significant concentrations of lead-based paint throughout the Properties. Pennoni estimates that remediation

of the lead-based paint will cost approximately \$45,000 at the Coffeehouse, \$90,000 at the Warwick, and \$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 \$120,000 for the Coffeehouse, \$779,000 for the Warwick, and \$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.

10. 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 Properties. 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 \$49,030 for the Coffeehouse, \$1,455,470 for the Warwick, and \$105,000 for the Garage.

### III. POTENTIAL REUSE OF THE BUILDINGS

11. To analyze the potential to reuse the Buildings, the Applicant evaluated 11 different reuse scenarios, including, for the Coffeehouse, (1) restaurant, (2) retail, (3) single-family residential, and (4) office use; for the Warwick, (1) multi-family residential (rental), (2) multi-family residential (condominiums), (3) office, and (4) hotel use; and, for the Garage, (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”.

12. 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”.

13. 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 Coffeehouse, reuse would require lowering of the basement slab, underpinning, demolition and installation of new structural elements on the first through third floors and roof, and extensive stabilization of exterior load bearing masonry during demolition, among other structural requirements. For the Warwick, reuse would require replacement of the concrete slabs at the sixth and seventh floor, replacement of the entire roof structure, complete rebuilding of the interior structure (i.e., columns, beams, slabs, and

foundations), and extensive stabilization of exterior load bearing masonry during demolition, among other structural requirements. 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.

14. 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”. INTECH found that reuse of the Coffeehouse would cost approximately \$3.5 million, depending on the reuse scenario; reuse of the Warwick would cost approximately \$14.5 to \$17 million, depending on the reuse scenario; and reuse of the Garage would cost approximately \$3 million, depending on the reuse scenario.

#### **IV. APPRAISAL AND CITY REAL ESTATE ASSESSMENT**

15. 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 each building is \$365,000 for the Coffeehouse, \$2,100,000 for the Warwick, and \$480,000 for the Garage.

16. 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 Properties and the adjacent property located at 1922-1940 Sansom Street, and has assigned an assessed value of the Buildings 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.

#### **V. EVALUATION OF REASONABLE USES OR REUSES OF THE PROPERTY**

17. 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 11 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.

18. The EConsult report evaluated 11 different reuse scenarios, including, for the Coffeehouse, (1) restaurant, (2) retail, (3) single-family residential, and (4) office use; for the Warwick, (1) multi-family residential (rental), (2) multi-family residential (condominiums), (3) office, and (4) hotel use; and, for the Garage, (1) restaurant/retail, (2) single-family residential, and (3) office use.

(a) For the Coffeehouse, 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 Coffeehouse for reuse (including construction costs, land costs, tenant fit out costs, and other development costs) would amount to \$4.9 million for restaurant use, \$4.9 million for retail use, \$4.6 million for single-family residential use, and \$4.7 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 use would generate a first year operating income of \$0.1 million and a net present value of -\$2.6 million, resulting in a total overall value created of -\$3.9 million. Retail use would generate a first year operating income of \$0.1 million and a net present value of -\$2.6 million, resulting in a total overall value created of -\$3.9 million. Single-family residential use would generate a sale value of \$1.3 million and a net present value of -\$2.7 million, resulting in a total overall value created of -\$3.5 million. Office use would generate a first year operating income of \$0.0 million and a net present value of -\$2.8 million, resulting in a total overall value created of -\$4.1 million. The EConsult report concludes that “[t]he expense of renovating and adapting 1904 Sansom for [each use] would result in insurmountable financial challenges for the developer. The cost of renovating 1904 Sansom is greater than can be justified by profits made by [each use].”

(b) For the Warwick, 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 Warwick for reuse (including construction costs, land costs, tenant fit out costs, and other development costs) would amount to \$21.6 million for multi-family residential (rental), \$22.9 million for multi-family residential (condominiums), \$20.5 million for office use, and \$21.6 million for hotel 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 multi-family residential (rental) use would generate a first year operating income of \$0.3 million and a net present value of -\$11.9 million, resulting in a total overall value created of -\$17.5 million. Multi-family residential (condominium) use would generate a sale value of \$6.1 million and a net present value of -\$13.4 million, resulting in a total overall value created of -\$17.8 million. Office use would generate a first year operating income of \$0.3 million and a net present value of -\$10.9 million, resulting in a total overall value created of -\$16.4 million. Hotel use would generate a first year operating income of \$0.7 million and a net present value of -\$8.3 million, resulting in a total overall value created of -\$14.3 million. The EConsult report concludes that “[t]he expense of renovating and adapting the Warwick for [each use] would result in insurmountable financial challenges for the developer. The cost of renovating the Warwick is greater than can be justified by profits earned by [each use].”

(c) 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 \$4.4 million for restaurant/retail use, \$4.4 million for single-family residential use, and \$4.3 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 -\$2.0 million, resulting in a total overall value created of -\$3.3 million. Single-family residential use would generate a sale value of \$1.8 million and a net present value of -\$2.2 million, resulting in a total overall value

created of -\$3.1 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 -\$3.6 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].”

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

20. 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 Properties (as opposed to the land costs provided by the Appraisal), (2) the three Buildings were 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.

21. 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 BUILDINGS**

22. In 1997, the Philadelphia Parking Authority (“PPA”) purchased the Properties 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 Properties, 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 Buildings. In January 1999, PPA sold a \$65,090,000 bond issue, which earmarked approximately \$30 million for development of the Assemblage.

23. In conjunction with its proposed development of the Properties, PPA applied for the removal of the Buildings pursuant to demolition in the public interest. In response to this application, the Historical Commission approved of the removal of all three Buildings, 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 Buildings in the public interest.

24. In 2007, PPA sold the Properties 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 Buildings. Castleway subsequently received multiple offers to purchase the Assemblage, with future development of the Assemblage premised on the removal of the 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 Buildings.

25. 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.

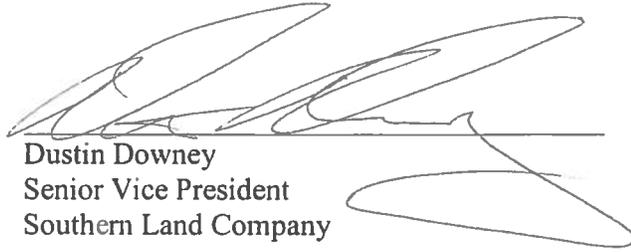
#### **VIII. FINANCIAL INFORMATION**

26. Since at least 1998, the Properties have not received any income, but have been subject to carrying costs such as maintenance costs, real estate taxes, and insurance costs. Since the Applicant acquired the Properties in February 2015, the Properties have continued to receive no income. As of 2015, the Properties (including 1922-1940 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.

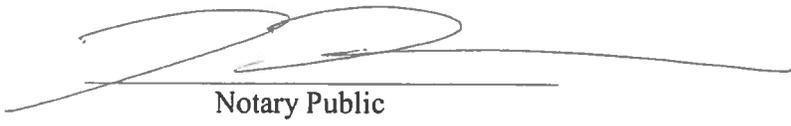
#### **IX. CONCLUSION**

27. The extremely poor condition of the Buildings, 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 Buildings 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 Properties to secure a reasonable rate of return documented by the EConsult Report, collectively demonstrate that reuse of the Properties is not feasible. Consequently, as demonstrated by this Affidavit and the exhibits attached hereto, the Properties cannot be used for any purpose for which they are or may be reasonably adapted because the sale of the Properties is impracticable, commercial rental of the Property cannot provide a reasonable rate of return, and other potential uses of the Properties are foreclosed.

Further, your deponent saith not.

  
Dustin Downey  
Senior Vice President  
Southern Land Company

Sworn to and subscribed before me  
this 28 day of October, 2015.

  
Notary Public

