

ZONING COMMISSION
District of Columbia

CASE NO. 04-33
EXHIBIT NO. 182

Affordable Housing Alliance

April 21, 2006

Ms. Carol Mitten, Chair
Commissioners Hildebrand, Hood, Jeffries, and Parsons
Zoning Commission of the District of Columbia
441 4th St. NW, Suite 201
Washington DC 20001

Re: Case No 04-33, Inclusionary Zoning

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Dear Chairperson Mitten and Commissioners,

On behalf of the Affordable Housing Alliance (AHA), thank you for your long hours and hard work on Inclusionary Zoning (IZ). We are deeply gratified that the District is about to get a mandatory IZ program, as outlined in the March 10, 2006 proposed regulations. The AHA and its member organizations have been strong supporters of the Campaign for Mandatory Inclusionary Zoning (CMIZ) since the beginning. I write to send you our comments.

The DCOP, the Council of the District of Columbia, and the more than fifty organizations and unions in the CMIZ have also invested thousands of person-hours, years of work to create an IZ program. It is important, therefore, that all this effort results in a program that gets us the most affordable units possible, with the longest possible period of affordability. Only then can IZ make a significant addition to DC's permanent stock of affordable housing and contribute over the coming years to the creation and preservation of mixed income neighborhoods. All of our comments on the proposed regulations are made with these considerations in mind.

Most importantly, the Zoning Commission's proposal to make the IZ affordable units permanently affordable is a measure of immense value. This provision contributes to the building of a *permanent* stock of affordable housing and helps maintain stable, mixed-income neighborhoods over time. With few exceptions, members of the Affordable Housing Alliance believe the Commission does not have to choose between permanent affordability and the home-owner's opportunity to build equity. The Commission can do both, by calling for annual increments in value – determined by any of three measures: by the CPI (4% in 2005 in the Washington/Baltimore area), by purchasing power (most recently at 3.8%), or by a fixed per cent, such as 3% or 4%. Any of these alternatives offers the fortunate

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home-owner of a subsidized IZ unit a very good return on his or her investment
For example.

The fortunate Brown family is able to purchase an affordable home for \$250,000, and gets a CPI annual increase (4%) in value. If they decide to sell it after 15 years, it's value is \$450,225, a return on investment of 80% If the Browns own it for 20 years, its value to them upon sale is \$547,775, a return of 119% If kept for 30 years, the home has a value of \$810,850, a 224% return for the Browns This value would change, of course, if the CPI were to rise above or fall below 4% for the Washington/Baltimore area. Please see the attached Appendix for examples based on other indices

Even examples based on a lower index of annual accumulation of value (i e , the owner's "equity" in the home) would bring a solid return on his or her investment. The limited increase in value would also be the home's assessed value for purposes of determining the annual property tax, thus protecting the home-owner against potential large property tax increases in a hot market.

There should be no exceptions on the length of affordability for classes of builders or types of housing. Some smaller non-profit developers who rarely build developments of ten or more units will not be covered by IZ Others who do build more than ten units and can not make their financing work with permanent affordability should be permitted to appeal on the basis of hardship and easily get a waiver, hopefully through an expedited appeals procedure IZ is meant to produce more affordable units in the city, not to penalize the primary producers of such housing.

Second, we believe it would be a mistake to exempt PUDs from IZ. Doing so would reduce by 150-300 units per year the number of affordable units produced The history to date of PUD's production of affordable units is *not* encouraging! Currently, PUDs receive an average of 30-40% bonus density – sometimes as high as 80-100% bonus density – which should provide sufficient opportunity to achieve both affordable housing and other PUD goals. PUD history of building affordable units reminds us of the minimal number of affordable units achieved elsewhere in the country by *voluntary* IZ programs – a concept the Commissioners have already rejected. Indeed, making IZ mandatory for PUDs, and giving them bonus densities by right, will protect developers from the pressure “numbys” often bring to bear

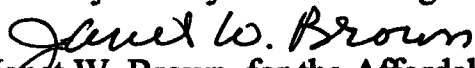
during negotiations.

Third, the income maximum in high rise buildings should be reduced below 80% AMI (\$72,200 for a family of four). The Commission's proposed exclusion of eligible low-income households at 60% AMI (\$54,200 for a family of four) is not justified on financial grounds according to the financial analysis offered by developer Jim Campbell of the Somerset Development company in his testimony before the Commission on July 27, 2005 (and never publicly refuted by the other private developers' or DCOP's testimony). We consider it discriminatory that no moderate income family of four or senior retiree living on \$37,900 should ever hope to live in a high rise with a view of the Potomac. We respectfully ask that the Commission reconsider its position on this and support a requirement that half of the affordable units in high rises be offered at 60% AMI and half at 80%.

Fourth, we ask that the Zoning Commission permit IZ units to be smaller than market rate units, providing the affordable units meet prescribed minimums. This would make it possible to increase the number of affordable units in some types of developments – for instance, in very upscale large condominium units. Producing more smaller units could also reduce condo fees that are determined by square foot.

Finally, we hope you will reconsider the CMIZ proposal that public agencies and qualified non-profit housing providers be given the first right to purchase or rent up to 25% of the units for sale or rental to lower income families. It is not likely in the present market that any agency or non-profit will have the resources to take advantage of this provision, but it would leave open the possibility that in a different market, when developers may have more trouble filling their vacancies, the provision would give us more affordable units and to serve populations with special needs, a program that has worked in Montgomery County and elsewhere.

Thank you for your continuing attention and your hard work. Sincerely,


Janet W. Brown, for the Affordable Housing Alliance
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The DC Affordable Housing Alliance is a broad coalition of more than thirty organizations of housing advocates and developers, tenants, financial institutions, advocates for children and families and for the homeless, and other community organizations, working together for affordable housing, especially for low-income households

APPENDIX

Building Equity in Permanently Affordable Housing – Examples

The Green family purchases an IZ unit for \$300,000 on which the annual rate of increase in value is determined by the annual purchasing power index in Washington, currently 3.8%. They sell their home after 15 years, by which time their home is worth \$524,910, or a 75% return on investment. If they keep the home 20 years, their home is valued for purpose of figuring their equity at \$632,520, a 111% return. If kept 30 years, it's worth \$918,420, a 206% return. (This result would vary, of course, with annual changes in purchasing power.)

The Whites purchase that same \$300,000 home with an annual fixed rate of increase of 3%. They sell after 15 years for \$467,391, a 56% return on investment, at 20 years for \$541,833, an 81% return; at 30 years for \$728,178, a 143% return. (In this case, of course, the annual rate of increase is fixed.)

This accumulated value – the owners' "equity" in their home – is calculated by the formula for calculating compound interest: The value of the house after n years is $P(1+r)^n$, where P = the purchase price of the house, r = the annual rate of increase in the value of the owner's investment. Details for three annual rates for \$250,000 and \$300,000 properties are given below

Purchase Price \$250,000					Purchase Price \$300,000				
Annual Increase	If Sold after (yrs.)	Compound Factor	Increased Value	Percent Increase	Annual Increase	If Sold after (yrs.)	Compound Factor	Increased Value	Percent Increase
4.00%	15	1.8009	\$450,225.00	80.09%	4.00%	15	1.8009	\$540,270.00	80.09%
	20	2.1911	\$547,775.00	119.11%		20	2.1911	\$657,330.00	119.11%
	30	3.2434	\$810,850.00	224.34%		30	3.2434	\$973,020.00	224.34%
3.80%	15	1.7497	\$437,425.00	74.97%	3.80%	15	1.7497	\$524,910.00	74.97%
	20	2.1084	\$527,100.00	110.84%		20	2.1084	\$632,520.00	110.84%
	30	3.0614	\$765,350.00	206.14%		30	3.0614	\$918,420.00	206.14%
3.00%	15	1.55797	\$389,492.50	55.80%	3.00%	15	1.55797	\$467,391.00	55.80%
	20	1.80611	\$451,527.50	80.61%		20	1.80611	\$541,833.00	80.61%
	30	2.42726	\$606,815.00	142.73%		30	2.42726	\$728,178.00	142.73%