



**Real Property Tax Appeals Commission**

IN ACCORDANCE WITH Section §47-825.01a of the District of Columbia Statutes you are hereby notified of your assessment for the tax year **2016** as finalized by the Real Property Tax Appeals Commission for the property described below. **If YOU WISH TO APPEAL THIS ASSESSMENT FURTHER, SEE THE INFORMATION BELOW.**

<b>Hearing Date:</b> October 21, 2015		<b>Decision Date:</b> December 11, 2015	
<b>Legal Description of Property</b>			
Square: 0675 Lot: 0850			
Property Address: 840 1 <sup>st</sup> Street, NE			
<b>ORIGINAL ASSESSMENT</b>		<b>FINAL ASSESSMENT</b>	
Land	13,645,630	Land	13,645,630
Building	106,858,050	Building	106,858,050
Total	\$ 120,503,680	Total	\$ 120,503,680

**Rationale:** The Real Property Tax Appeals Commission (RPTAC or the Commission) is charged with determining the estimated market value of the subject property as of January 1, 2015, the value date for tax year 2016. Pursuant to statute, the Petitioner must demonstrate by a preponderance of the evidence that the proposed assessment by the Office of Tax and Revenue (OTR) fails to represent the estimated market value of the property.

The subject of the appeal is a twelve-story, multi-tenanted, glass-enclosed office building located just south of the corner of 1<sup>st</sup> & K Streets, NE, near Union Station. The building was constructed in 2003 and, according to tax records, contains approximately 248,536 square feet (sf) of net rentable area (NRA). The property has a total land area of 32,802 sf that is zoned C-3-C. The property includes below grade parking for approximately 222 cars, a two story entrance lobby with stone flooring, and five (5) passenger elevators. The property has a contemporary design and appears to be in good condition. OTR classifies the property as a Class “A” asset. CoStar reports that the property was awarded the Energy Star Label in 2012 and 2015 for its operating efficiency.

The Petitioner believes OTR over-valued the property and filed its appeal based on the issues of *Equalization* and *Valuation*. The Assessor for OTR and the Petitioner both rely on an income approach analysis to support their estimates of the property’s market value. The Petitioner believes the assessment is too high because the Assessor made the following errors in his valuation analysis:

1. Imputed market office rent estimate of \$42.93/sf/NRA is too high and was miscalculated using a base rent of \$53.00/sf. If the Assessor had followed his own guidelines, the base rent should have been \$48.00/sf which would have been adjusted to \$38.88/sf based on the guidelines.
2. OTR’s expense allowance of \$2,380,505 or \$9.58/sf/NRA (excluding reserves of \$220,845) is too low and is well below the actual expenses that have been reported for the past three years. The Petitioner also points out that the expense allowance is well below OTR’s estimate that was given last year. The Petitioner believes that the expense allowance should be increased to the actual amount reported on the TY 2016 Income & Expense report totaling \$3,645,278 or \$14.67/sf/NRA.

## Legal Description of Property

Square: 0675 Lot: 0850

Property Address: 840 1<sup>st</sup> Street, NE

3. OTR's 8% vacancy rate, which is the same as last year's rate, is too low and does not reflect increasing vacancies in the market. The Petitioner states that it "appears" that OTR used a 9% vacancy rate in deriving its 2016 market derived capitalization rates and, therefore, the Assessor should have used a 9% vacancy rate in his analysis. The Petitioner also believes that the 9% vacancy rate should be applied to all sources of income.
4. OTR's Class "A" cap rate of 6.3% is too low and is not supported by any independent sources. The Petitioner also argues that the subject property is not comparable to the property sales that were used in OTR's cap rate study. The Petitioner estimates the appropriate cap rate at 7.25% based on Delta Associates "Cap Rate Study."

After a full review of the testimonies and the analyses presented by both parties, the Commission comes to the following conclusions:

1. The Commission views the building as a Class "A" office building. Considering that the competitive asking rents in the immediate area range between approximately \$46.00 to \$60.00 per square foot, and the asking rents within the subject building range between \$45.00 to \$49.00 per square foot, the Assessor's \$42.93 per square foot rate estimate appears to be reasonable.
2. The Commission finds that the subject building contains approximately 248,536 square feet of net rentable area (NRA). This square footage has been consistently reported on the Petitioner's Income & Expense forms submissions for the past two years. OTR's reported 245,936 sf amount could not be substantiated by the Commission.
3. The Commission views OTR's estimate for operating expenses to be based on market and not actual expenses. However, according to BOMA and Delta Associate estimates, which show a range of roughly \$10.00 to \$15.00/sf/NRA, the \$9.58/sf expense allowance applied by OTR appears to be unreasonably low, even though OTR pointed out that the reported management and security expenses are unusually high for a building of this size. Due to the building's age and awards for its operating efficiency, the Commission agreed to elevate the expense amount to \$11.00/sf/NRA or \$2,733,896. With the additional allowance for reserves based on 2% of PGI (\$223,077), the total expense allowance deduction amounts to \$2,956,973.
4. The Commission was not persuaded by the Petitioner's argument that OTR should use a 9% vacancy rate instead of the 8% vacancy rate because the 9% vacancy rate "appears" to be what OTR's used in its 2016 capitalization rate study.
5. The Commission was also not compelled to raise OTR's capitalization rate based on the results of the Delta Associates "Cap Rate Study." A capitalization rate should only be used in the same manner in which it was derived. It is clear that the OTR's Capitalization Rate Study and Delta Associates Cap Rate Study were accomplished using different methodologies. The fact that they differ does not prove that one or the other is incorrect.

The Commission recalculated OTR's analysis using the corrected square footage of 248,536 sf and the revised expense allowance of \$11.00/sf (excluding reserves). The result produced a new estimate of the property's market value of \$116,488,841. However, the Commission was unable to reduce the proposed assessment based on RPTAC's 5% rule. (the 5% rule contained in D.C. Official Code § 47-825.01 a(e)(4)(C)(ii) only authorizes the Commission to "raise or lower the estimated value of any real property which it finds to be more than 5% above or below the estimated market value" of the property). The new value estimate does not meet the 5% threshold. The Commission is therefore required to sustain the proposed assessment for TY 2016.

Government of the District of Columbia  
**REAL PROPERTY TAX APPEALS COMMISSION**

Notice of Decision

Tax Year 2016



Date: 12/15/2015

FP 840 FIRST STREET LLC FIRST POTOMAC REALTY TRU  
7600 WISCONSIN AVE FL 11  
BETHESDA, MD 208143657

**Square: 0675    Suffix:                    Lot: 0850**  
**Property Address: 0840 1ST ST                    NE**

This notice is to inform you of the result of your real property assessment hearing, which was held before the Real Property Tax Appeals Commission.

Your property's proposed market value based upon the first level appeal with the Real Property Assessment Division is:

2	13,645,630	3	106,858,050	4	120,503,680
Land		Improvements		Total Proposed Value	

**As a result of the hearing before the REAL PROPERTY TAX APPEALS COMMISSION, your property assessment is:**

5	13,645,630	6	106,858,050	7	120,503,680
Land		Improvements		Total Proposed Value	

Gregory Syphax - Commissioner  
Trent Williams - Commissioner  
May Chan - Commissioner

Petitioners have the right to appeal from an adverse decision of the Commission to the Superior Court of the District of Columbia under applicable provisions of the D.C. Code.

Appeals to the D.C. Superior Court must be filed no later than September 30th of the same tax year. In order to file an appeal with the D.C. Superior Court, petitioners must pay full year taxes to the Office of Tax & Revenue.