

**CENTER for
COMMUNITY CHANGE**

**Zoning Commission Case No. 04-33
Inclusionary Zoning
August 1, 2005**

CLARIFICATION OF ISSUES RAISED IN PUBLIC HEARING

ZONING COMMISSION
CASE No. 04-33
EXHIBIT No. 126

Why should private developers help to solve the affordable housing crisis?

No one has suggested that a mandatory inclusionary zoning policy alone will completely solve the affordable housing crisis. But adopting IZ and promoting other ways to produce or preserve affordable housing are NOT mutually exclusive, in fact, many of the members of the Campaign have been active in other efforts to increase the supply of affordable housing, including securing funding for the Housing Production Trust Fund, ensuring opportunities for tenants to purchase their buildings, and increasing local funding for the District's rental voucher program in the face of federal cuts. Just because IZ won't alone solve the crisis is no reason not to adopt a mandatory program that will play a significant role in producing new affordable housing units, integrating neighborhoods, and providing an opportunity for low and moderate income residents to become homeowners and build wealth.

Further, our proposal is based on the principle that developers would NOT be "burdened" by including affordable units in exchange for the right to build more units in their development projects. In fact, because we based our proposal on conservative cost calculations, many developers could even be financially better off in a MIZ world, especially if the housing market cools off, given the overwhelming demand for affordable units. The benefit of compensating developers through bonus density is that it has real economic value to developers, but comes at little to no public cost.

As for claims that an IZ program would have modest effect in terms of the number of units produced, based on figures being used by the Comprehensive Housing Strategy Task Force to determine the level of investment needed to produce affordable units, an IZ program that generated even 300 units a year (a conservative figure) would be equal to a public investment of at least \$18,750,000 and possibly twice that amount -- costs that depend on identifying and acquiring land that will provide an opportunity to build that housing in the first place.

Doesn't subjecting low and moderate income residents to control periods make them second-class citizens?

Our proposal provides that for the length of the control period -- twenty years -- a household that secures an IZ unit will be permitted to resell the unit at an affordable price to an income qualified purchaser. At the time of sale, the homeowner will receive the appreciation in value of their original investment and the cost of any capital improvements made to the property attributable to

the CPI. In addition, since the sale price is tied to the AMI, the homeowner will enjoy increased value as the AMI increases over time.

At the time of sale *at the end of the control period*, the homeowner receives, in addition to recovering their original purchase price and the value of capital improvements indexed to the CPI, half of the equity that has accrued to the property. **ADD EXAMPLE OF VALUE OF ½ APPRECIATION**

Additionally, during that time the family has received all the usual benefits of homeownership: stable housing costs, which will allow them to save any increases in household income that they might enjoy, and the value of the mortgage interest deduction and real estate tax deductions in reducing their taxable income. Sharing the equity with the Housing Production Trust Fund after the control period expires balances the social goal of helping families build wealth with the recognition that at that point, the unit is being lost **forever** as affordable housing. With the affordable housing shortage producing the pressures on low and moderate income households that have been described in the last two days of hearings, securing an IZ unit is like winning the lottery. With so many people holding tickets hoping for some relief, it would be unconscionable to let the “winners” lucky enough to get a unit to then benefit a second time by enjoying the windfall profits that the real estate market is generating by cashing out that unit into the unrestricted market, to the detriment of the next family in the lottery waiting for a chance to secure affordable housing.

We’ve also talked about the value of IZ in producing stable, mixed income communities, and there has been much testimony, both from those who would potentially reside in those units and those who would be their neighbors about the value of that goal, even though it can’t be valued in dollar terms. Reducing the control period, and/or increasing the equity a household could immediately retrieve from the property would undermine the stability of the neighborhood, promoting the kind of real estate speculation that is occurring today across the income spectrum, providing incentives for people to cash out rather than make a long term financial and psychic investment in their neighborhoods, and doing little over the long term to produce significant numbers of affordable units.

Finally, it’s worth pointing out that no one will be forced to purchase an IZ unit. Families that want to invest and cash in on the real estate market are free to compete in the housing market for that opportunity.

Are people limited to paying 30% of income for their housing? Can they choose to pay more (e.g. up to 40-42%)?

The CMIZ proposal contains no limit on the amount that an individual household may pay toward rent or a mortgage. Rather the maximum rent or sale price was calculated using 30% of income (a standard used in the administration of local and federal housing programs) for an income-targeted household (i.e. either 50% AMI or 80% AMI). But nothing precludes an otherwise qualified household with income at, for example, 45% or 70% AMI from spending more than 30% of their income to rent or purchase an IZ unit. It would be up to the mortgage

company or the rental management company to determine whether assumption of housing costs at this level was financially feasible for the household, but nothing in the proposal would preclude the parties from making those arrangements. Setting the maximum price at 30% of targeted household income also helps to ensure that a family will have the financial resources to cover any increases in condo fees or maintenance costs that may arise.

Why cover affordable housing projects as well as market rate developments?

The CMIZ proposal would require all housing developments with ten (10) or more units to provide a percentage of units affordable to low and moderate income residents, including developments with affordable housing. Any affordable units in the project would count toward the IZ requirements so long as they reach the same income targets. There is a deterrence rationale for this requirement: if IZ requirements were not applied to affordable housing projects, the exemption would create a huge loophole in what has been proposed as a mandatory IZ program; market-rate developers would have an incentive to put one affordable unit in the project, call it an “affordable housing project” and thereby be exempt from the requirements. Applying the requirements to units in legitimately affordable projects will have minimal effect, since in most cases the requirements will overlap with the requirements attached to other programs. Most affordable housing projects today are built as mixed-income developments. In cases where the planned affordable housing does not meet the IZ requirements, the developer could still take advantage of a density bonus to produce additional market rate units if necessary to cover any costs associated with additional affordable units, just as the market rate developments would be covered. Finally, when compliance with the affordability requirements would impose a significant economic hardship on the affordable housing developer, s/he could apply for a variance or waiver from the IZ requirements, on the ground that the project is providing a comparable amount of affordable housing.

Although the administrative aspects of the IZ program will be determined by the Council, rather than the Zoning Commission, we have recommended that administration of the program be delegated by the Mayor to the Department of Housing and Community Development, which administers the Housing Production Trust Fund, Community Development Block Grant, HOME, and part of the Low Income Housing Tax Credit programs in the city, which generally fund affordable housing projects. Any reporting requirements established to enable DHCD to monitor and enforce IZ affordability requirements could and should be consistent with reporting requirements for these programs, minimizing any costs and burden associated with IZ units. Further, the administrative process that we have proposed is integrated into the normal marketing timelines for the property.

Do condo fees make homeownership prohibitive for lower income households?

The affordability calculations that provide the basis for the CMIZ proposal included reasonable condo fees in the financial resources that targeted households could afford to direct toward housing costs, while limiting those costs to no more than 30% of the household’s income. Therefore, targeted households could choose to direct more of their household income toward

housing and pay increases in condo fees. Additionally, on an informal basis, the Council is favorably considering amending District law to provide for the calculation of condo fees on a par value.

Purpose Indicate an amount of cash received by households selling their IZ units during the 20 year control period (at years 7 and 15)

I EXAMPLE OF SALE AFTER 7TH YEAR

A \$95,000 MORTGAGE AMOUNT

Example #1

Assumptions

Sales Price	100000	
Mortgage Amount	95000	Assuming 5% down, 7 and 1/2% mortgage rate
Ownership Period	7 years	(average ownership period nationally)
CPI Annual Increase	0 03 percent	(new, lower rate since 2002)

Sale Price end of Year 7	122,987
Mortgage Balance	<u>87,361</u>
Cash To Sellers	35,626

Example #2

Same assumptions as above but with

CPI Annual Increase	0 05	(more traditional rate of 80s and 90s)
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Sale Price end of Year 7	140,710
Mortgage Balance	<u>87,361</u>
Cash To Sellers	53,349

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B \$135,000 MORTGAGE AMOUNT

Example # 3

Assumptions

Sales Price	150000	
Mortgage Amount	135000	(10% down in this case, still 7 & 1/2% mortgage rate)
Ownership Period	7 years	
CPI Annual Increase	0 03	

Sale Price end of Year 7	166,033
Mortgage Balance	<u>124,144</u>
Cash To Sellers	41,889

Example #4

Same Assumptions as above but

CPI Increase of	0 05
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Sale Price end of Year 7	189,959
Mortgage Balance	<u>124,144</u>
Cash To Sellers	65,815

Purpose Indicate an amount of cash received by households selling their IZ units during the 20 year control period (at years 7 and 15)

II EXAMPLE OF SALE AFTER 15TH YEAR

A \$95,000 MORTGAGE AMOUNT

Example # 5

Assumptions

Sales Price	100000
Mortgage Amount	95000 Assuming 5% down, 7 and 1/2% mortgage rate
Ownership Period	7 years (average ownership period nationally)
CPI Annual Increase	0 03 percent (new, lower rate since 2002)

Sale Price end of Year 15	157,797
Mortgage Balance	<u>71,870</u>
Cash To Sellers	85,927

Example # 6

Same assumptions as above but with

CPI Annual Increase	0 05	(more traditional rate of 80s and 90s)
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Sale Price end of Year 7	218,288
Mortgage Balance	<u>71,870</u>
Cash To Sellers	146,418

B \$135,000 MORTGAGE AMOUNT

Example # 7

Assumptions

Sales Price	150000
Mortgage Amount	135000 (10% down in this case, still 7 & 1/2% mortgage rate)
Ownership Period	7 years
CPI Annual Increase	0 03

Sale Price end of Year 7	210,326
Mortgage Balance	<u>102,132</u>
Cash To Sellers	108,194

Example # 8

Same Assumptions as above but

CPI Increase of	0 05
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Sale Price end of Year 7	280,655
Mortgage Balance	<u>102,132</u>
Cash To Sellers	178,523