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Downtown Housing Zoning Amendments

a presentation to the

DC Zoning Commission

by the
DC Office of Planning

February 12th, 2001, 4pm



JUN 21 2001

ZONING COMMISSION
CASE NO. 00-301A
EXHIBIT NO. 43

Presentation Outline

- I. Summary of Proposed Amendments
- II. Current Housing & Office Dynamics
- III. Discussion of Combined Lot
- IV. Discussion of Residential Density
- V. Discussion of Recreation Space
- VI. Office of Planning's Recommendations



Text Amendments to Downtown Development District (DD)

- Relaxation of Combined Lot Transfer Regulations
 - Enables Office Development to proceed
 - Requirements – Covenant, Escrow, Time limit
- Removal of FAR Density Restrictions for housing developments in the DD
 - Limits based on Height Act, Lot Coverage, Building Codes
- Reduction of Recreation Space Requirement for Residential Buildings in the DD
 - Reduced to 5% of total square feet
 - With a potential buyout option for North of Massachusetts



Current Housing Market

Overall excellent conditions for housing including:

- Vacancy of Investment grade properties below 1.0 % (Delta Associates 7/00)
- Demographic interest in Urban living from empty nesters and young professionals
- Causing 20% appreciation of Condo/Coop prices between 3rd Qrt '99 and 3rd Qrt '00 (FHLMC)
- Premium luxury rents are capturing upwards of \$2.97/sf/month (Washington Post 1/4/01)
- Cost of permanent debt below 7.75%



Current Housing Market cont'd

- 2,905 housing units planned in or near downtown
- 1,400 are market driven with no public subsidy
- At least 1,000 appear to be very likely
- Capitalization Rates are between 7.0% and 10.0% depending on location, size, quality and other variables.
- Cap Rates have been dropping reflecting lower risk (note: expected deliveries and absorption rates may make rates more conservative).



Planned Housing Projects in and near Downtown (DD)

PROJECT NAME	LOCATION	STATUS	# OF UNITS	PROPOSED USE	PUBLIC SUBSIDY
5th & Massachusetts Ave Apts	5th & Massachusetts Ave, NW	Planned	450	Residential	no
Avalon at Gallery Place	770 5th Street, NW	Planned	220	Residential	no
Gallery Place	7th St, NW & H St, NW	Planned	173	Mixed Use	yes
Mather Building	916 G St, NW	RFP	73	Residential	yes
Wax Museum	5th St, NW & K St, NW	RFP	400	Mixed Use	yes
American Housing Partnership	4th St, NW & K St, NW	Planned	450	Mixed Use	yes
Massachusetts Court	4th St, NW & H St, NW	Planned	275	Residential	no
Salvation Army Site	5th St & Massachusetts, NW	Proposed	0	Residential	no
JPI - GSA Competition Sq 457	Square 457	Planned	405	Mixed Use	yes
Summit Grand Parc	900 15th St, NW	Planned	105	Residential	no
JBG E St Apartments	911-919 E St, NW	Planned	130	Residential	no
Residences at Gallery Place	710 6th St, NW	Proposed	0	Residential	no
Avalon at Gallery Place II	6th & H St, NW	Proposed	0	Residential	no
Norwitz Apartments	5th & New York Ave., NW	Planned	108	Residential	no
JBG - 12th & Mass	12th & Massachusetts Ave,	Planned	116	Residential	no
Newseum	6th & Pennsylvania Ave., NW	Proposed	0	Mixed Use	no
			2905		

Source: DCBIA, DC Office of Planning, January 2001.



Residual Land Value Analysis:

per square foot basis

		Commerical Office			High-Rise Apartments			Task Force
Rent/SF		\$45.00	\$45.00		\$21.60	\$21.60	\$21.60	\$22.06
Vacancy	5.0%	(\$2.25)	(\$2.25)	3.0%	(\$0.65)	(\$0.65)	(\$0.65)	(\$1.10)
Eff Gross Rent		\$42.75	\$42.75		\$20.95	\$20.95	\$20.95	\$20.95
Total Expenses		(\$13.00)	(\$13.00)		(\$6.00)	(\$6.00)	(\$6.00)	\$ (6.30)
NOI		\$29.75	\$29.75		\$14.95	\$14.95	\$14.95	\$14.65
Cap Rate		8.50%	8.00%		8.50%	8.25%	8.00%	9.50%
Total PV		\$350.00	\$371.88		\$175.91	\$181.24	\$186.90	\$154.24
Less Profit	12.0%	\$42.00	\$44.63	12.0%	\$21.11	\$21.75	\$22.43	
TDC		\$225.00	\$225.00		\$135.00	\$135.00	\$135.00	\$154.23
Land/SF		\$83.00	\$102.25		\$19.80	\$24.49	\$29.47	\$0.01

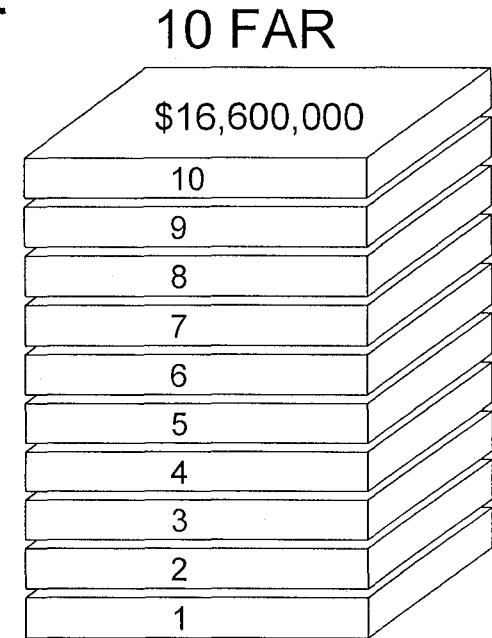
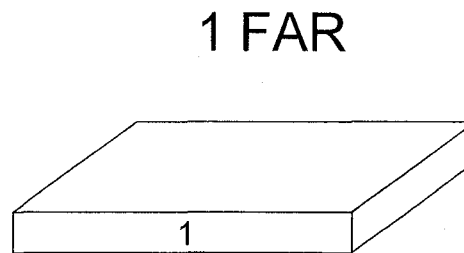
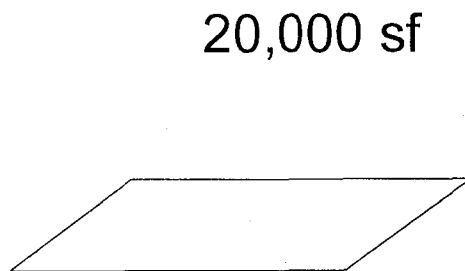
Source: Duffy, Dennis, *Land Prices: More Volatile Than Ever?*,

Pipeline, DCBIA, Vol. XXVII, November 2000, Pg 5

Task Force Source: ERA, Inc.

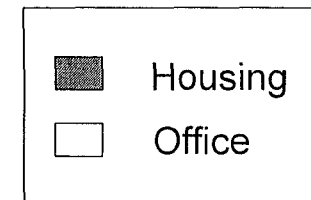


Land Value of 100% Office Site in DD/C-4: no housing requirement at \$83.00 / sf

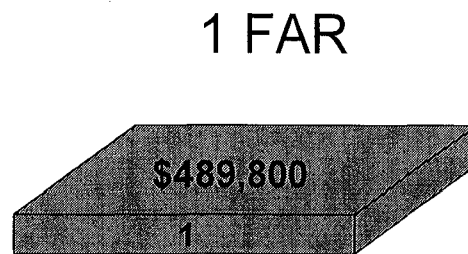
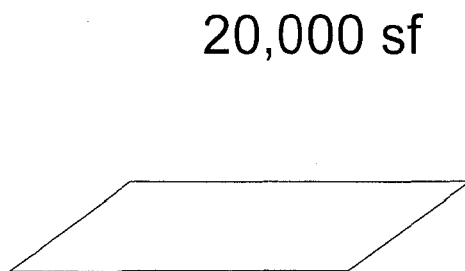


20,000 sf x 1.0 FAR of buildable space at \$83.00 = \$1,660,000 / floor

x 10.0 FAR (C-4) of = \$16,600,000
for 200,000 sf of total buildable space

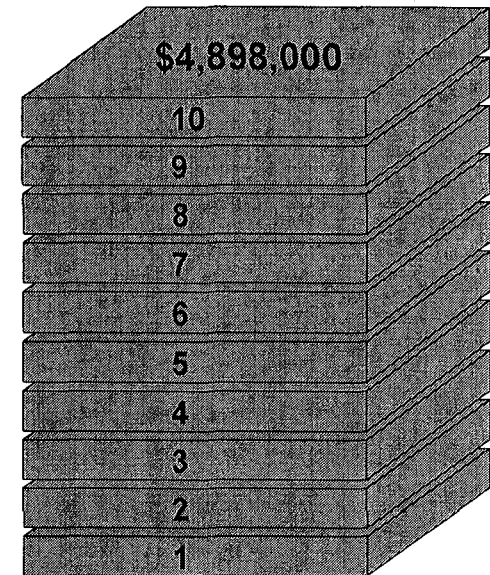


Land Value of 100% Housing Site in DD/C-4 at \$24.49 / sf (current regulations)



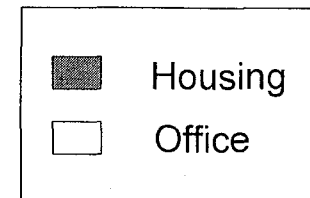
20,000 sf x 1 FAR of buildable space at \$24.49 = \$489,800 / floor

10 FAR (200,000sf)

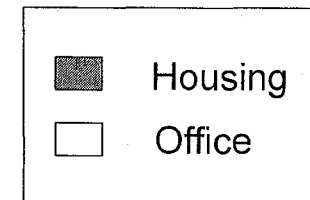
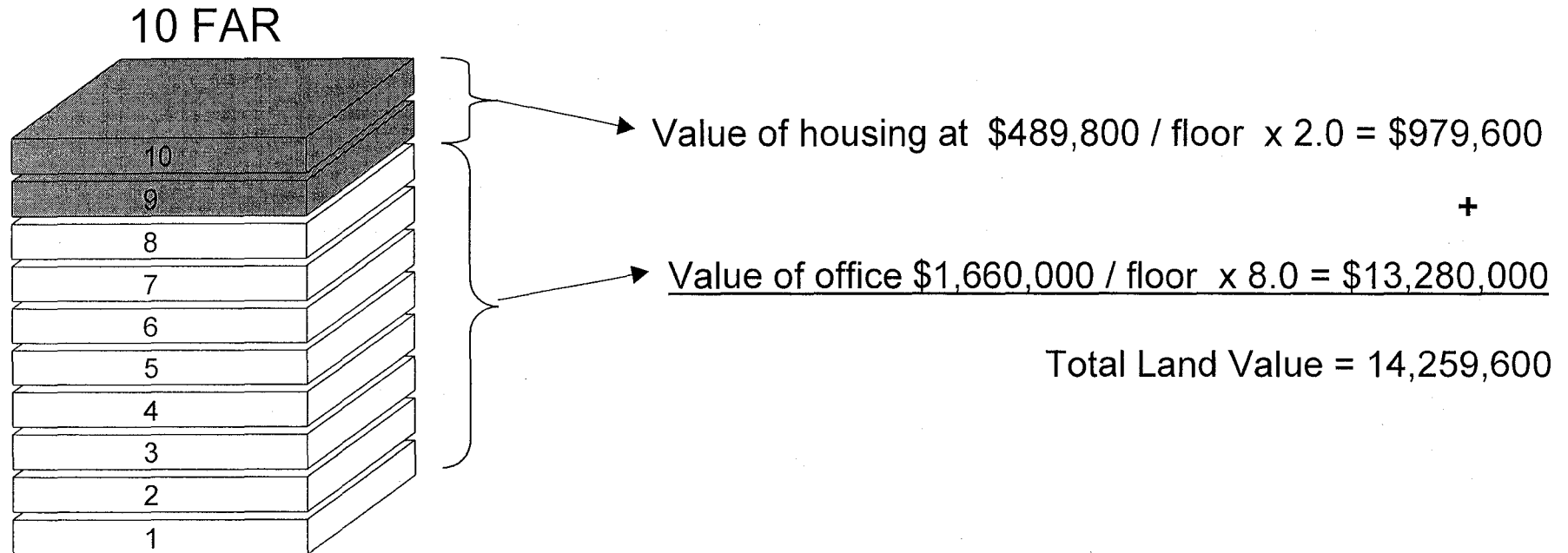


x 10.0 FAR (C-4) of = \$4,898,000*
for 200,000 sf of total buildable space

*Note: Does not include potential value of TDRs.
At \$18/sf x 200,000 sf x 2:1 ratio (south of Mass
Ave.) = \$7,200,000

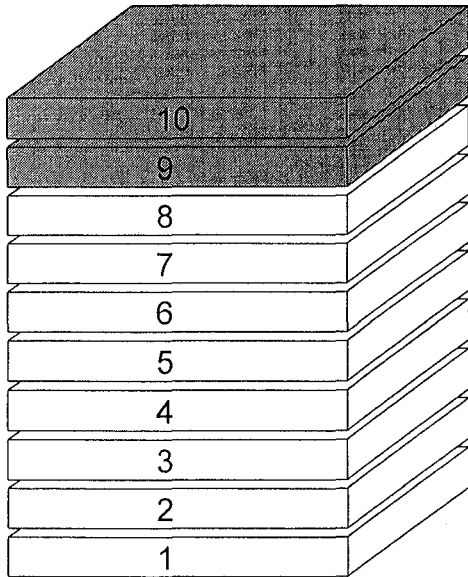


Land Value of Site in DD (C-4) with 2.0 FAR Housing requirement



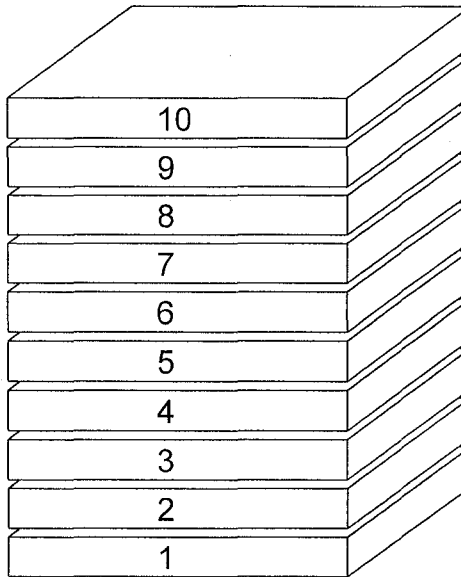
Land Value Comparison

10.0 FAR



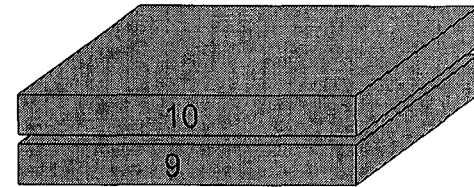
Value of land with housing requirement \$14,259,600

10.0 FAR

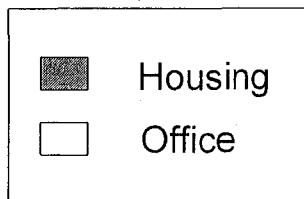


Value of land relieved of housing requirement \$16,660,000

2.0 FAR



Net Value to Office Developer after relief of 2.0 FAR of Housing = \$2,340,400 or roughly \$58/sf. Some portion of this will be paid to a housing site.



Land Value of 100% Housing Site in C-4 at \$24.49 / sf (proposed amendments)

Value of Land

240,000 sf (12.0 FAR) x \$24.49/sf = \$5,877,600

Value of Incentives

200,000 sf x \$18/sf TDR x 2:1ratio = \$7,200,000

40,000 sf x \$58.51/sf Combined Lot* = \$2,340,400

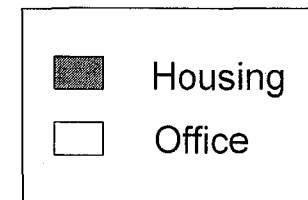
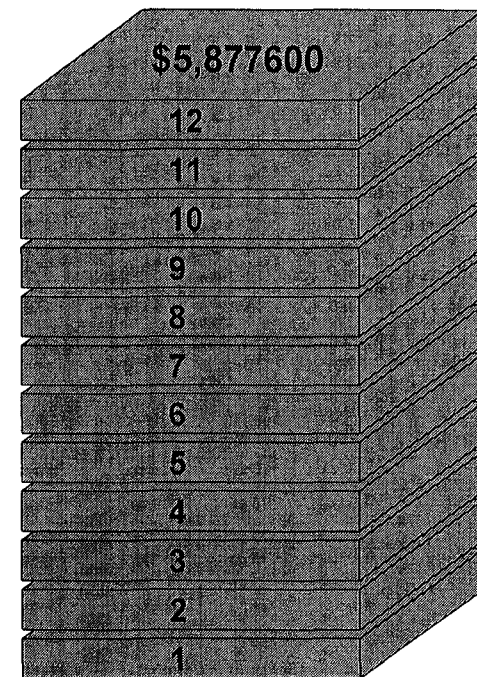
Total Value of Incentives = \$9,540,000

Note: Value of TDRs and Combined Lot should be discounted due to the following factors:

- A – TDRs are received after construction is completed. They cannot be counted as equity to reduce cost of construction debt. They can only be counted only as potential revenue.
- B – At \$2,340,400 the office developer is indifferent between building housing on site and paying a receiving site. True value is therefore less than \$2.3 million.

* -- However, a housing site could receive up to 160,000 sf of FAR housing requirement for a combined total of \$9,361,600.

12.0 FAR (240,000)



Combined Lot: The Issues

- A few housing projects are moving forward under the existing DD combined lot provisions. But regulations do require two very well funded entities or those who can self-finance (REITS) to complete the transaction.
- Increasing the timing flexibility could make things easier for less well-financed entities or those relying on debt financing.
- The concept that housing construction must be in approximately the same time frame as any linked commercial development is an important concept. Assuring continued availability of sites is key.
- Legitimate housing projects should be protected from competing for combined lot transfers with sites that have no intention of constructing housing.
- Escrow agreements and covenants giving the appropriate District entity review power are useful for minimal guarantee of housing delivery.
- A combination of escrow and covenant agreements would eliminate non-legitimate, or highly speculative housing projects from tying up valuable combined lot FAR.



Combined Lot: Task Force Changes



Combined Lot: Office of Planning Changes

Proposal:

Relax Combined Lot Transfer Regulations

- Enable Office Development to proceed without waiting for housing to receive it's a Certificate of Occupancy
- Require:
 - Covenant that documents the additional housing requirement on the receiving site
 - Escrow all compensation to be released upon certification of 50% completion.
 - Escrow will have a time limit of 5 years with an 8 extension. Upon expiration The District shall have the right to use the money to finance housing elsewhere in the DD



Residential Density Requirements

Proposal

- Eliminate FAR requirements for residential developments in the DD/C-2-C, DD/C-3-C and DD/C-4 zones.



Residential Density Requirements

Rationale for Change

- Encourage the production of residential units by lifting FAR restrictions.
- FAR requirements are more restrictive on residential than commercial because of differing ceiling height requirements.
- Releasing FAR requirements for residential developments can provide enough additional units to:
 - Make properties that would be marginal under existing regulations developable
 - Lower the operating costs for a project by distributing the cost among more units



Residential Density Requirements

➤ PROS

- Increases number of housing sites that can be developed
- Increases number of housing units that will be produced in a development

➤ CONS

- Impacts on light and air
- Increases the overall bulk of buildings in the DD



Residential Density Requirements

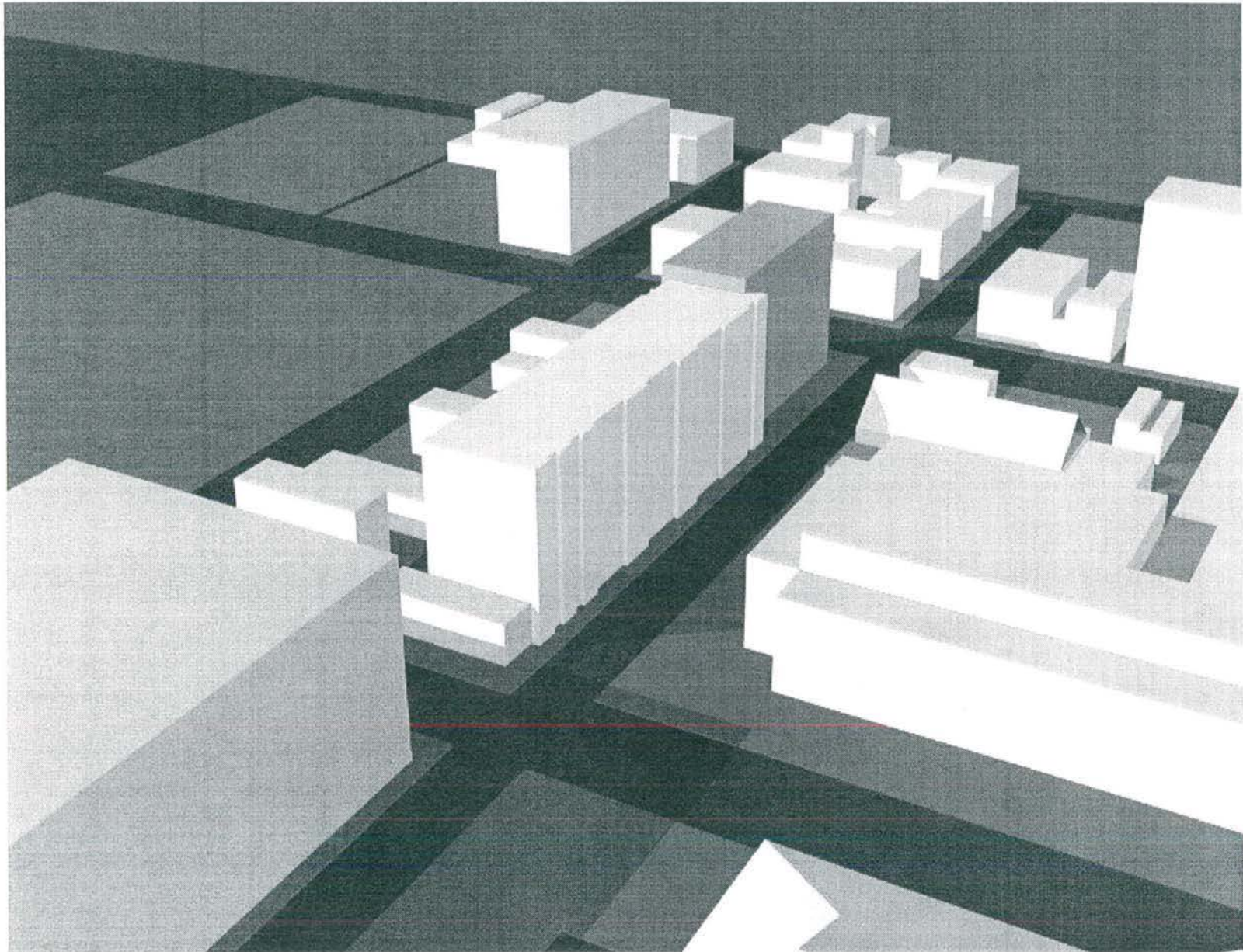
Light and Air

- Court yard requirements still in effect
- Light and Air requirements of the building code will still come into play
- Market forces will ensure quality of development

Bulk

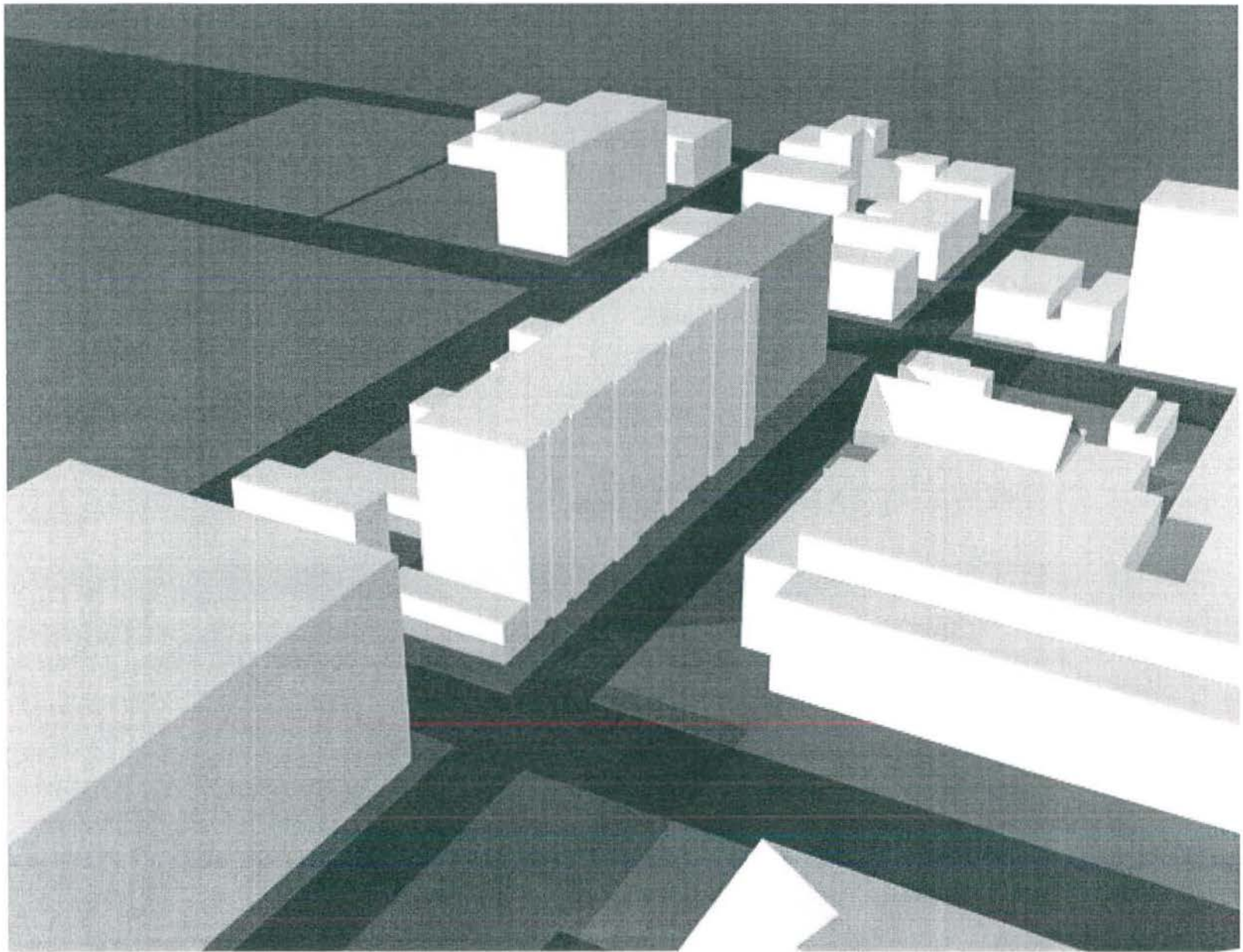
- Height, yard, lot occupancy and light/air requirements will still control bulk
- Because of ceiling height differences the bulk increase over a commercial development is relatively small





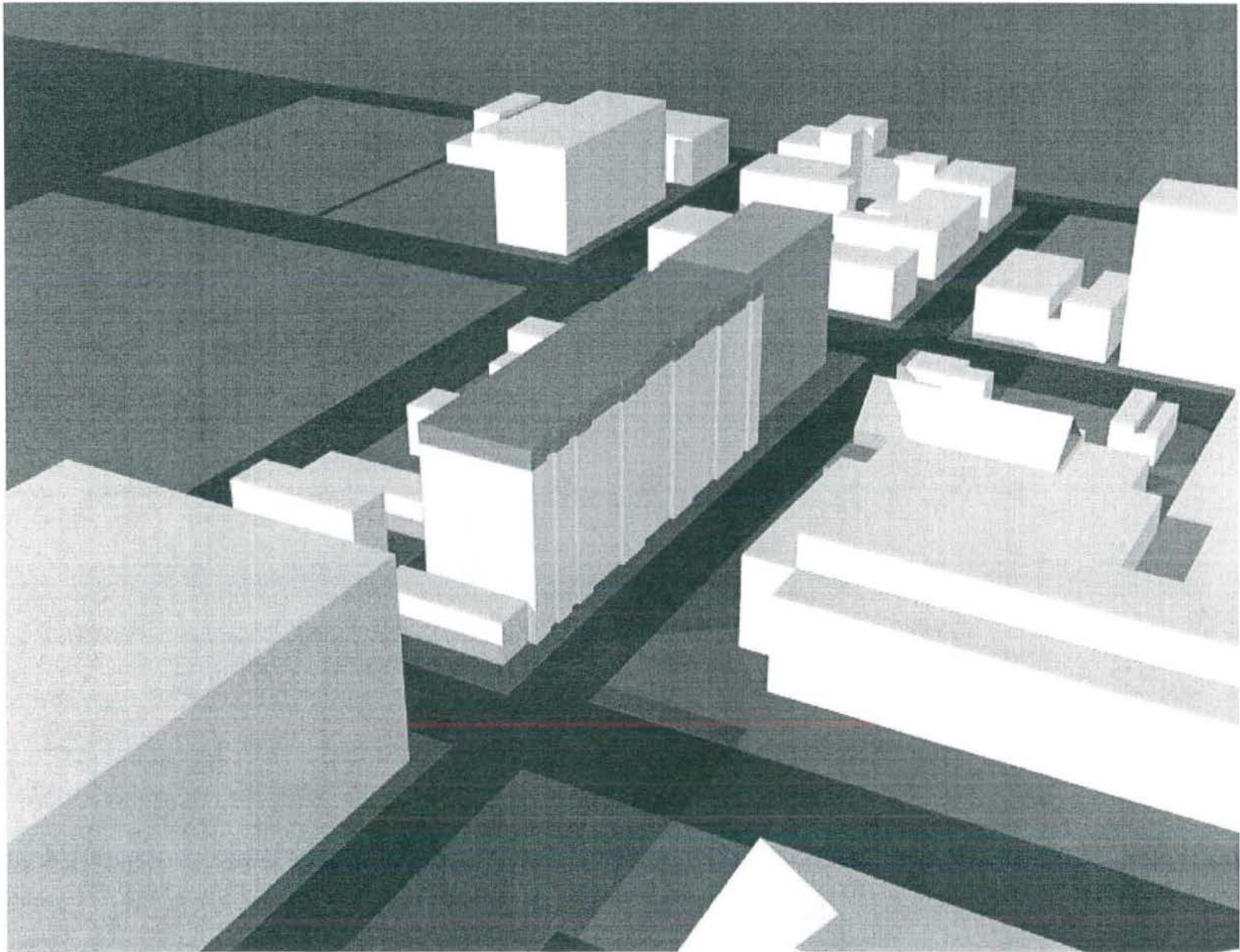
Example: Building with Current FAR





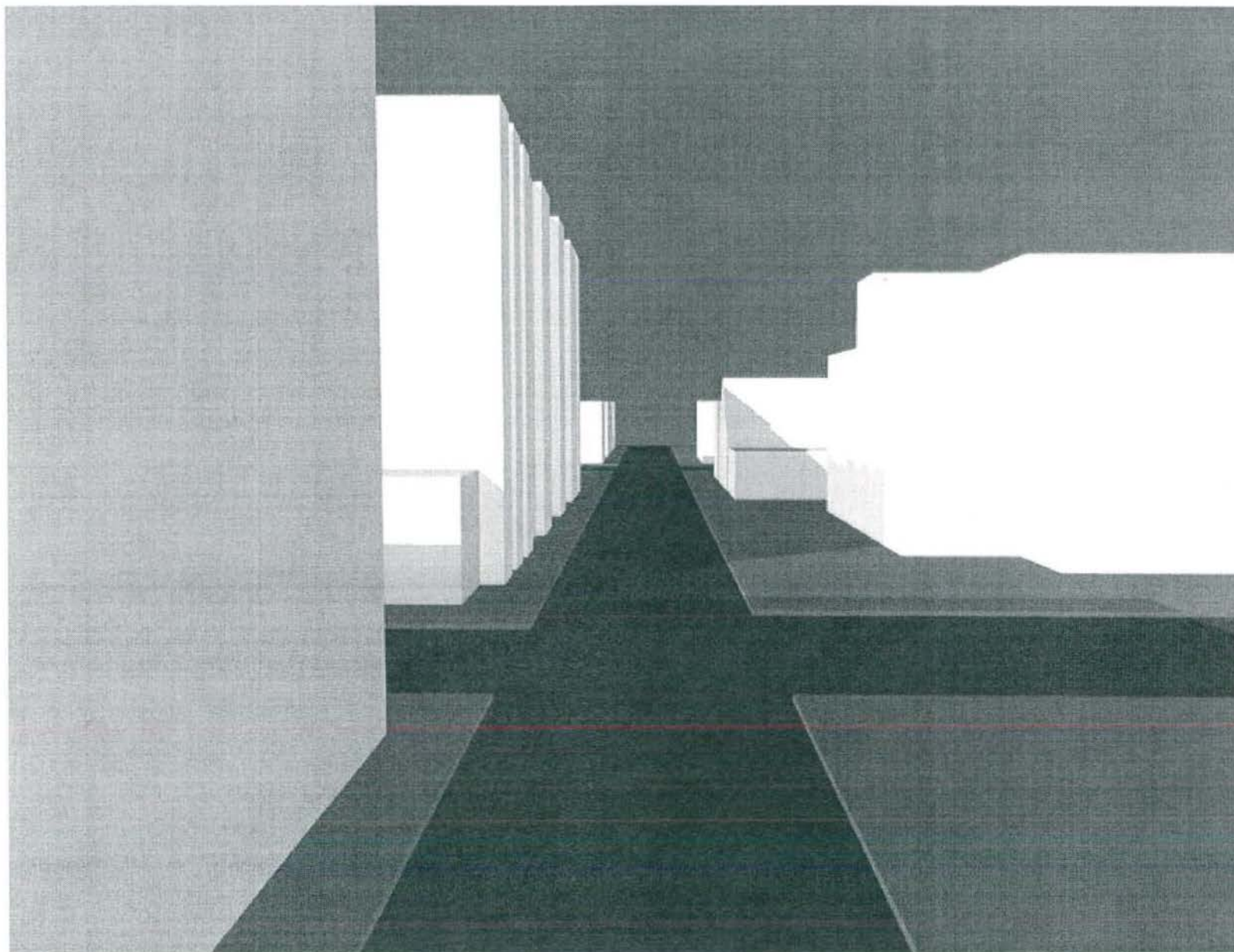
Building w/BONUS DENSITY





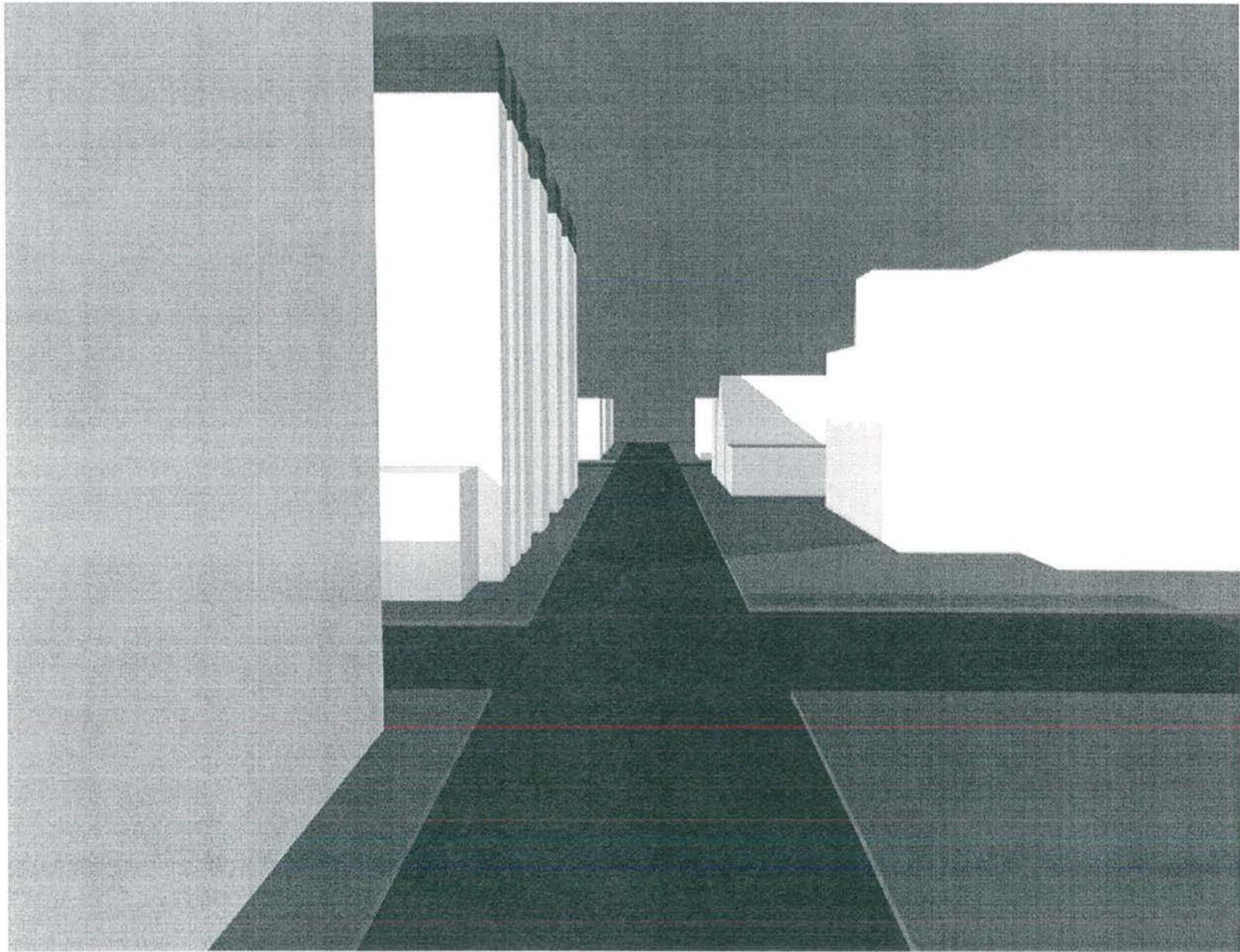
Building w/BONUS DENSITY





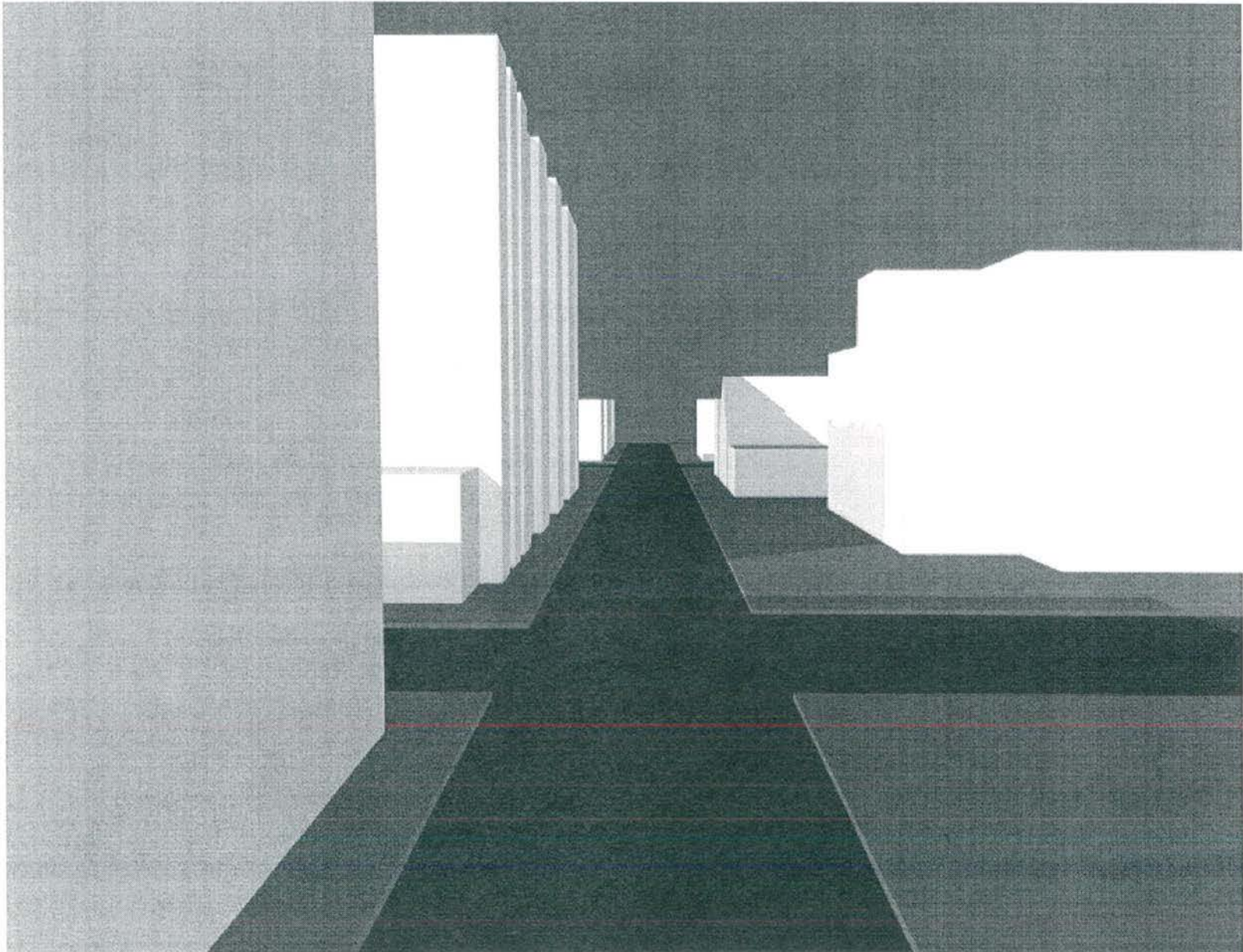
Building with Current FAR





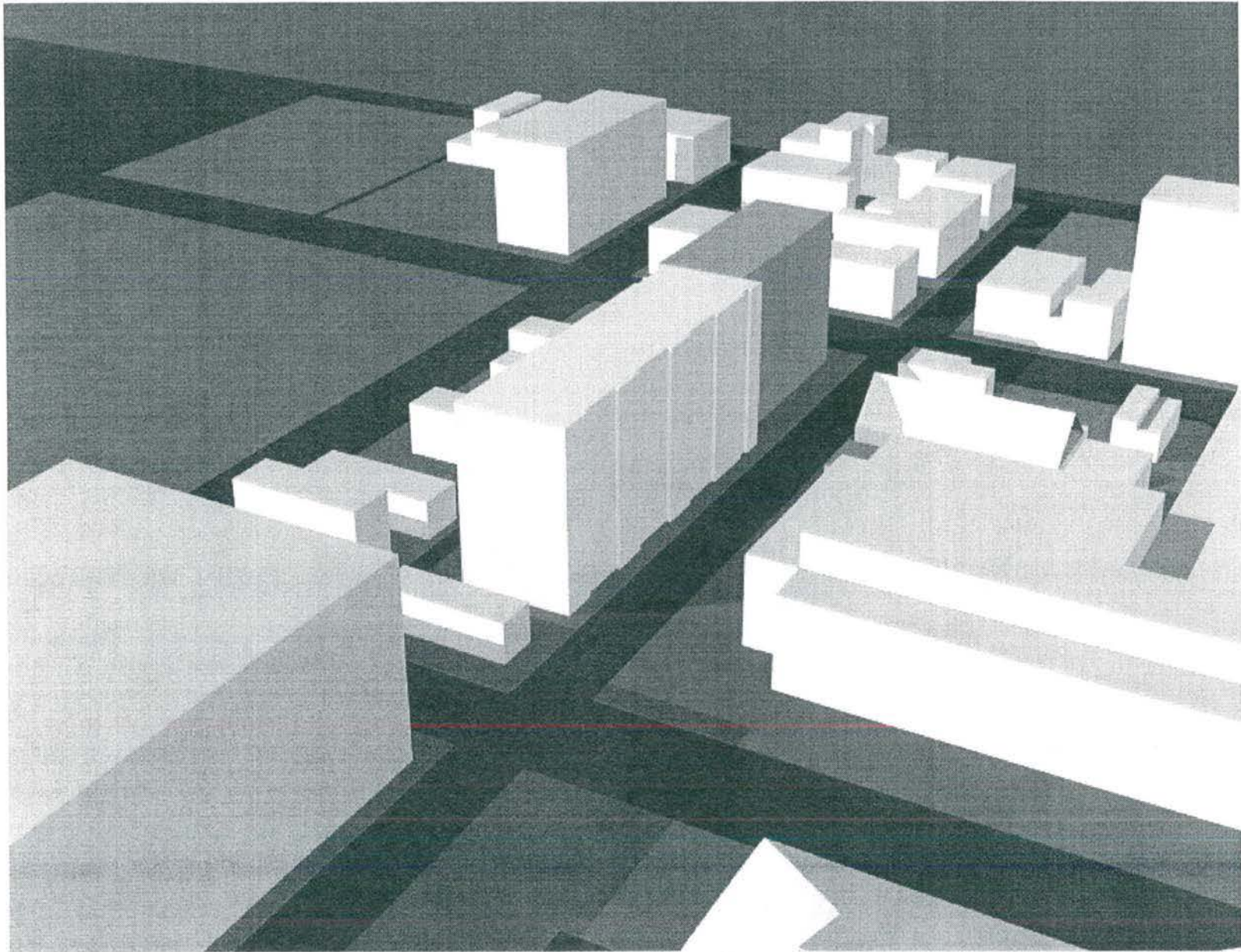
Building w/BONUS DENSITY



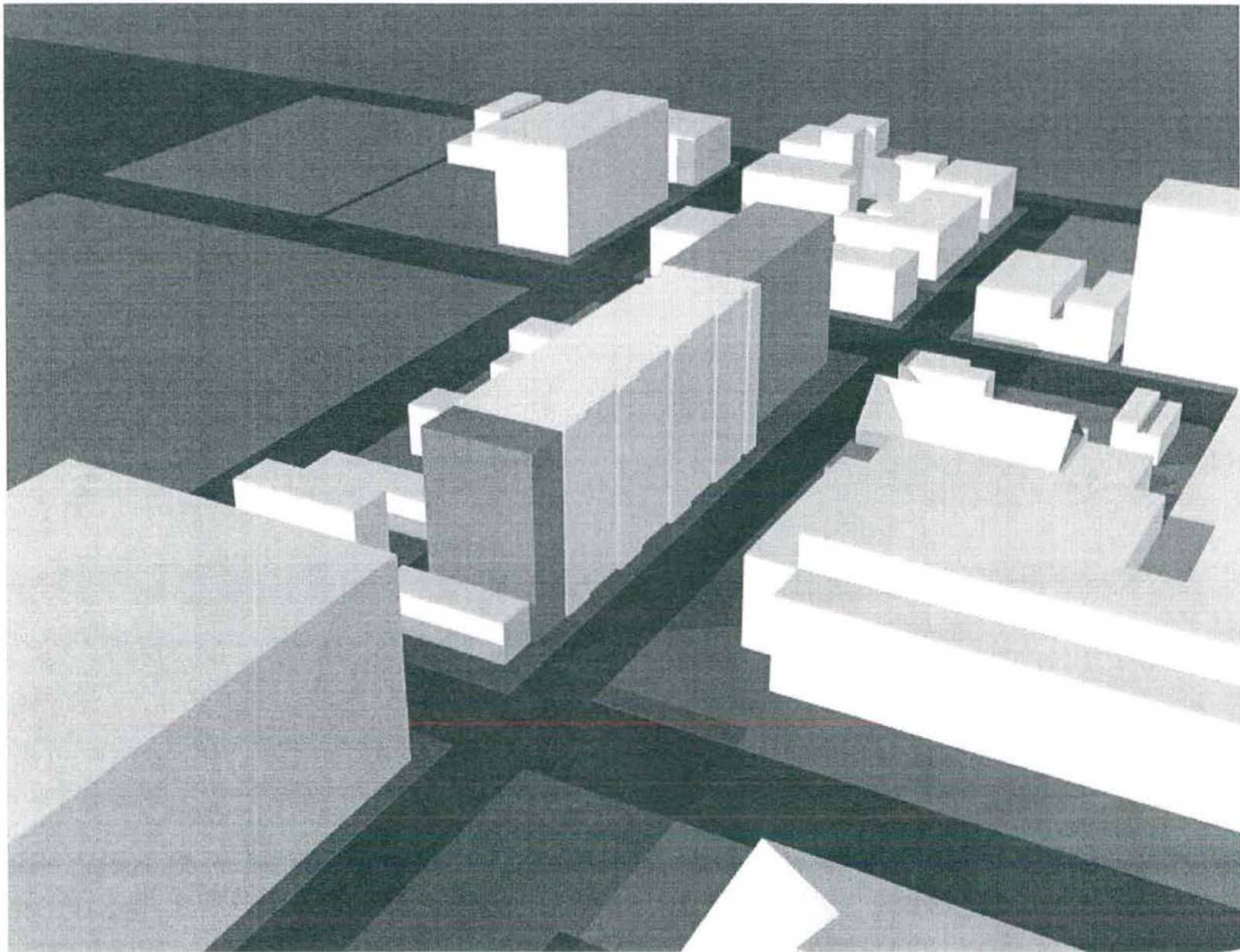


Building w/BONUS DENSITY



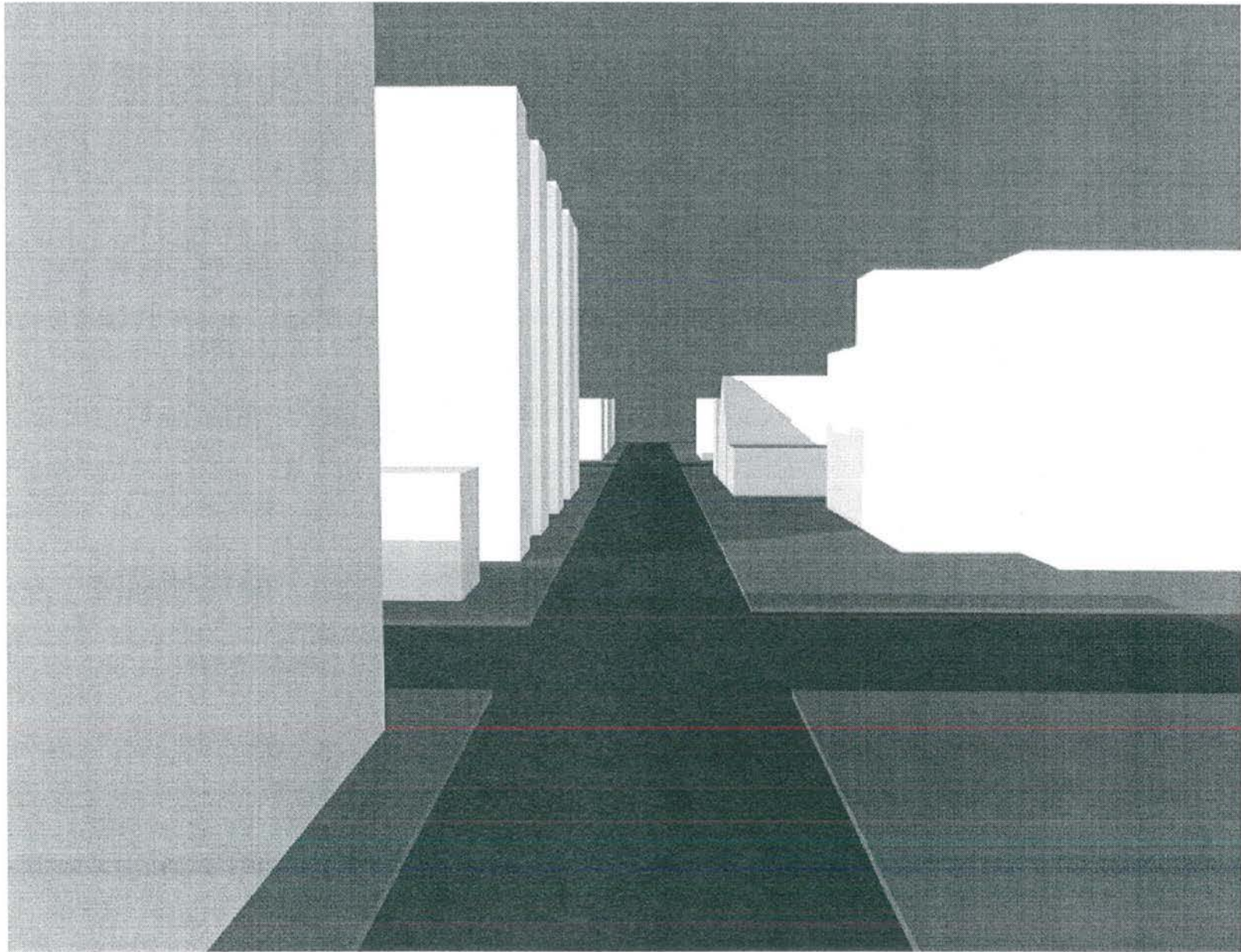


Building with Current FAR

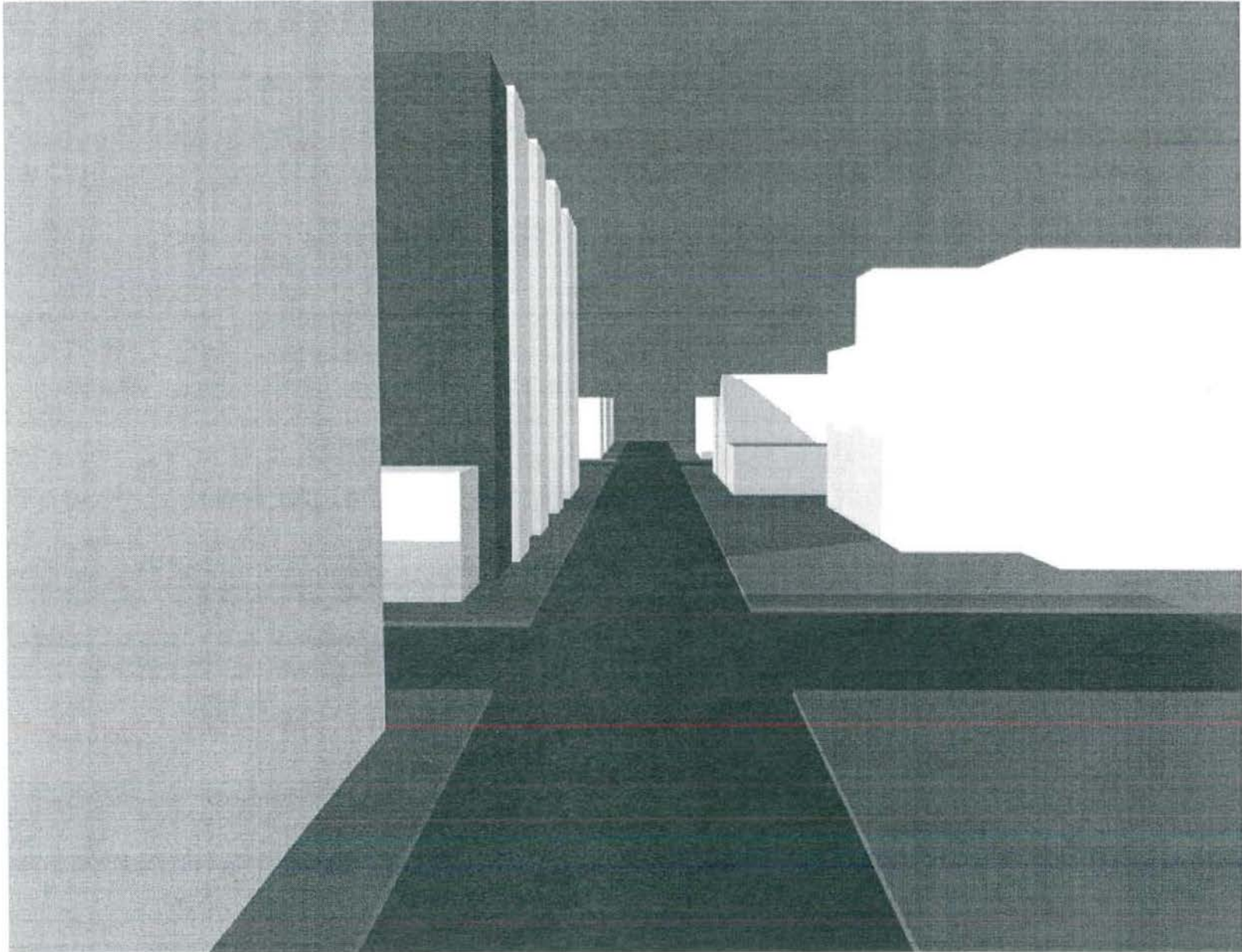


Building w/BONUS DENSITY



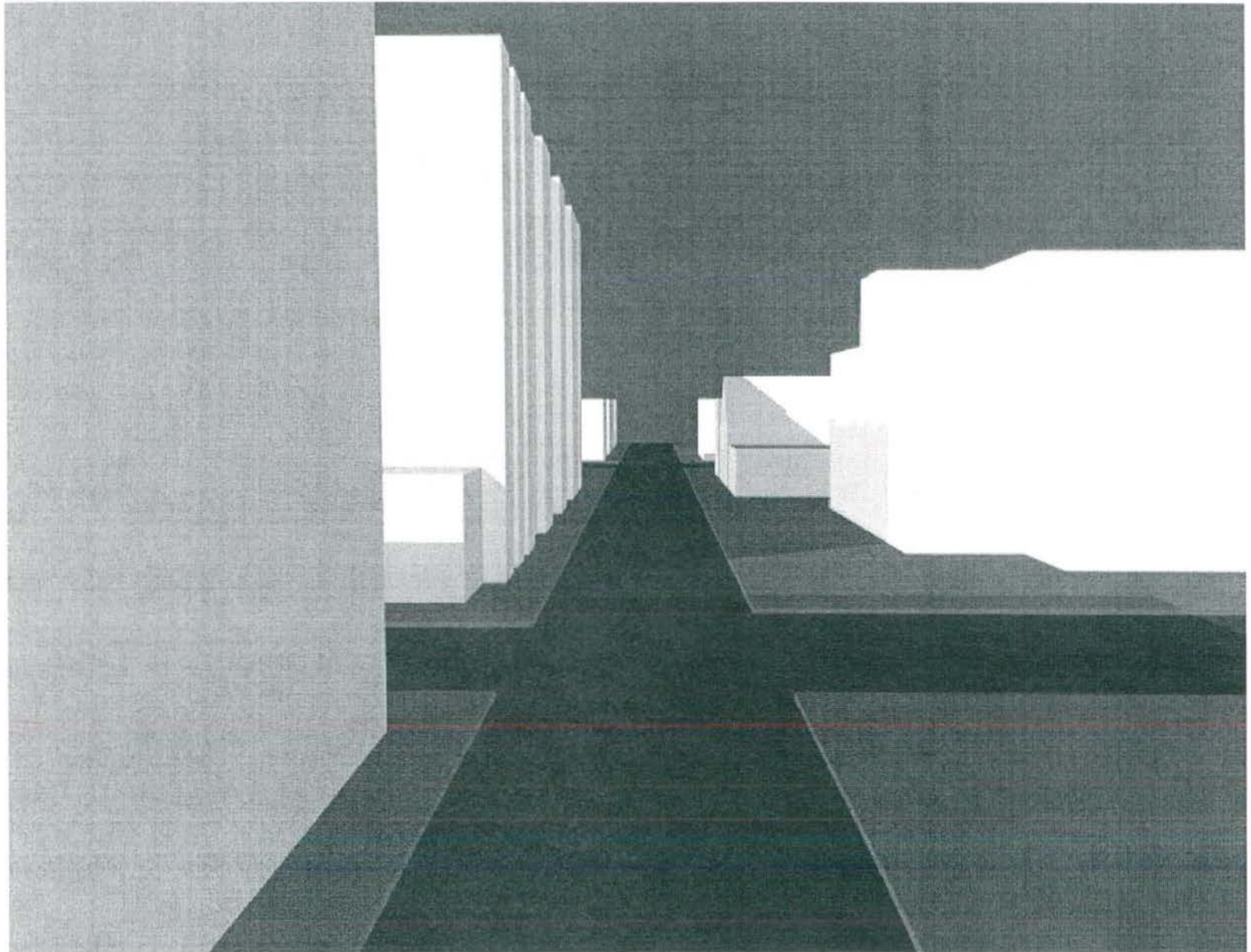


Building with Current FAR



Building w/BONUS DENSITY





Building w/BONUS DENSITY



Residential Density Requirements

Caveats

- Retain the benefit of extra housing units by allowing them to be counted in a combined lot or TDR transaction
- Retain the character of the historic district.



Residential Density w/10 % Affordable Housing: for North of Massachusetts Ave.

Many jurisdictions across the country have required a small percent of affordable housing units in exchange for extra density bonuses. These included San Francisco, Boston, New Jersey and others.

The Task Force recognized this would be an added burden for housing in its effort to compete with office use and the Task Force gave it little discussion beyond the needed for additional incentives. For this reason the Office of Planning has only offered it has an alternative to be considered for North of Massachusetts.

The following are the results of a pro forma analysis to determine the impact on housing development in the DD



Who Needs Affordable Housing?

Washington DC Metropolitan Area Median Family Income & Occupational Wages

Area Median Family Income

Family of 4 = \$ 82,800

Family Size	50% of AMI		80% of AMI	
	Income	Sample Job Description*	Income	Sample Job Description*
1	\$ 28,200	Medical Assistant	\$ 35,150	Teacher
2	\$ 32,250	Property & Claims Examiner w / 1 child	\$ 40,150	Paralegal w / 1 child
3	\$ 36,250	Computer Programmer Aide w / 2 children	\$ 45,200	Dental Hygenist w / 2 children
4	\$ 40,300	Groundskeeper & Maid w / 2 children	\$ 50,200	Bus Driver & Receptionist w / 2 Children
5	\$ 43,500	Delivery Truck Driver & Pharmacy Tech. W / 3 children	\$ 54,200	Camera Operator & Emergency Dispatcher w / 3 Children

*Source: 1998 Bureau of Labor Statistics



10% Affordability Analysis

Assumptions/Results	Market Rate	10% of Base Density Affordable:
Affordability	Market	30% of income for Households 80% of AMI
FAR Density	8.5(207 Units)	11.0(270 units; 21 Affordable)
Avg Rent / SF	\$2.17	\$2.14
Cap Rate	8.0%	9.5%
Total NOI	\$2,978,291	\$3,738,253
Required Equity(includes land)	\$12,329,899	\$14,235,929
IRR (12 year period before taxes)	15.38%	12.87%



Recreation Space Requirements

Summary: The DD increased the permitted Density for all developments and created a housing requirement in the Housing Priority Areas.

DISTRICT	BASE DENSITY	DEVELOPMENT DISTRICT BONUS	MINIMUM RESIDENTIAL REQUIREMENT	RESIDENTIAL BONUSES	MAXIMUM DENSITY
C-2-C	6	2	4.5	0.5	8.5
C-3-C	6.5	3	3.5	0.5	10
C-4	8.5	1.5	2	0.5	10.5

Proposal: Reduce Recreation Space Requirement to 5% for residential housing in the DD



DD Affect on Recreation Space

This added density did not take into account the affect on the recreations space of housing developments.

DISTRICT	LAND AREA	MAXIMUM FAR	TOTAL SQ FT	RECREATION REQUIREMENT	REQUIRED REC SPACE
C-2-C	20,000	6	120,000	15%	18,000
DD/C-2-C	20,000	8.5	170,000	15%	25,500
C-4	20,000	8.5	170,000	5%	8,500

As seen by the chart above it results in recreation space greater than one entire floor of space and 3 times what the equivalent base zoning would require.



Supporting Factors for Reduction

South of Massachusetts

- Many public recreational activities exist south of Massachusetts Avenue such as the Mall, Judiciary Square, and John Marshall Park. There are also restaurants, retail, museums, etc.
- The "eyes on the street" concept of pedestrians and vibrant activity is weakened if residents primarily use private recreation space.
- Ground floor open space is prohibitively expensive where land costs are high. In addition, it reduces space for ground level retail, needed for street vitality and necessary retail services.

North of Massachusetts

- Fewer public and recreational opportunities exist.
- Reduction to 5% for open space fund could contribute to the revitalization of Housing Priority Area A and provide greater public space for neighborhood.
- This option did receive support at from several stakeholders, but a buyout price per square foot was never determined and would need additional research.



Summary of Recommendations

Combined Lot Transfers

- Require recordation of a covenant binding the “receiving” site to construct an amount of housing equal to the commercial development rights, which are being transferred.
- Require establishment of an escrow account to hold transaction funds until 50% completion of the housing project has been certified.
- If the required housing is not completed within 5 years, the escrow monies are deposited in the Housing Production Trust Fund for construction of housing within the DDD boundaries.



Summary of Recommendations cont'd

Residential Density

- Residential housing projects in designated Housing Priority Areas in the DDD may be relieved of their density restrictions, so long as the building height is consistent with the Act to Regulate the Height of Buildings of 1910 except on properties listed in §1707.4 (Historic District) or individually designated landmarks.
- The extra density should not be eligible to generate TDR's, engage in Combined Lot Transfers or meet the minimum housing requirements.



Summary of Recommendations cont'd

Recreation Space Requirement

- The residential recreation space requirement should be reduced to 5% in zone districts DD/C-2-C and DD/ C-3-C for Housing Priority Areas B & C.
- Housing Priority A requirements should be reduced to 5% in zone districts DD/C-2-C and DD/C-3-C, however the Commission should consider an option of allowing this only if developers make a contribution to an open space fund.

