

Karchem Properties

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Tersh Boasberg, Esq.
Chair, Historic Preservation Review Board
c/o Historic Preservation Office
801 North Capitol Street, NW #3000
Washington, DC 20002

RE: THIRD CHURCH OF CHRIST – PENDING NOMINATION
CASE # 91-05
LETTER OF SUPPORT FOR ICG REDEVELOPMENT PLAN

Dear Mr. Boasberg:

This letter is written in support of ICG's plan to demolish and redevelop the Third Church of Christ property on 16th Street, NW. We are seasoned commercial developers of award winning historic buildings listed on the National Register and the DC Inventory of Historic Sites. In addition, we are active members of the DC Preservation League. Therefore, we offer a view for consideration which combines our experience in meeting the physical and financial challenges of redeveloping historic buildings for commercial use with our demonstrated commitment to DC's historic preservation goals.

We have personally been responsible, as owners and developers, for the heartbreaking and budget busting decisions that must be made to achieve the multiple goals of a successful rehabilitation project; one which satisfies the contractual obligations to our capital partners, the marketplace expectations of tenants, and the historic preservation restrictions placed on our plans by HPO and the National Park Service.

901 F STREET

We acquired the property in 1996; it had already been listed on the National Register. The reasons for this designation are abundantly clear to any person who walks by it. The historic merit and architecture is unmistakable. The history of US presidents who were Masons and their inaugural balls in the Great Hall are well documented. It was the first commercial building constructed after the Civil War. In contrast, the application for the Third Church struggles to make its case. Certainly, no ordinary citizen would understand the esoteric case made in the application. The popularity of the Third Church building in the community rivals the FBI building on Pennsylvania Avenue. *The National Register should be reserved for truly exceptional properties otherwise the significance of the designation is greatly diminished. The ICG project team will create a new property that may be worthy of designation when its time comes.*

FEASIBILITY – HISTORIC BUILDINGS

This letter focuses on our redevelopment of the Masonic Temple at 901 F Street, NW, which has been cited in the Third Church case. With our cooperation, this property has been used as a best practices case study by professors at University of Maryland, officers of the National Park Service, the Board of Trustees of the DC Preservation League and workshops by the Urban

Land Institute. These presentations have been limited in their understanding of the project and their declaration of its success. The truth is considerably more complicated. Briefly stated, *tenants and users admire the beauty and dignity of historic buildings but they will not pay more for it in higher lease rates and tenants who will accept less efficient floorplates are in a minority. Both issues increase development risk and diminish return on capital.*

We identified this development opportunity in 1996. Five long years later in September 2000, Karchem Properties delivered the property, a \$33 million class A office and retail project with 113,000 RSF. The property was a National Register landmark and a federal tax credit deal, so we worked closely with Sally Berk, president of the DC Preservation League, David Maloney of the Historic Preservation Office and Audrey Tepper at the National Park Service. Marking its success based solely on design, the property won seven awards including the Mayor's Award for Excellence in Historic Preservation and AIA awards from the DC Chapter.

The commercial success was not achieved for several years after the building was delivered. The incremental cost was caused by the public approval process, the restrictions placed on our redevelopment plans, and the continued oversight during construction by HPO and NPS. The property took us an additional year to prelease because the building was highly inefficient which adversely affected asking lease rates and attenuated the lease-up period. *The core factor was 25% higher than competing properties.* The inefficiency of the building was caused by three major restrictions placed on the property by NPS, HPO and DCPL, as follows:

- 1) The outsized atrium and lobby, combining the historic and new structures, was 300% larger than competing properties. This 'public space' is not net rentable area.
- 2) The retention of the north wall prevented us from achieving efficient floor plates cherished by brokers and their tenants. Instead, we had to build bridges between the historic and new structures. Consequently, half of our floors could not be multi-tenanted, shutting us out from leasing to most smaller tenants or larger tenants that need to sublease a portion of their premises.
- 3) The retention of the entire volume of the Great Hall, which took up half the historic building, could not be used by typical office and retail tenants.

Our preleasing effort became an exercise of finding a needle in a haystack. The Gallup Organization was the needle because they could use and were willing to pay for the Great Hall. We received no other interest in the space.

ECONOMICS – LOCAL AND NATIONAL MARKETS

There were two major reasons for our commercial success. The national and local economies supported higher lease rates and the revitalization of the East End prompted by the MCI Center which made the property viable as an office address. Had we delivered the building to a stagnant or declining market and/or had Pollin lost his bid, the project would have experienced severe losses and remained vacant.

CONCLUSION

The cost basis, physical scale and market timing, factors which worked in favor of redeveloping the Masonic Temple, do not exist with the Third Church project. The Masonic Temple was only 40,000 SF. The interior of the building had largely been demolished by several fires and we had

a vacant lot which gave us some flexibility that is not available to the Third Church. In addition, they face ever rising construction costs and the recoiling of credit markets which squeeze capital returns further, making fewer projects feasible.

We hope HPRB will consider the loss of interest and expertise by seasoned developers in taking on historic properties when deciding this matter.

Thank you for considering our view.

Sincerely,

KARCHEM PROPERTIES INC.



Daniel B. Karchem



Francine Raizes