

DC CAMPAIGN FOR MANDATORY INCLUSIONARY ZONING

June 30, 2005

Endorsing Organizations

Affordable Housing Alliance
ANC1B
BB&T Bank
Bread for the City
Calvary Multilingual Learning Center
Center for Community Change
Central American Resource Center
(CARECEN)
Clean Water Action
The Coalition of Nonprofit Housing
and Economic Development
Coalition for Smarter Growth
DC ACORN
DC Action for Children
DC Coalition for Rent Control
DC Jobs with Justice
Development Corporation of Columbia
Heights
East of the River CDC
East of the River Family Strengthening
Collaborative
Emmaus Services for the Aging
Empower DC
The Enterprise Foundation
Friends of the Earth
Gray Panthers of Metro Washington
Greater Washington Americans for
Democratic Action
Green Door
Habitat DC
Healthy Families Thriving Community
Collaborative
Jews United for Justice
Jubilee Enterprise
League of Women Voters, DC Chapter
Local Initiatives Support Corporation
Metropolitan Washington Council,
AFL-CIO
Mi Casa
Nation's Capital Child and Family
Development Center
Neighbors' Consejo
PolicyLink
SEIU, Locals 82 and 722
Shaw Education for Action
Sierra Club, DC Chapter
So Others Might Eat (SOME)
South Washington West of the River
Family Strengthening Collaborative
Statehood Green Party
Teamsters Local 639
Tenac
Tenant Action Network
UFCW Local 400
University Legal Services
Ward 3 Smart Growth Coalition
Washington Legal Clinic for the
Homeless
Washington Regional Network for
Livable Communities

Ms. Carol Mitten
Chair, Zoning Commission

441 4th Street, NW
Suite 210
Washington, DC 20001

Re: Case No. 04-33

Dear Ms. Mitten:

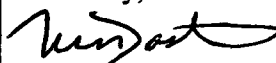
Attached please find supplemental materials in support of the DC Campaign for Mandatory Inclusionary Zoning's petition for a text amendment to require the provision of affordable housing through inclusionary zoning. Enclosed are the following:

- A memorandum describing the process and policy goals that formed the basis for our proposal, and briefly analyzing the mandatory IZ proposal offered by the Office of Planning.
- A list of witnesses that will present our case on the 25th and a brief statement of the issues they will address.
- Interfaith Statement of Support
- Resolutions and letters of endorsement we have collected from a number of ANCs (not exhaustive of all that have been passed).
- Supportive reports, including:
 - "Squeezed Out: The Worsening Housing Shortage for Low-Income DC Residents." DC Fiscal Policy Institute, 2005 (executive summary).
 - Housing in the Nation's Capital 2004. Urban Institute and Fannie Mae Foundation (excerpts).
 - "Expanding Housing Opportunity in Washington, DC: The Case for Inclusionary Zoning." PolicyLink, 2003.

We look forward to presenting our case at the public hearing on July 25th. In the meantime, if you have any questions or requests, please contact Nina Dastur at 202-339-9335, Tonya Love at 202-857-3414, or Cheryl Cort at 202-244-1105.

Thank you for your consideration.

Sincerely,



Nina K. Dastur
Center for Community Change
for the D.C. Campaign for Mandatory Inclusionary Zoning

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**DC Campaign for Mandatory Inclusionary Zoning
Supplemental Materials for Case No. 04-33 "Text Amendments To Require the Provision
of Affordable Housing – Inclusionary Zoning"**

MEMORANDUM: PROCESS AND POLICY GOALS

Background

The DC Campaign for Mandatory Inclusionary Zoning ("Campaign") includes more than 56 housing advocacy groups, labor leaders, social service providers, civic associations, and policy organizations that came together to advocate for a mandatory inclusionary zoning ("IZ") policy to be adopted in the District of Columbia. On November 17, 2004, following almost three years of research, investigation, outreach and discussion, the Campaign submitted a petition for a text amendment to the Zoning Commission that would establish a mandatory IZ program. The key elements of our proposal are outlined in the chart below. This memo lays out the process and policy goals that formed the basis for those elements that will be considered by the Zoning Commission pursuant to the Notice of Public Hearing.

KEY COMPONENTS	
Affordable Housing Set-Asides	Inclusionary requirements shall apply to both ownership and rental projects with ten (10) or more dwelling units with the following percentages of units set aside as affordable: • 15% of the market rate units for new construction other than mid and high rise structures • 12% for mid and high rise structures (defined as buildings of 5 or more stories, of concrete and/or steel frame construction, with elevator service) • 7.5% for substantial rehabilitation projects This law would become applicable to developments in the downtown development district, which is currently zoned out to the Congressional height restrictions, as of January 1, 2008.
Developer Compensation and Cost Reduction Strategies	Developers can elect to take a matter-of-right density bonus calculated at approximately 20% extra FAR, provided through an affordable housing overlay in multi-family zones In order to reduce housing construction costs and promote less costly transportation alternatives in covered development projects: • Condo/cooperative fees should be split to separate out essential building operation and maintenance costs from recreational and amenity costs to reduce the fees for the affordable units. • Parking requirements should be reduced and "unbundled" from purchase and rental prices Developers may use less expensive interior finishes on affordable units

Income Targeting & Household Selection	Half of units must be affordable to households at 50% of Area Median Income (currently \$42,700 for family of four) and half at 80% of Area Median Income (\$68,320) To make units affordable to lower income households: • The DC Housing Authority and qualified non-profits have the first right to purchase or rent up to 40% of inclusionary units • Any of the rental units not optioned by the DCHA or nonprofits that are affordable to households at 50% AMI will be prioritized for a separate lottery of Housing Choice Voucher holders on the IZ waiting list who indicate interest in the units. If there are no voucher holders to rent them, the unclaimed portion of the 40% IZ units would be distributed to the general applicant pool Residents of inclusionary units shall be determined by lottery based on unit and household size from income-qualified applicants. Residents must recertify their eligibility on a bi-annual basis.
Construction Requirements and Alternatives	• Developers are required to build inclusionary units within the larger market rate development • Production of affordable and market rate units should proceed simultaneously • Exceptions will be made only when the developer can demonstrate that on-site development would create undue economic hardship. The major examples of hardship include but are not limited to: ▪ Retirement housing communities with expensive, bundled services, ▪ Developments with high condo fees that cannot be reduced to "affordable" levels even after non-essential amenity and recreational costs are separated out in order to meet the affordability required for targeted income groups. When exceptions are granted, the administrative agency may authorize the developer to • construct the same number of units off-site, either within the same Ward or within two miles of the development project, or • make an "in-lieu" payment to the Housing Production Trust Fund equal to the difference between the average market price of the unit and the price that would be affordable to a qualified applicant A developer may apply for an exemption from the requirements of the program where compliance would deprive the developer of all economically viable use of the property.
Design Standards for Inclusionary Units	Affordable units must be similar to and compatible with market rate units in outward appearance and in number of bedrooms, but size of affordable units may be reduced to a minimum standard, e.g. for apartments, the minimum sizes could be: • Efficiencies at 450 sq. ft • One bedrooms at 600 sq. ft • Two bedrooms at 850 sq. ft. • Three bedrooms at 1,050 sq. ft • Four bedrooms at 1,120 sq. ft. Townhouse, multiplex, and single family units would generally be larger than these minimums due to developer design and compatibility goals. Interior finishes, appliances, and amenities need not be compatible with market rate units.

Affordability Control Periods	To build a stock of affordable housing, encourage neighborhood stabilization, and promote economic and racial diversity • Owner-occupied affordable units shall be affordable to income qualified families for 20 years, with annual increases in sales prices determined by the administering agency, based upon the Metro Area CPI. • Owner-occupied housing sold after 20 years will provide the seller with half the appreciated value of the home that remains after allowing for (1) the increase in CPI multiplied by the cost of the unit for the length of ownership and (2) repayment to the owner for capital improvements. The other half of the proceeds from the sale will flow to the Housing Production Trust Fund to support the production of affordable housing. • Rental Housing will remain affordable for 50 years and rents can be increased annually at no more than the increase in the Metro Area CPI. These rate increases will be set annually by the Mayor, based upon recommendations by the Department of Housing and Community Development.
Administration and Enforcement	• Qualification, selection, and referral of households to inclusionary units shall be conducted centrally by DHCD, which shall be empowered to administer the IZ policy and appropriately resourced to carry out its responsibilities. • A portion of the proceeds from "in-lieu" payments and post-control period resale proceeds flowing to the Housing Trust Fund can be used for the administrative and marketing expenses of running the IZ program • DHCD will monitor effectiveness of IZ policy implementation and report regularly to the Council and the public. • Affordability restrictions will be applied through covenants recorded against the inclusionary units.

Why Adopt a Mandatory Program?

Despite arguments, particularly from the development community, that any IZ program adopted should be voluntary, the Campaign concluded that to be effective – that is, to produce affordable housing units – an inclusionary zoning program in the District of Columbia must be mandatory. First, where they have been adopted throughout the country, voluntary inclusionary zoning programs have not proven to produce affordable units in significant numbers. In fact, a number of jurisdictions have switched from voluntary to mandatory policies precisely because the voluntary programs were producing few if any units.¹ Second, voluntary programs are

¹ As one author writing in a publication of The National Housing Conference noted, "There are many jurisdictions that have voluntary, or incentive-based, inclusionary zoning ordinances. The problem is that most of them, because of their voluntary nature, produce very few units." "Inclusionary Zoning: A Viable Solution to the Affordable Housing Crisis?" Bernard Tetreault, *New Century Housing*, The Center for Housing Policy of the National Housing Conference, October, 2000. Similarly, the National Association of Realtor acknowledges that "voluntary programs rarely succeed." "Inclusionary Zoning: The missing piece to the affordable housing puzzle," Doug Porter, *On Common Ground*, Winter 2003, www.realtor.org.

In California, 107 jurisdictions use local inclusionary housing practices to encourage affordable housing (beyond the requirements of the requirements of California's "Community Redevelopment Law" which requires "redevelopment agencies" to ensure that between 15 and 30 percent of new residential units in "redevelopment areas" are affordable). According to a recent survey, only six percent of those jurisdictions have voluntary programs. None of these jurisdictions were among the most productive jurisdictions, and in fact three of them reported zero affordable

economically inefficient; in order to succeed in inducing developers to participate, incentives must be exceedingly generous, of a value beyond the actual cost of producing and operating the affordable units. This problem is exacerbated in especially lucrative estate markets like the District, where incentive-based programs have extreme difficulty competing with market forces. Finally, developers with whom we met, regardless of whether they supported IZ, all stressed that to be effective an IZ program had to be predictable and consistent. When set-aside requirements are predictable, a developer has a measure of security in calculating any costs associated with affordable housing requirements and the value of benefits provided in exchange, such as density bonuses or other zoning variances, and can appropriately value land costs. For similar reasons, when program requirements are consistently applied and a developer knows that a competitor will be subject to the same requirements and will be compensated with the same benefits, he can fairly compete to acquire land and finance his projects. A voluntary program, where incentives and affordability requirements are negotiated by the developer with a government agency like the Office of Planning (for example, in the PUD process) is neither predictable nor consistent. As a result, negotiations over the set-aside terms, income targeting levels and benefits adds speculation, risk, and time – and therefore money – to the project, especially when subject to a public process.

The Bases for Our Proposal

The Campaign developed its proposal based on three principles:

- First, we wanted to maximize the number of units that would be produced. We recognize that IZ is not a silver bullet that will solve the District's affordable housing crisis, but believe that a strong IZ program, as part of a comprehensive housing strategy, can produce new housing units to serve a significant portion of the need amongst low and moderate income residents.
- Second, we wanted to reach the deepest affordability levels possible – that is, to make units available to truly lower and moderate income households, reflecting the affordable housing needs of current residents. See "Squeezed Out: The Worsening Shortage of

units The cities of Long Beach and Los Alamitos directly blamed the voluntary nature of their programs for the stagnant production of affordable housing, despite an overall boom in market-rate housing. "Inclusionary Housing in California: 30 Years of Innovation," California Coalition for Rural Housing, and Non-Profit Housing Association of Northern California, 2003.

A number of jurisdictions have switched from voluntary to mandatory programs. Cambridge, MA had voluntary provisions (providing density bonus for affordable units) in several zoning districts across the city for 10 years; however, they had failed to create any affordable housing. In 1998, the city adopted a mandatory ordinance that applied citywide. Between implementation in late 1998 and June 2003, 131 affordable units were created, while another 130 were in the pipeline. "Cambridge Law Came After End of Rent Control," Roger Herzog and Darcy Jameson, *Inclusionary Zoning: Lessons Learned in Massachusetts*, National Housing Conference, January 2002. Boulder, Colorado had a voluntary inclusionary ordinance during the 1980s and '90s, but it was not effective; consequently, a mandatory ordinance was adopted in 2000. Between adoption and August 2003, 150 affordable units were built on-site, while an additional 150 affordable units were built through in-lieu fees. "Opening the Door to Inclusionary Housing," Mary Anderson, Business and Professional People for the Public Interest, June 20, 2003.

Affordable Housing for Low-Income DC Households.” DC Fiscal Policy Institute, attached. In particular, we wanted to ensure that the program helped to achieve one of the main benefits of IZ – preserving and creating stable mixed-income/economically-integrated communities – by targeting affordable units to households otherwise priced out of the housing market. When appropriately targeted, inclusionary zoning can help to address gentrification that is threatening to displace current residents from their communities.

- Finally, we wanted to balance any costs associated with the program with some form of compensation in order to mitigate any impact on developers and landowners. One option (perhaps the most straightforward way) to impose an IZ policy would be simply to “downzone” the city: that is, require that all residential projects include some number or proportion of affordable units, without regard to compensation, an approach that was recently adopted in San Francisco and San Diego. While this approach has great appeal, particularly given the difficulty in establishing actual development costs (due to some reluctance by developers to share information openly and thereby risk a competitive disadvantage in site acquisition) and the current strength of the District’s housing market, it was our sense that the downzoning model would be politically unfeasible based on the desire to continue and even expand the District’s economic rebound. According to our review of IZ programs around the country, the most common forms of compensation used in IZ programs are zoning variances, particularly density bonuses, that enable a developer to build more units than would otherwise be permitted as a matter of right. A density bonus enables the developer to build the original market rate development, and, using the extra density, construct affordable units as well as some additional market rate units, the profit from which can be used to cross-subsidize the affordable units, if needed.

These three principles are necessarily interrelated. To reduce rents and sales prices to levels affordable to lower income families often requires subsidies or compensation to cover construction, operating and maintenance costs. One way to reduce these costs is to lower the set-aside requirements, but doing so comes at the loss of affordable units. To avoid undermining the impact of the program, either by increasing the income targeting or reducing the number of units it would produce, we consequently sought to maximize, within reasonable bounds, the compensation available to developers while containing the financial costs of the program to the public.

Density bonuses are an economically efficient form of compensation to offset the costs of affordable housing set-asides. While the development potential associated with density bonuses has real economic value to developers, it comes at little or no financial cost to the public. This especially makes sense as a public policy matter where it can be demonstrated, as our calculations have, that the cost of the units can for the most part be covered by the rent or mortgage payments made by the low or moderate income occupants, but where the profit margins of the market provide no incentive for developers to actually produce housing for those households. Providing a twenty-percent density bonus would enable the District’s IZ program to serve households facing real challenges securing affordable housing and allow for set-aside

percentages that would produce a significant number of affordable units. See “Expanding Housing Opportunity in DC: The Case for Inclusionary Zoning.” PolicyLink, 2003, attached.

Three sources of law establish current limits on density available in the District: the Comprehensive Plan; the Zoning Regulations, which can not be inconsistent with the Comprehensive Plan; and Congressionally-imposed height restrictions. Through discussions with staff from the Office of Planning and analysis they provided, we determined that the Zoning Regulations provide more restrictive density limits than are otherwise permitted under the Comprehensive Plan in areas throughout the city; this difference between the zoning regulations and the Comprehensive Plan consequently provides a density “gap” that can be used to provide bonuses above that currently permitted by right under the zoning regulations. This approach makes sense as a matter of both process and public policy. Accessing this density requires only an amendment to the Zoning Regulations to institute an IZ program, rather than the considerably longer and more complex process of revising the Comprehensive Plan; further, it reflects the density goals adopted in the existing Comprehensive Plan that were established by an extensive public process.²

Using the Comprehensive Plan Generalized Land Use Policy Map, we then identified areas where significant density “gaps” are available, including Housing Opportunity areas and Development Opportunity areas, as well as areas along major corridors and around Metrorail stations. Meeting the strong demand for more housing by focusing growth in these areas will enable more of the people coming to our region to live in walkable, transit-accessible communities. This means they have the opportunity to rely less on driving, and more on walking to local shops and services, bicycling and riding transit. This helps reduce car ownership, air pollution, makes city streets safer for walkers, and supports better transit service.

The areas defined above are undoubtedly not the only areas in the city where bonus density is available, but according to the Office of Planning, administrative challenges make it burdensome to identify all areas where bonus density might support the application of IZ. We recognized, however, that developers make these determinations in the ordinary course of business, often requesting density bonuses or other zoning variances in order to build more housing than would otherwise be permitted as a matter of right. Accordingly, our proposal would also apply wherever a developer seeks additional density, prioritizing the need for affordable housing above other amenities typically negotiated by the Office of Planning. We believe this is consistent with DC residents’ concerns about the lack of affordable housing in the city, particularly in more economically-developed neighborhoods, and with the increases in demand for affordable housing that will be generated by the construction of new housing generally; that is, new housing brings in new residents, who present an increased demand for services, which in turn increases the need for lower-wage workers, who will need affordable housing, justifying prioritizing the production of affordable housing over other types of amenities.

² It is our hope that the Mayor and Council of the District of Columbia will increase the density allowances for the city in the next revision of the Comprehensive Plan, which would make it possible to apply an inclusionary zoning policy that uses density bonuses more broadly across the city.

A 20 percent density bonus, most of which is in the form of new affordable homes, enables the city to provide more affordable housing in areas designated for growth, while having little impact on lower density residential neighborhoods. The addition of new residents to the city will add vitality to city life, increasing tax revenues and help support more interesting and diverse retail. Some do not always welcome change but we firmly believe that a majority of our neighbors support both the creation of housing opportunities for families at all income levels and the jobs and retail that accompany this new demand to live in the city.

Our policy would also apply to the Downtown Development District. While some people have claimed that there is no bonus density available in the DDD because developers build out to the height restrictions, analysis by the Office of Planning demonstrates that density increases would be available to developers by design modifications, specifically by lowering ceiling heights. Additionally, many members of the Campaign contend that it is important that an IZ policy cover downtown development, both as a statement about an inclusive vision for the city and as one way to help serve the affordable housing needs generated by the office and commercial development downtown. Accordingly, we have proposed that affordable housing requirements apply effective three (3) years after the date of adoption of the policy by the Commission. Delaying implementation for this period will enable developers to complete projects under development and give land values more than sufficient time to adjust to account for the affordability requirements (it may also have the unintended but beneficial effect of promoting development of vacant parcels being held by out-of-town land speculators). This is the approach that San Francisco adopted in 2002, requiring that affordable housing units be set-aside with no compensation³, following only a 120 day phase-in period. According to officials in the city, there has been no decrease in development following the adoption of the policy.⁴

Affordable Unit Set-Asides, Bonus Density, and Income Targeting

We drew upon the successful practices of a number of IZ experiences across the country and tempered them to best fit what we defined as the special circumstances of the District. The affordable unit set-aside requirements were established at 15 percent for low rises (stick construction normally four stories and under), 12 percent for high rises (concrete/steel construction), and 7 and ½ percent for substantial rehabilitation projects. In all cases, the maximum automatic density bonus was set at 20 percent. By way of example, a potential 100 unit high rise development that can utilize the full density bonus would be permitted a total of 120 units. Twelve of those units (12% of 100 base units) would be “affordable” and the balance, eight units, would be bonus market units.

The financial modeling work discussed below indicated that households at 65% of the area median income (or AMI) would be the lowest income level that could afford the affordable units provided under this program without any additional subsidies that could be added to units through purchase or rental by the Housing Authority or non-profits. Our desire to serve even lower income households with a portion of these units suggested the proposal to “split” the

³ Developers in San Francisco do receive refunds of environmental review and building permit fees that apply to the affordable units.

⁴ “Large Cities and Inclusionary Zoning.” Business and Professional People in the Public Interest, November 2003.

income category in two, with half the units serving those at 50% AMI and the other half at 80% AMI, which maintains the 65% AMI average overall. We note that these figures use the area median income for the Washington, DC Metropolitan Statistical Area as generally applied in housing programs; they translate into roughly 78% and 120% of the District's median income, respectively.

Pricing/Income Targeting Methodology (Key background financial tables are included as Attachment A.)

We began with an analysis of the costs behind each of the major housing unit types anticipated under this program, including garden apartments, townhouses, and high rise structures. From a starting point of the current Montgomery County, Maryland pricing structure, the costs were adjusted (and updated periodically) following discussions with District developers and industry experts at the Urban Land Institute. The beginning point has been establishing "hard" construction costs, currently estimated at \$72.45 a square foot for townhouses, \$74.75 for garden apartments, and \$132.25 for high rises. By way of comparison, Montgomery County MPDU numbers adjusted upward on July 1, 2005 are \$48 for townhouses, \$46 for garden condos, and \$124 for highrises. While it does cost marginally more to build in the District, the adjustment for townhouses and gardens feels more than generous (more than 50% in each case); the adjustment for high rises, at an increase of 6.7%, is probably realistic since the common response has been that construction costs are five to ten percent higher than in the suburbs. To these hard cost numbers we have added soft costs, special charges, and site improvement costs; land is carried at zero, an important reason these units are affordable.

We then analyzed what households could afford to spend for housing using 30% of income as the traditional measure. A number of assumptions were made, such as putting the interest rate on mortgages at 7 and ½ percent, far above today's market but reflective of average experience over the past several decades. Condo fees ranged from \$175 to \$250 monthly, depending on unit sizes; this is a particularly difficult area in which to use averages since the fees vary so much.

Our conclusion was that with an average income of 65 percent of the AMI, developers of for sale housing could make a profit on even the affordable townhouse and garden products but would need to transfer approximately half of their profits from the bonus density units to cover the affordable units in high rise buildings due to higher unit costs associated with that type of construction. On the rental unit side, it has been suggested that the program utilize the Federal Tax Credit methodology for household size (1.5 persons per bedroom), beginning rent levels, and annual rental increases. Our numbers show a similar pattern to the sale figures, with affordable rental units in townhouse and garden project financially covered by these income levels, and the high rise structures needing cross subsidization from the bonus market rate units.

Relief from Requirements

Recognizing that a good policy should provide some flexibility regarding the application of program requirements, and that the particulars of site location and development specifications might make the on-site development of affordable units burdensome, our proposal provides a mechanism for developers to request relief from the requirements, either in whole or in part. Our proposal contemplates that a developer that would suffer a significant economic hardship if required to comply with the IZ program could appeal for an exception, with alternative forms of compliance, in the following order of priorities: either building affordable units off-site or paying a fee in lieu of development to the Housing Production Trust Fund to subsidize the production or preservation of affordable housing. In cases where the developer demonstrates that the requirements would deprive him/her of all economically-viable use of the property, the requirements could be waived altogether. While we designated the Mayor (or his designee) as the arbiter of exemptions, we understand that under existing law, the Board of Zoning Adjustment would have responsibility for handling applications for waivers or variances from the zoning regulations.

In the discussions we have engaged in with developers through the Office of Planning, they have expressed both a desire for flexibility to address project-specific challenges and concerns that whatever process is established to handle variance requests not be unduly burdensome. Echoing the comments we heard about IZ generally, there seems to be a consensus amongst developers that they want as little public involvement in the process as possible; in other words, they would like to have standards for variances laid out specifically, with alternative forms of compliance permitted as a matter of right. However, as of the date of this submission, none had suggested criteria to establish the basis for a variance. One alternative suggested by the Office of the Attorney General that the Campaign would support is to exempt the BZA's consideration of some waivers from the definition of "contested case" and to permit it to make a determination without a public hearing; however, it is our understanding that the authority for such proceedings would have to be established by statute.

Development Standards

Design standards applicable to affordable units created under an IZ program, including the location of affordable units within a development project and the finishes applied to them, are important for two reasons. First, the goal and benefits of producing and maintaining economically-integrated communities is undermined when affordable units are segregated from market-rate units. Such segregation can lead to stigmatization and isolation (this is especially a concern in large tract single family or townhouse type developments). For these reasons, it is important that affordable units be reasonably dispersed throughout a development project, and be physically indistinguishable on the exterior from the market rate units. Second, design standards are a way to help contain the costs of construction and thereby make units more affordable. Typically, minimum size standards applicable to affordable units are smaller than those favored by the market, which reduces the overall cost of the unit as calculated on a square footage basis. Smaller-sized units can also provide the basis for reduced condominium fees or common

charges, calculated on a par value, which may be critical to keeping overall housing costs affordable to lower income households. To make smaller affordable units feasible from a development perspective, the policy should consider affordable units arranged in tiers to be “reasonably disbursed” throughout the project. Another way to contain costs is to permit developers to use less-expensive, but standard quality *interior* finishes, rather than the luxury-end materials like granite countertops or marble tiles that are typically used in market rate units now being constructed.

Control Periods

In some respects, the District’s dilatoriness in adopting an IZ program provides the benefit of learning from other jurisdictions’ experience. And one of the clearest lessons from other programs is that affordable units have been lost from the housing stock in tremendous numbers upon the expiration of affordability control periods that are too short. No matter how long ten or even twenty years seems at the outset of a policy, the years pass quickly, and it is rare that affordable housing pressures abate during that time. Montgomery County, for example, is lauded as the most successful example of IZ in the nation; since its adoption in 1974, the County’s Moderately Priced Dwelling Unit (MPDU) program has produced more than 11,000 units of affordable housing. However, because the County initially set relatively brief control periods, more than 7,000 of those units have been “lost” to the market over that same period of time. Recognizing this, the County subsequently took a number of intermediate steps to lengthen control periods, and most recently adopted control terms of ninety-nine (99) years for rental housing and 30 years for sale units. Our proposal would establish 50 year affordability terms for rental housing, a period commonly applied by jurisdictions that have recently adopted IZ.

On the homeownership side, a countervailing sentiment is often expressed against the establishment of long control periods: that affordable homeownership should be used as a vehicle to help families build wealth, and resale restrictions deprive families of taking advantage of equity in their homes. In response, others contend that participation in the program is voluntary, that residents who are able to purchase affordable units have in effect won a lottery ticket by virtue of locating affordable housing in an exploding market and that it is unfair that they be doubly enriched by selling the unit at market price when that means that another household will be deprived of the opportunity to purchase an affordable unit. Additionally, short control periods undermine neighborhood stability, contributing to and even exacerbating the gentrification of neighborhoods, like Columbia Heights and Shaw, that quickly overcomes working families who have made those neighborhoods their home. Since both goals are laudable, resolving these tensions is challenging, and policies around the country reflect priorities along the full spectrum of options between them.

We note that some developers convened by the Office of Planning have also claimed that depriving owners of an equity stake in a property for an extended period of time limits their psychic and financial “investment” in the property. They imply that those owners have no inducement to maintain their properties, infringing on the quiet enjoyment of their neighbors and driving down the market value of surrounding units. There is no evidence of these effects in other jurisdictions with similar resale controls. Additionally, it seems to be based on pejorative

impressions of those who would reside in affordable units created under the program. The Campaign contends that the basis for this view has no merit.

The primary goal of the Campaign is to use IZ to produce a stock of affordable housing. However, in recognition of the value of homeownership equity in helping families build wealth, we have proposed a control period of twenty (20) years for homeownership units, during which time the owner must sell the unit to an income qualified purchaser at an affordable price; the control period would be restarted if the unit is sold within the twenty year period. At the expiration of a full twenty year period, the owner may sell to any purchaser, and after recovering the purchase price (as indexed to the CPI) and the cost of any improvements, shares the equity in the property equally with the Housing Production Trust Fund. We believe that this provision equitably balances a number of factors: 1) the twenty year term permits families to build equity that can be tapped for significant later-in-life events, such as retirement or education expenses; 2) it recognizes that households do in fact have a significant opportunity to build wealth simply by virtue of the fact that their housing costs are held constant and they can take advantage of the tax benefits of homeownership; and 3) dedicating a share of the equity to the Housing Production Trust Fund provides a mechanism to produce new affordable housing when the IZ unit is lost to the market. Most importantly, the twenty (20) year term also provides the opportunity to build a substantial stock of affordable units before each new unit produced by IZ simply replaces one with an expiring control period.

Another way to ensure that affordable units produced under an IZ program remain affordable is to provide a first right to purchase or rent a percentage of the units to a local housing agency and/or non-profit housing developers. Under our proposal, the D.C. Housing Authority and qualified non-profits would have first rights to up to 40% of the units developed under the program. While exercising this right obviously depends on whether these entities have adequate resources, it provides the potential to maintain almost half of all IZ units as permanently affordable for the District's workforce. In addition, DHCA or nonprofits could layer in additional subsidies (for example, Housing Choice Vouchers, known commonly as "Section 8") that could make the units affordable for families earning 30% of the AML, the income category where the District currently sees the greatest need for affordable housing.

BRIEF COMMENTS ON THE OFFICE OF PLANNING MANDATORY PROPOSAL

Our major observations regarding the Office of Planning Draft Mandatory IZ Proposal are noted below. We have serious concerns about the calculations used to establish the parameters of the proposal, which would weaken the IZ program in a number of key areas.

Use of Housing Units or Square Feet as Program Measures

The Campaign has proposed that set-asides requirements be measured as a percentage of housing units for two reasons. First, most of the national programs use this measure. Secondly, from a monitoring and enforcement standpoint it is far easier to determine compliance and identify a remedy when measuring the number of units than in calculating square feet.

The Office of Planning has recommended a square footage approach. This concept was proposed by one multi-family developer with the thought of allowing the program to provide larger, but fewer, units to serve larger households. Because the approach establishes affordable housing requirements as a ratio of total bonus square footage achieved by the developer, it could provide some flexibility in cases where some bonus density is available, but not the full 20% provided for under the proposal. The approach would therefore be attractive if it would extend the reach of the IZ program across broader areas of the city – that is, that the policy would apply to areas where the density gap is 10% or 15%, with commensurate affordable housing requirements established by applying the ratios to whatever bonus area is available. However, the Office of Planning has said that it is not their intention to broaden the application of the program in this way.

Additionally, while in theory the potential exists for the Office of Planning's approach to yield more affordable housing units overall, a number of strictures would have to be adopted to achieve that result, and significant challenges regarding monitoring and enforcement associated with the approach would remain. For example:

- People measure buildings differently, giving rise to arguments about net vs. gross square feet.
- In mixed-use buildings it is difficult to assign and count jointly used common areas in determining. For example, in a building with commercial space on the first floor, office space on floors 2 and 3, and residential on floors 4 through 10, how much of the common lobby and elevators used for the office and residential space are attributed to the residential portion?
- According to the D.C. Fiscal Policy Institute, there is a greater need amongst current residents for smaller units (ie efficiencies or one bedroom units) than for larger apartments.⁵ To maximize the production of units, and counteract cost incentives for developers to produce larger units (ie eliminating the need for costly kitchens and bathrooms), requirements proscribing unit mix and minimum size would have to be defined.
- Once the housing is constructed, it would be much more difficult to measure whether the developer had complied with the terms of the program, and to craft an appropriate remedy. Comparatively, the number of units designated as affordable are easily counted and, in the event of non-compliance, additional units can be required to be made affordable. This could be especially problematic in the event of a rental unit where a tenant becomes income-ineligible for continued occupancy; under the unit approach, the developer would have the option of either enforcing the income restrictions in the lease or simply designating another unit to be affordable.

⁵ According to analysis by Angie Rodgers of DCFPI, 61,274 households in DC pay more than 30% of their income toward housing costs. A little more than half of them – 31,691 households – have only one person in the household. Another 13,303 contain two people; 8,428 have three people. The same pattern exists for the 33,828 households who pay more than 50% of their income toward housing costs: of these, 17,392 have only one person; 7,796 have two people; 3,801 have three people.

Affordable Set-Aside Ratios & Income Targeting

It is not precisely clear how the percentage of bonus affordable floor space under the OP proposal compares to that which would result from our proposal, but the ratios can be compared to those the Campaign has recommended. We are concerned about the reduction in affordable units and the exclusion of a requirement for buildings undergoing substantial rehabilitation. Specifically, the Campaign has recommended that 12% of the base number of high rise units be affordable; OP reduces this to 10% for high rise rentals and somewhere between 7% and 10% for high rise sale units. The Campaign proposal calls for 15% affordable for low rises; OP reduces this to 12%. In light of the numerous substantial rehabilitation projects in the city (and their generally detrimental impact on low/moderate income residents of those buildings), the Campaign calls for 7 and ½ of these units to be affordable; OP requests none.

The income targeting structure set forth in the Campaign proposal is uniform and simple, with 50% of the affordable units targeted at households with incomes at or below 50% of the AMI and the remaining 50% of units targeted at households with incomes at or below 80% of the AMI. OP suggests three categories. For long rise rentals, 50% of the units would be at 50% of the AMI and the remaining 50% at 70% AMI. For high rise rental units, the numbers would increase to 50% at 70% of the median and the remaining 50% at 80% AMI. Sale units in high rises would all be targeted at 80% AMI.

The changes proposed by the OP, particularly with respect to income targeting, would significantly weaken the IZ program. However, some of the costs from which the set-aside and income targeting elements of the OP proposal are derived are questionable, and in effect, lead to unnecessary inflations in income targets and reduction in set-aside requirements. For example, the OP proposal:

- Multiplies per unit soft costs, including architect, legal, and other technical fees by each additional bonus market rate and affordable units, when these fees are typically flat for a development project;
- Proposes extraordinary increases in the length of the development timeline (and therefore costs) attributable to bonus units. In particular, the sales period is extended but the affordable bonus units will likely be sold more quickly than even the market rate units;
- Adds the extra cost of capital for the entire development phase rather than just the additional time needed to build and sell or rent the bonus units.
- Holds construction costs for larger buildings constant, while they more likely will decline slightly on a per square footage basis given the additional bonus space.

Length of Price Controls

As noted above, the Campaign adopted a price control approach that represents the average national experience, 20 years for sale and 50 years for rental. OP is still considering their precise recommendations but suggests between 30 and 40 years for rentals and from 10 to 20 years for sales units. We urge the Zoning Commission to adopt the longest terms possible, especially since the pressures of the District's housing market are not expected to abate in the near future.

Conclusion

While our work in developing the Campaign's proposal was deliberate and thorough, it was not without a keen sense of urgency. Each day that each one of us passes by a new construction site, a new crane, a new sign forecasting the production of a new housing development somewhere in the city, we are struck by the sense of opportunities lost that will never be recovered -- the absence of affordable housing, the erosion of the few remaining mixed-income communities in our notably divided city, the loss of the vitality, vibrancy, and talents that a diverse group of residents can impart to a community. As a city, we simply can not afford to wait any longer. The members of the Campaign eagerly anticipate discussing these issues at the public hearings on July 25th and 28th, and urge the Zoning Commission to adopt a strong mandatory inclusionary zoning policy based on the elements we have proposed as soon as possible thereafter.

**Maximum Income and Unit Price by Household Size at 80% and 50% of Median
DCIZ Analysis of Sales/Rental Affordability by HH Size
March 1, 2005 (Updated June 22, 2005)**

Median Income 2005	89,300
80% of Median for HH of 4	71,440
65% of Median for HH of 4	58,045
50% of Median for HH of 4	44,650
Mortgage Term of 30 yrs & rate of	0.075

<u>Unit Types</u>	<u>Household Size 1/</u>	<u>80% of 30% for Median Housing Cost</u>	<u>Less Est. Ins, Tax, etc (annually)2/</u>	<u>Net for Mortgage</u>	<u>Capitalized Value</u>
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I. 80% OF MEDIAN

Efficiency	1	50,008	15,002	3,750	11,252	134,100
1 Bedroom	2	57,152	17,146	4,350	12,796	152,500
2 Bedroom	3	64,296	19,289	5,100	14,189	169,100
3 Bedroom	5	78,584	23,575	5,400	18,175	216,600

II. 65% OF MEDIAN (AVERAGE)

					<u>Cap Value</u>	
Efficiency	1	40,632	12,189	3,750	8,439	100,600
1 Bedroom	2	46,436	13,931	4,350	9,581	114,200
2 Bedroom	3	52,241	15,672	5,100	10,572	126,000
3 Bedroom	5	63,850	19,155	5,400	13,755	163,900

III. 50% OF MEDIAN

Efficiency	1	31,255	9,377	3,750	5,627	67,100
1 Bedroom	2	35,720	10,716	4,350	6,366	75,900
2 Bedroom	3	40,185	12,056	5,100	6,956	82,900
3 Bedroom	5	49,115	14,735	5,400	9,335	111,200

Issue:

1. There needs to be a window of affordability (say dropping max income levels to at least 75% and 45% of median) to open the market to more than just the highest incomes.

Notes:

- 1/ Units permitted additional resident at correspondingly higher income.

These are target income ranges for pricing purposes by unit size.

- 2/ Est. Other Costs for insurance, real estate taxes, and condo/HOA fees set at:

3 BR Unit: Used 3 BR Townhouse costs of \$450 monthly

2 BR Unit: Used average of 2 BR garden apts & highrise of \$425 monthly

1 BR Unit: " " " " " " " " \$362

Efficiency: Reduced 1 BR unit by \$50 monthly or \$312 monthly

SALE UNIT PRODUCTION COSTS AND AFFORDABILITY
DC Cost Estimates, May, '03 (revised June 22, 2005)

TABLE 2A

I. SUMMARY COST COMPONENTS: Costs increased by 15%

<u>COST COMPONENTS</u>	<u>Townhouse</u> <u>3 BR, 1.5ba</u>	<u>Garden Apt.</u> <u>(2 BR, 1 bath)</u>	<u>High Rise</u> <u>2 BR, 1 ba</u>
Square Foot Unit Size	1050 sf	850 sf.	850 sf.
Per Sq. Ft.	72.45	74.75	132.25
Structure Cost	76,073	63,538	112,413
Land Development Cost	11,575	8,030	10,000
Total Unit Hard Cost	<u>87,648</u>	<u>71,568</u>	<u>122,413</u>
Special Charges (water/sewer, sprinkler, etc.)	3,900	3,900	3,900
Subtotal	<u>91,548</u>	<u>75,468</u>	<u>126,313</u>
Financing Fees & Expenses	25.38%	25.38%	25.38%
Inverse Percentage	74.62%	74.62%	74.62%
TOTAL PRICE	122,685	101,136	169,274

II. PROFIT TRANSFER TO LOWER AFFORDABLE UNIT PRICES FOR MID/HIGH RISES

	Unit Price	Portion of <u>Bonus Profit</u>	Adjusted <u>Price</u>
Potential Price Adjustments for High Rise: For proto-typical 100 unit bldg., 8 market rate bonus units would generate \$800K profit. The 12 affordable units would need an average writedown of 36,100 each to come under the maximum target mortgage amount of 133,200, costing 433,200 of the 800K profit (54% of the profit but still clearing a gain overall for the developer).	500,000	36,100	133,174

III. UNIT AFFORDABILITY BY INCOME LEVEL, 80, 75, 65, 60, 50 AND 45% OF AMI

	@80% of AMI	@ 75% of AMI	@65%	@60%	@ 50%	45% AMI
Sale Price Affordable						
Median 4 person Income (1/03)	89,300	89,300	89,300	89,300	89,300	89,300
Median for 4 persons HH @ income levels noted above	71,440	66,975	58,045	53,580	44,650	40,185
60% of Median for 3 persons HH (more typical family size)	64,296	60,278	52,241	48,222	40,185	36,167
Housing Cost Max. at 30%	19,289	18,083	15,672	14,467	12,056	10,850
Less Hazard Insurance @ \$50 a month	-600	-600	-600	-600	-600	-600
Less Real Estate Taxes at	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500
Less HOA and/or Condo Fees @ \$200 a mo. (average: HOA lower, High Rise higher)	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400
Left for Mortgage Expenses	<u>14,789</u>	<u>13,583</u>	<u>11,172</u>	<u>9,967</u>	<u>7,556</u>	<u>6,350</u>
Supportable Mortgage capitalized at a mortgage rate of	0.07	185,200	170,100	139,900	124,800	94,600
at a mortgage rate of	0.075	176,300	161,900	133,200	118,800	90,000
at a mortgage rate of	0.08	168,000	154,300	126,900	113,200	85,800

DCIZ June 22, 2005

Townhouses

	<u>Three BR TH Unit</u>			<u>Two BR TH Unit</u>		
	5 Person	4 Person	3 Person	4 Person	3 Person	2 Person
		<u>HH</u>	<u>HH</u>	<u>HH</u>	<u>HH</u>	
I. Affordability						
Median Income (2005)		89,300		89,300		
65% of median (average Affordability)	63,850	58,045	52,241	58,045	52,241	46,436
30% Max Housing Cost	19,155	17,414	15,672	17,414	15,672	13,931

	<u>3 BR Unit</u>		<u>2 BR TH (Price < 10%)</u>	
II. Unit Cost and Mortgage				
At 15% higher cost of 72.45 sq. Ft. Hard Cost				
Total unit cost of	Same	122,685	Same	110,417
Assume Downpayment of 5%		6,134		5,521
Mortgage Amount		116,551		104,896
Mort Payment @ 7.50% , 30 yrs		815		733

III. Other Monthly Payments and Total Pmt.				
Mortgage Payment (from above)		815		733
Plus Hazard Insurance @ 50 mo.		50		45
Plus Real Estate Taxes		150		125
Plus HOA or Condo Fees		<u>250</u>		<u>200</u>
Total Monthly Pymts		<u>1,265</u>		<u>1,103</u>
Total Annual Pymts		15,180 Same		13,236 Same

IV. Capitalized Mortgage Affordable at Income Level			
Maximum Annual Housing Cost	19,155	17,414	15,672
Monthly Amount	1,596	1,451	1,306
Less Hazard Insurance	-50	-50	-45
Less Real Estate Taxes	-150	-150	-125
Less HOA or Condo Fees	-250	-250	-200
Net available for Mortgage	<u>1,146</u>	<u>1,001</u>	<u>936</u>
Capitalized for 30 years @ 0.075	<u>163,900</u>	<u>143,200</u>	<u>133,900</u>
(Capitalized amount is not net of downpayment)			

Pricing per TA at <10% by Bedroom size	163,900	147,510
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Note: Key lines are bolded: In cases where the 30% of income for housing exceeds the total annual payments, developer costs on affordable units are covered without cross subsidy from bonus units.

Issue. Cost data presented shows 3 BR TH unit production cost of \$122,685.

Working off 30% of income for HH of 5 for 3 BR TH allows unit price of \$163,900 off the four person HH, \$143,200 (given assumptions noted), in excess of what

	<u>2 BR Garden Unit</u>		<u>1 BR Garden Unit</u>		
	4 Person	3 Person	3 Person	2 Person	1 Person
I. Affordability	HH	HH	HH	HH	
Median Income (2005) =	89,300		89,300		
65% of median (average Affordability)	58,045	52,241	52,241	47,016	42,315
30% Max Housing Cost	17,414	15,672	15,672	14,105	12,694

II. Unit Cost and Mortgage	2 BR Unit	1 BR Unit (Price < 10%)		
At 15% higher cost of 74.75 sq. Ft. Hard Cost				
Total unit cost of	97,434 Same	87,691 Same	Same	
Assume Downpayment of 5%	4,872	4,385		
Mortgage Amount	92,562	83,306		
Mort Payment @ 7.50% , 30 yrs	647	582		

III. Other Monthly Payments and Total Pmt.				
Mortgage Payment (from above)	647	582		
Plus Hazard Insurance @ 50 mo.	50	50		
Plus Real Estate Taxes	150	125		
Plus HOA or Condo Fees	200	175		
Total Monthly Pymts	<u>1,047</u>	<u>932</u>		
Total Annual Pymts	12,564 Same	11,184 Same	Same	

IV. Capitalized Mortgage Affordable at Income Level				
Maximum Annual Housing Cost	17,414	15,672	14,105	12,694
Monthly Amount	1,451	1,306	1,175	1,058
Less Hazard Insurance	-50	-50	-50	-50
Less Real Estate Taxes	-150	-150	-125	-125
Less HOA or Condo Fees	-200	-200	-175	-175
Net available for Mortgage	<u>1,051</u>	<u>906</u>	<u>825</u>	<u>708</u>
Capitalized for 30 years @ 0.075	<u>150,300</u>	<u>129,600</u>	<u>118,000</u>	<u>101,200</u>
(Capitalized amount is not net of downpayment)				

Pricing per TA at <10% by Bedroom size	150,300	135,270
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Note: Key lines are bolded: In cases where the 30% of income for housing exceeds the total annual payments, developer costs on affordable units are covered without cross subsidy from bonus units. Since the two bedroom unit cost has been estimated at \$101,136, developers will be able to make a profit on even the affordable units, in addition to the bonus units.

	<u>2 BR High Rise</u>		<u>1 BR High Rise</u>		
	4 Person	3 Person	3 Person	2 Person	1 Person
I. Affordability	<u>HH</u>	<u>HH</u>	<u>HH</u>	<u>HH</u>	
Median Income (2005) =	89,300		89,300		
65% of median (average Affordability)	58,045	52,241	52,241	47,016	42,315
30% Max Housing Cost	17,414	15,672	15,672	14,105	12,694

II. Unit Cost and Mortgage	2 BR Unit	1 BR Unit (Price < 10%)		
At 15% higher cost of \$132.25 sq. ft. Hard Cost				
Total unit cost of	169,274 Same	152,347 Same	Same	
Assume Downpayment of 5%	8,464	7,617		
Mortgage Amount	160,810	144,729		
Mort Payment @ 7.50% , 30 yrs	1,124	1,012		

III. Other Monthly Payments and Total Pmt.				
Mortgage Payment (from above)	1,124	1,012		
Plus Hazard Insurance @ 50 mo.	50	50		
Plus Real Estate Taxes	150	125		
Plus HOA or Condo Fees	250	200		
Total Monthly Pymts	1,574	1,387		
Total Annual Pymts	18,888 Same	16,644 Same	Same	

IV. Capitalized Mortgage Affordable at Income Level				
Maximum Annual Housing Cost	17,414	15,672	14,105	12,694
Monthly Amount	1,451	1,306	1,175	1,058
Less Hazard Insurance	-50	-50	-50	-50
Less Real Estate Taxes	-150	-150	-125	-125
Less HOA or Condo Fees	-250	-250	-200	-200
Net available for Mortgage	1,001	856	800	683
Capitalized for 30 years @ 0.075	<u>143,200</u>	<u>122,400</u>	<u>114,500</u>	<u>97,700</u>
(Capitalized amount is not net of downpayment)				

Pricing per TA at <10% by Bedroom size	143,200	128,880
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Note: Key lines are bolded: In cases where the 30% of income for housing exceeds the total annual payments, developer costs on affordable units are covered without cross subsidy from bonus units.

RENTAL UNIT ANALYSIS
DC INCLUSIONARY ZONING TASK FORCE
6/22/2005 Revision

TABLE 4 A
4 Person Household

I. INCOME LEVEL SERVED

	<u>80% AMI</u>	<u>75% AMI</u>	<u>65% AMI</u>	<u>50% AMI</u>	<u>45% AMI</u>
2004 Median Income	89,300	89,300	89,300	89,300	89,300
Income Targeted	0.80	0.75	0.65	0.50	0.45
Highest income served (family of 4 is basis of calculations)	71,440	66,975	58,045	44,650	40,185

II. MAXIMUM HOUSING COST AND RENT AFFORDABLE

Max. Ann. Housing Cost @30% (based on family of 4 at 50% of AMI as floor)	21,432	20,093	17,414	13,395	12,056
Max Monthly Housing Cost	1,786	1,674	1,451	1,116	1,005

III. RENT LESS OPERATING COSTS PROVIDES NET OPERATING INCOME & SUPPORTABLE MORTGAGE VALUE

Max Monthly Housing Cost	1,786	1,674	1,451	1,116	1,005
Annual Housing Cost	21,432	20,093	17,414	13,395	12,056
Less estimated operating costs	6,000	6,000	6,000	6,000	6,000
Net Operating Income before DS	15,432	14,093	11,414	7,395	6,056
Supportable Value @					
interest rate of 0.07	193,300	176,500	143,000	92,600	75,800
interest rate of 0.075	183,900	168,000	136,000	88,100	72,200
@ higher rate of 0.08	175,300	160,000	129,600	84,000	68,800

**RENTAL UNIT ANALYSIS
DC INCLUSIONARY ZONING TASK FORCE
6/22/2005 Revision**

**TABLE 4 B
3 Person Household**

I. INCOME LEVEL SERVED

	<u>80% AMI</u>	<u>75% AMI</u>	<u>65% AMI</u>	<u>50% AMI</u>	<u>45% AMI</u>
2004 Median Income	89,300	89,300	89,300	89,300	89,300
Income Targeted	0.80	0.75	0.65	0.50	0.45
Highest income served (family of 4 is basis of calculations)	71,440	66,975	58,045	44,650	40,185
For Family of 3, max income less 10%	64,296	60,278	52,241	40,185	36,167

II. MAXIMUM HOUSING COST AND RENT AFFORDABLE

Max. Ann. Housing Cost @30% (based on family of 4 at 50% of AMI as floor)	19,289	18,083	15,672	12,056	10,850
Max Monthly Housing Cost	1,607	1,507	1,306	1,005	904

**III. RENT LESS OPERATING COSTS PROVIDES NET OPERATING INCOME & SUPPORTABLE
MORTGAGE VALUE**

Max Monthly Housing Cost	1,607	1,507	1,306	1,005	904
Annual Housing Cost	19,289	18,083	15,672	12,056	10,850
Less estimated operating costs	6,000	6,000	6,000	6,000	6,000
Net Operating Income before DS	13,289	12,083	9,672	6,056	4,850
Supportable Value @					
interest rate of 0.07	166,500	151,400	121,100	75,800	60,700
interest rate of 0.075	158,400	144,000	115,300	72,200	57,800
@ higher rate of 0.08	150,900	137,200	109,800	68,800	55,100

HUD DC Median Income '05 \$89,300

60% of income -
 50% x 1.2 = 60%
 50% x 1.4 = 70%

		Maximum Income by Household Size					
Size Factor		1	2	3	4	5	6
HUD Section 8 Very Low Income		70%	80%	90%	100%	108%	116%
	50%	\$31,250	\$35,700	\$40,200	\$44,650	\$48,200	\$51,800
	60%	1.2 \$37,500	\$42,840	\$48,240	\$53,580	\$57,840	\$62,160
	70%	1.4 \$43,750	\$49,980	\$56,280	\$62,510	\$67,480	\$72,520

Affordable Housing Cost 30%

		Maximum Monthly Rent by Unit Type (Includes Utilities)				
Unit Type Occupancy		Studio	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
		1	1.5	3	4.5	6
	50%	\$781.25	\$836.88	\$1,005.00	\$1,160.63	\$1,295.00
	60%	\$937.50	\$1,004.25	\$1,206.00	\$1,392.75	\$1,554.00
	70%	\$1,093.75	\$1,171.63	\$1,407.00	\$1,624.88	\$1,813.00
Paradigm Housing Cost						
	60%	868.50	919.75	1,100.50	1,288.50	
	70%	1,020.75	1,082.88	1,296.25	1,494.75	
Minus Utility Allowance						
	60%	\$823.50	\$860.75	\$1,026.50	\$1,179.50	
	70%	\$975.75	\$1,023.88	\$1,222.25	\$1,405.75	

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Dupont Circle Advisory Neighborhood Commission 2B

CORRECTED¹



June 27, 2005

Ms. Carol J. Mitten, Chairman
District of Columbia Zoning Commission
One Judiciary Square
441 4th Street NW
Washington, DC 20001

Re Zoning Commission Case No. 04-33

Dear Chairman Mitten:

At its regular meeting on June 8, 2005, the Dupont Circle Advisory Neighborhood Commission ("Commission" or "ANC 2B") considered Zoning Commission Case No. 04-33, a mandatory inclusionary zoning proposal. With eight of nine Commissioners in attendance, a quorum at a duly noticed public meeting, the Commission approved the following motion by a vote of 8-0:

ANC2B urges the Zoning Commission's expeditious review and approval of the mandatory inclusionary zoning as embodied in the principles outlined in Case No. 04-33, an amendment submitted by the DC Campaign for Mandatory Inclusionary Zoning on November 17, 2004. *ANC 2B further believes that mandatory inclusionary zoning should include appropriate protections for historic districts*

The Commission believes such a policy can produce thousands of units of affordable housing in the years ahead for moderate and low-income households whose members wish both to work and to live in the District of Columbia, and that mandatory inclusionary zoning will contribute significantly to the creation of vibrant, diverse neighborhoods throughout the District.

I am the Commission's representative on this matter. I may be reached at (703) 265-7761 or at Darren.Bowie@DupontCircleANC.net for additional information or assistance.

ON BEHALF OF THE COMMISSION.

Sincerely,

A handwritten signature in cursive script that reads "Darren A. Bowie".

Darren A Bowie
Chairman

cc: Ms. Janet Brown, Campaign for Mandatory Inclusionary Zoning ✓
Ms. Cheryl Cort, Executive Director, Washington Regional Network
for Livable Communities
Mr. Chris Shaheen, Ward 2 Neighborhood Planning Coordinator, Office of Planning

¹ Please replace the letter dated June 17, 2005 with this letter. The correction is highlighted in italics above

ADVISORY NEIGHBORHOOD COMMISSION 2C

**RESOLUTION: Zoning Case No. 04-33
Text Amendment – Inclusionary Zoning Overlay**

WHEREAS, ANC 2C finds that the District has become one of the strongest real estate markets in the United States. The escalating housing market is imposing significant housing cost burdens on low and moderate income residents and threatening to displace residents from their communities

WHEREAS, ANC 2C finds that the strength of the District derives from its diversity and that mixed-income neighborhoods are thriving neighborhoods. In order to ensure that the District does not become a city of very rich and very poor communities, housing opportunities for low and moderate income households must exist throughout the city.

WHEREAS, ANC 2C supports the production of new units of affordable housing for low and moderate income residents that will help prevent displacement and provide new opportunities for District workers to reside in the city,

WHEREAS, ANC 2C supports creating homeownership opportunities for low and moderate income tenants and accepts that homeownership promotes residential stability and long-term affordability, and helps residents build wealth;

WHEREAS, ANC 2C contends that the development of affordable housing for low and moderate income workers is vital to attracting and retaining businesses to sustain the District's continued economic development,

WHEREAS, ANC 2C finds that for almost 30 years, hundreds of cities and counties throughout the United States, including areas neighboring the District, have been using inclusionary zoning to help meet their affordable housing needs and build vibrant, mixed-income communities.

WHEREAS, ANC 2C believes that mandatory inclusionary zoning is a critical tool for achieving the goals of producing affordable housing, discouraging displacement, creating opportunities for homeownership, and maintaining and creating mixed-income communities in the District by leveraging the expertise and capacity of the private market,

WHEREAS, the text amendment filed with the Zoning Commission in Case No. 04-33 would establish an Inclusionary Zoning Overlay in the District of Columbia that would meet ANC 2C goals of producing affordable housing for low and moderate income residents and maintaining and creating mixed-income neighborhoods, at little economic cost to the District;

NOW THEREFOR, it is hereby

Cont'd. →

RESOLVED, that ANC 2C urges the Zoning Commission to schedule a public hearing on Case No 04-33 as quickly as possible

RESOLVED, that ANC 2C urges the Zoning Commission to adopt the text amendment submitted in Case No 04-33 as quickly as possible

Signed: _____

ANC 2C Commissioner Debra Leroy J. Thorpe, Jr. Chairman

Dated: March 2, 2005

**DISTRICT OF COLUMBIA
ADVISORY NEIGHBORHOOD COMMISSION 4D
143 KENNEDY ST., NW, STE. #1 WASHINGTON, DC 20011
(202) 722-6830**

March 15, 2005

Ms. Carol J. Mitten, Chair
District of Columbia Zoning Commission
441 4th Street, NW
Suite 210 South
Washington DC 20001

Ms. Ellen McCarthy, Interim Director
District of Columbia Office of Planning
801 North Capitol Street, NE
Suite 4000
Washington DC 20002

**RE: ANC 4D Supports Mandatory Inclusionary Zoning
Case No. 04-33, Inclusionary Zoning Overlay**

Dear Madames:

On February 15, 2005, at its regularly scheduled meeting, Advisory Neighborhood Commission 4D passed the enclosed resolution in support of mandatory inclusionary zoning for the District of Columbia. Following a presentation and review of key components of the inclusionary zoning text amendment for the District, ANC 4D unanimously voted the resolution with one member absent.

ANC 4D is located in the heart of working class Petworth. Over the past year, housing costs in Petworth have increased more than any other area of the city. ANC 4D Commissioners have first-hand knowledge of low and moderate income residents being forced to give up living in the city. We consider the proposed mandatory inclusionary zoning to be an important tool to help maintain an economically diverse community.

Accordingly, ANC 4D urges the Office of Planning to release the text amendment for return to the Zoning Commission for favorable action.

Very truly yours,



Renee L. Bowser
Secretary, ANC 4D

Enclosure

cc: Hon. A. Fenty, Hon. P. Jones, Steingasser, DC Campaign, Mandatory Includ. Zoning ✓

ADVISORY NEIGHBORHOOD COMMISSION 4D

RESOLUTION: Zoning Case No. 04-33 Text Amendment – Inclusionary Zoning Overlay

WHEREAS, ANC 4D finds that the District has become one of the strongest real estate markets in the United States. The escalating housing market is imposing significant housing cost burdens on low and moderate income residents and threatening to displace residents from their communities.

WHEREAS, ANC 4D finds that the strength of the District derives from its diversity and that mixed-income neighborhoods are thriving neighborhoods. In order to ensure that the District does not become a city of very rich and very poor communities, housing opportunities for low and moderate income households must exist throughout the city.

WHEREAS, ANC 4D supports the production of new units of affordable housing for low and moderate income residents that will help prevent displacement and provide new opportunities for District workers to reside in the city.

WHEREAS, ANC 4D supports creating homeownership opportunities for low and moderate income tenants and accepts that homeownership promotes residential stability and long-term affordability, and helps residents build wealth.

WHEREAS, ANC 4D contends that the development of affordable housing for low and moderate income workers is vital to attracting and retaining businesses to sustain the District's continued economic development.

WHEREAS, ANC 4D finds that for almost 30 years, hundreds of cities and counties throughout the United States, including areas neighboring the District, have been using inclusionary zoning to help meet their affordable housing needs and build vibrant, mixed-income communities.

WHEREAS, ANC 4D believes that mandatory inclusionary zoning is a critical tool for achieving the goals of producing affordable housing, discouraging displacement, creating opportunities for homeownership; and maintaining and creating mixed-income communities in the District by leveraging the expertise and capacity of the private market.

WHEREAS, the text amendment filed with the Zoning Commission in Case No. 04-33 would establish an Inclusionary Zoning Overlay in the District of Columbia that would meet ANC 4D's goals of producing affordable housing for low and moderate income residents and maintaining and creating mixed-income neighborhoods, at little economic cost to the District.

NOW THEREFORE, it is hereby

RESOLVED, that ANC 4D urges the Zoning Commission to schedule a public hearing on Case No. 04-33 as quickly as possible.

RESOLVED, that ANC 4D urges the Zoning Commission to adopt the text amendment submitted in Case No. 04-33 as quickly as possible.

ADVISORY NEIGHBORHOOD COMMISSION 8E

**RESOLUTION: Zoning Case No. 04-33
Text Amendment – Inclusionary Zoning Overlay**

WHEREAS, ANC 8E finds that the District has become one of the strongest real estate markets in the United States. The escalating housing market is imposing significant housing cost burdens on low and moderate income residents and threatening to displace residents from their communities

WHEREAS, ANC 8E finds that the strength of the District derives from its diversity and that mixed-income neighborhoods are thriving neighborhoods. In order to ensure that the District does not become a city of very rich and very poor communities, housing opportunities for low and moderate income households must exist throughout the city.

WHEREAS, ANC 8E supports the production of new units of affordable housing for low and moderate income residents that will help prevent displacement and provide new opportunities for District workers to reside in the city;

WHEREAS, ANC 8E supports creating homeownership opportunities for low and moderate income tenants and accepts that homeownership promotes residential stability and long-term affordability, and helps residents build wealth;

WHEREAS, ANC 8E contends that the development of affordable housing for low and moderate income workers is vital to attracting and retaining businesses to sustain the District's continued economic development;

WHEREAS, ANC 8E finds that for almost 30 years, hundreds of cities and counties throughout the United States, including areas neighboring the District, have been using inclusionary zoning to help meet their affordable housing needs and build vibrant, mixed-income communities.

WHEREAS, ANC 8-E believes that mandatory inclusionary zoning is a critical tool for achieving the goals of producing affordable housing, discouraging displacement, creating opportunities for homeownership; and maintaining and creating mixed-income communities in the District by leveraging the expertise and capacity of the private market;

WHEREAS, the text amendment filed with the Zoning Commission in Case No. 04-33 would establish an Inclusionary Zoning Overlay in the District of Columbia that would meet ANC 8-E goals of producing affordable housing for low and moderate income residents and maintaining and creating mixed-income neighborhoods, at little economic cost to the District;

NOW THEREFOR, it is hereby

Cont'd. →

**DC Campaign for Mandatory Inclusionary Zoning
Supplemental Materials for Case No. 04-33 “Text Amendments To Require the
Provision of Affordable Housing – Inclusionary Zoning”**

WITNESS LIST

Frederick P. Allen

Fred Allen is a native Washingtonian; he attended DC public schools and graduated from Theodore Roosevelt High School. He worked in the printing trades from 1964 to 1999 (USGPO) and was President of GCIU 713-S from 1974-1997. He is also a small businessman, as co-owner of Joe’s Shoeshop & Joe’s Parking Lot in Chinatown. He has been a Board member of the Metropolitan Washington Council AFL-CIO since 1975 and is now serving his 4th term as Treasurer of the Council. Mr. Allen has also served on the Mayor’s Lemon Law Commission and the Federal Judiciary Nominating Committee; he was elected to the DC Democratic State Committee, representing Ward 5.

Mr. Allen will testify regarding the Metropolitan Washington Council AFL-CIO's support for Mandatory IZ and the Campaign’s text amendment. He will discuss rising housing costs and their affect on union workers as well as on his immediate family.

Nathaniel P. (Tad) Baldwin

Tad was President of Montgomery Housing Partnership (MHP) from 1991 until his retirement in April of 2001 and his responsibilities included scattered site home acquisition, rehabilitation of apartment complexes, and seeking new development and community revitalization opportunities. From 1989 to 1991 he was Vice President of Development at Sunrise Retirement Homes and Communities where he selected sites, compiled market studies, coordinated land use approvals, and monitored construction costs and progress for assisted living residences. Previously, from 1985 to 1989, he was Vice President of Howell Associates where he managed projects in areas of market analysis, economic feasibility, and loan processing for non-profit, public and private clients. He had been President of Denver Family Housing after having been Director of Development and Mortgage Finance at the Housing Opportunities Commission of Montgomery County, Maryland for eight years from 1975 to 1983. Prior experience had been as a project manager for The Rouse Company and housing advisor to the Government of Panama, following a Peace Corps assignment working with credit unions and handicraft cooperatives in Ecuador. He has a master’s degree in International Relations from Georgetown University and a master’s in Urban Planning from the University of Pennsylvania.

Tad Baldwin will testify regarding the methodology used by the Campaign to generate the set-aside and income targeting elements of our Proposal, as well as the process used to obtain and analyze development costs. Additionally, he can speak to the feasibility of the program based on his experience developing housing and participating in the Moderately Priced Dwelling Unit program in Montgomery County.

Jim Campbell

Mr. Campbell brings twenty-eight years of professional experience to Somerset. Prior to starting Somerset, Mr. Campbell served for eight years at the AFL-CIO Investment Trusts, primarily as the Chief Investment Officer. The Investment Trusts consist of two co-mingled investment funds - the Housing Investment Trust and the Building Investment Trust - which together invested approximately \$1 billion of pension capital per year in new housing and commercial real estate projects. Prior to joining the Trusts, Mr. Campbell was Vice President for Development for Related Companies Northeast, a private developer of housing in the Boston area. Mr. Campbell has managed economic and housing developments for city and state governments; among them, the highly successful \$1 billion, mixed-use redevelopment of the East Cambridge Riverfront. He has served as the Executive Director of a non-profit community development corporation. Mr. Campbell has a Master's Degree in City Planning from Harvard University. Mr. Campbell can be contacted at jcampbell@somersetdev.com.

Jim Campbell will articulate his perspective, as a current developer of affordable housing in the District with years of experience in affordable housing finance and investment, on the two inclusionary zoning proposals. In particular, he will critique the pro forma on which the DCOP's IZ proposal is based. Also, he will show how the current proposal put forth by the CMIZ can be easily incorporated into the current and future DC housing market.

Cheryl Cort

Cheryl Cort has led the Washington Regional Network for Livable Communities (WRN) as Executive Director since July of 2002, and was previously President of the Board of Directors for three years. WRN promotes transportation investments, land use policies, and neighborhood designs that enhance existing communities and protect the environment of the Washington, D.C. region. WRN specifically focuses on helping urban communities capture the benefits of smart, equitable growth. Over the last two years, Cheryl has guided WRN's assessments of housing needs throughout the region and promoted promising policy tools including inclusionary zoning and dedicated local funding for housing trust funds.

Prior to her Executive Director's position, she was the Chesapeake Bay Foundation's manager for urban and regional projects for three and one half years where she managed partnerships for CBF in Baltimore and Washington, D.C. She also worked for four years in the State of Maryland's Department of Natural Resources focusing on creating and implementing Governor Parris Glendening's Smart Growth initiatives, implementing the

Planning Act of 1992, and the Chesapeake Bay Critical Area Act. Cheryl also worked for several years on international forestry and land use policy issues for World Resources Institute. She holds a master's degree in Sustainable Development and Conservation Biology from the University of Maryland at College Park, and a bachelors degree from the University of California at Berkeley. Cheryl has resided in the District of Columbia since 1988 and is active in her local Cardozo Shaw Neighborhood Association.

Cheryl Cort will discuss inclusionary zoning in the regional context of a robust regional economy, intensifying housing market pressures, unbalanced growth leading to sprawl, and the increasing pressures on working families. She will show how more compact, mixed-income development can address some of the current housing need. She will also address the issues of parking, traffic, and capacity as it relates to Metro, infrastructure, and schools.

Nina Dastur

Nina Dastur is an Equal Justice Works Fellow at the Center for Community Change, where she staffs the DC Catalyst Project, providing technical policy assistance to grassroots organizers and low income community residents to promote civic engagement and equitable development. Prior to joining the Center, Nina was a teaching fellow in the D.C. Division of the Federal Legislation Clinic, a poverty policy clinic at Georgetown Law Center. She also worked for the Legal Aid Society of D.C. for three years, representing indigent clients in housing, family law, and public benefits matters and coordinating the organization's law reform work, focusing primarily on local implementation of welfare reform and on affordable housing issues. Following her graduation from law school, Nina worked for a year at Community Legal Services, Inc. in Philadelphia, Pennsylvania, where she represented parents in dependency proceedings before the Family Court and examined issues relating to the intersection of welfare reform and child welfare. She graduated with honors from Duke University and Harvard Law School. Nina has been a resident of the District since 1998.

Nina Dastur will testify about the development of the Campaign's proposal and the policy rationales it reflects.

Mary Spencer

Mary Spencer has been a member of DC ACORN for seven years. Most recently she assisted in presenting and collecting 2,000 post cards to City Administrator Robert Bobb that called on the Mayor to support mandatory inclusionary zoning. Ms. Spencer has been actively working on the issues of affordable housing, education and providing a living wage for DC residents. A lifetime resident of DC, Ms. Spencer will talk about the effects of the housing crisis on her community and how mandatory inclusionary zoning could help.

INTERFAITH STATEMENT OF SUPPORT

Greater Washington's Religious Community Supports Affordable Housing

While DC's booming housing market has brought tremendous new energy to our city, we the members of DC's interfaith community stand to raise our voices to defend and advance the interests of the city's marginalized communities whose members are being harmed by public policies that are failing to ensure the greater good of our city.

As a result of skyrocketing housing prices, teachers, firefighters, police officers, and other workers are forced to move further from the communities that they serve, fracturing community integrity and further polarizing our already segregated city.

Mandatory Inclusionary Zoning provides us the opportunity to address this situation by creating more equitable and diverse housing opportunities for our city.

As clergy of diverse faiths, we call on DC's City Council and Zoning Commission to pass strong legislation mandating an adequate amount of set-aside housing for low- and moderate-income residents of our Nation's Capital.

Together we can, and must, do better for our city's families and communities.

Imam Johari Abdul-Malik, Dar Al-Hijrah
Rev. Vernon Shannon, John Wesley AME Zion Church
Rev. Glenn Holburg, Grace Church
Rabbi Binyamin Biber, Machar
Rabbi Marcus Burstein, of Temple Rodef Shalom
Rabbi Fred Scherlinder Dobb, of Adat Shalom Congregation
Rev. Bob Holum, Luther Place
Rev. Graylan Scott Hagler, Plymouth Congressional Church
Rabbi Jason Kimelman Block, of Panim
Rev. Tom Knoll, First Trinity Lutheran Church
Rev. Jeffrey Krehbiel, Church of the Pilgrims Presbyterian
Rabbi Jack Luxemburg, of Temple Beth Ami
Rabbi Toby Manewith, of Temple Micah
Jana Meyer, Minister of Missions, Foundry UMC
Rabbi Jack Moline, of Agudas Achim Congregation
Rabbi Mark R. Raphael, Congregation Kehillat Shalom
Rabbi Bob Saks, of Bet Mishpacha
Hazzan Sunny Schnitzer, Bethesda Jewish Congregation
Rabbi Ethan Seidel, of Tifereth Israel Congregation
Rabbi Gerry Serotta, of Temple Shalom
Rabbi David Shneyer, of Kehilla Chadasha, Yedid DC
Rev. Dean Snyder, Foundry UMC
Rabbi Alana Suskin, of Adas Israel Congregation

Rev. Ann Yarbrough, St. Luke's Episcopal
Rabbi Danny Zemel, of Temple Micah
Rev. John Mack, First Congregation UCC
Rev. Rodger J Gench, NY Ave. Presbyterian Church
Rev. Brian Hamilton, Westminster Presbyterian Church
Rev. Knighton Stanley, People's Congregational UCC
Rabbi Sid Schwarz, of PANIM
Rev. Clark Lobenstine, InterFaith Conference of Metropolitan Washington
Siva Subramanian, the Association of Hindu-Jain Temples, Vice President, Inter Faith
Conference
Miriam Galston , InterFaith Conference of Metropolitan Washington, George Washington
University
Ruth E. Kent, InterFaith Conference Commission for Social and Economic Justice, National
Capital Presbytery Anti-Racism Team
Rev. Edward Allen White, of The Alban Institute



January 13, 2005

Squeezed Out: The Worsening Shortage of Affordable Housing for Low-Income DC Households

By Angie Rodgers

Summary

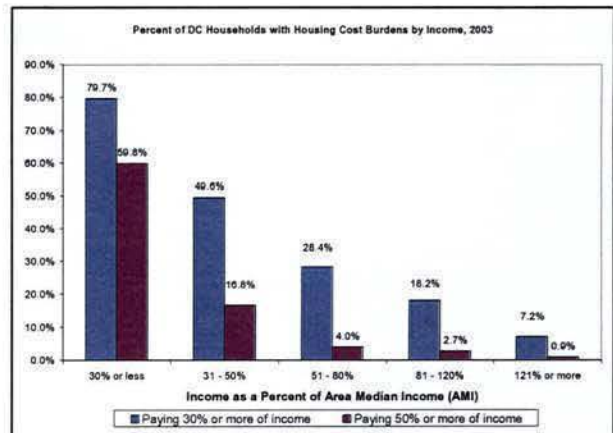
The District's housing market has undergone dramatic changes in recent years, with sharp rises in both rents and home values throughout the city. As the District moves toward constructing a comprehensive housing strategy — an effort led by a special housing task force established in 2004 — there are tremendous challenges to establishing policies that will make the District a livable city for people of all income levels. Yet achieving this goal is critical to the city's future because access to affordable and decent housing is a cornerstone of a healthy city.

This analysis uses data from the American Community Survey (U.S. Census) and the decennial census to highlight the impact of high and rising housing costs on the ability of District residents to afford their homes. It finds that, while housing cost burdens have increased for many residents and affordability problems are found at all income levels, the most severe problems are faced by DC's lowest-income residents. Most low-income households pay far more for housing than what is considered affordable, with most paying more than half of their limited income on shelter. These findings suggest that aiding the District's lowest-income residents should be a priority in a comprehensive housing strategy.

- The share of District households with unaffordable housing burdens — meaning they pay 30 percent or more of their income on housing — grew from 30 percent in 1990 to 37 percent in 2003. District households with *severe* housing cost burdens — meaning they pay 50 percent or more of their income for housing costs — also increased sharply, from 13 percent of households in 1990 to 19 percent in 2003.

- Housing affordability problems are concentrated among the District's lowest-income households. Four out of five households with income below 30 percent of area median income (AMI) — which is \$25,440 for a four-person household — have unaffordable housing cost burdens. Half of the households with income between 30 percent and 50 percent of AMI — \$25,440 to \$42,400 for families of four — devote 30 percent or more of their

Figure 1



income to housing costs. This contrasts with households that have income above 50 percent of AMI, where only one in six households has a housing cost burden.

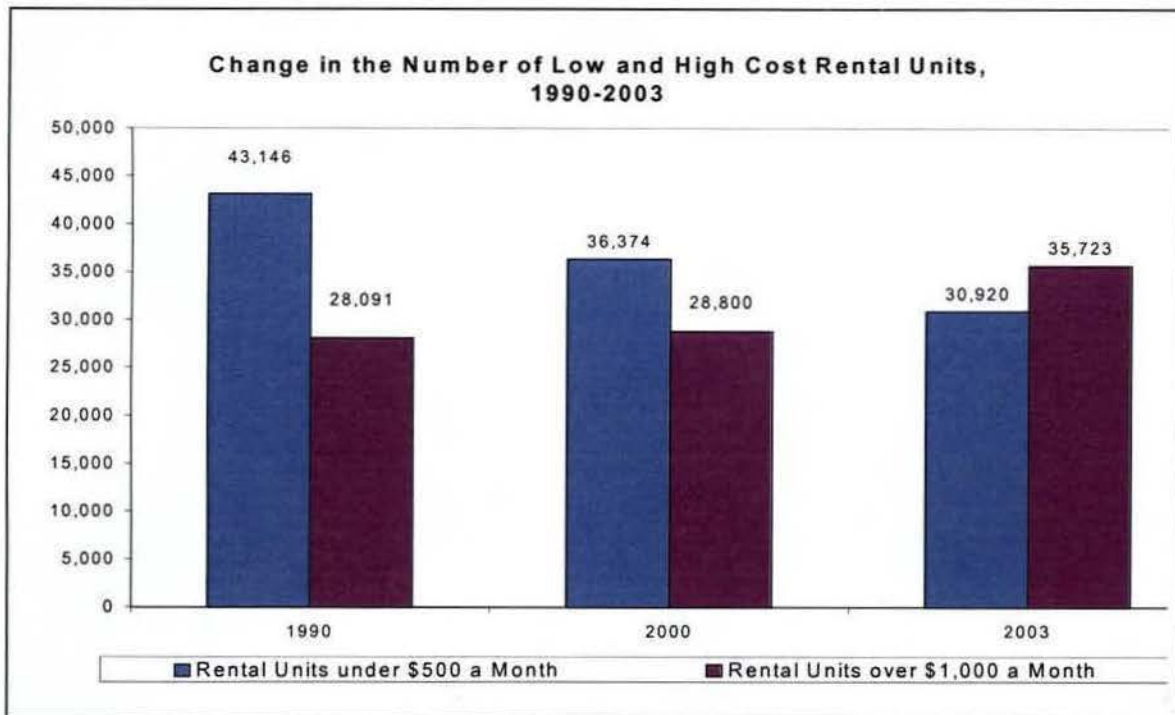
- Severe housing affordability problems—needing to spend at least 50 percent of income on housing—are limited almost exclusively to low-income residents. Some 60 percent of the households with income below 30 percent of AMI have severe housing cost burdens. By contrast, no more than 17 percent of households with income over 30 percent of AMI have severe housing cost burdens.
- The District households most likely to face severe housing affordability problems — those with incomes below 30 percent AMI — are a diverse group, but they all have limited abilities to find affordable housing and absorb rising housing costs. One third of the households are elderly or disabled. Among the non-elderly, the majority are working but in low-wage jobs such as child care. Some extremely low income households with children rely on public assistance benefits that make it virtually impossible to find affordable housing.

Income trends in the District appear to have contributed to its affordable housing squeeze. A July, 2004 DCFPI analysis of income inequality found that the gap between low-income and high-income District households was as wide or wider than in any major city.¹ This gap, the result of steeply rising incomes for the top earners and stagnating incomes for the lowest income households, seems to have had an impact on the District's housing market. Housing costs have escalated in the District, particularly since the late 1990s, and a number of low-income neighborhoods have experienced gentrification. The supply of low-cost housing has diminished greatly and the gap between the supply and demand for affordable housing has widened while the number of high-cost apartments and homes has risen dramatically.

- The District lost 5,000 — or 15 percent — of its apartments with rents under \$500 per month in just the three years between 2000 and 2003. During the same period, the number of higher-rent units — defined in this analysis as those with gross rent of more than \$1,000 per month — increased by almost 7,000, or 25 percent.

¹ *Income Inequality in the District of Columbia is Wider than in Any Major U.S. City*, DC Fiscal Policy Institute, July 2004.

Figure 2



- At the same time, the number of low-income households is increasing. The number of households earning less than \$20,000 increased by almost 5,000 between 2000 and 2003.
- As a result, the gap between the number of renter households with income below \$20,000 and the number of apartments rented that would be affordable to them (\$500 per month) has grown. In 2000, the gap was 13,600. By 2003, that gap grew to 23,900.
- A similar trend is reflected in owner-occupied units. The number of low-value homes in the District — defined in this analysis as homes with values below \$150,000 — dropped from 46,000 to 25,000 between 2000 and 2003. By contrast, the number of high-value homes — defined here as homes with values above \$500,000 — has grown from 10,800 in 2000 to 23,000 in 2003.

While these findings suggest that the District's housing resources should be targeted significantly on households with low incomes facing the most severe housing burdens, it does not mean that moderate-income households face no housing challenges. Some moderate-income families may be able to find affordable rents only by living in crowded conditions, in substandard housing, or in high-poverty neighborhoods with limited access to city services, employment, or other amenities. Moreover, many moderate-income renters face serious barriers to becoming homeowners.

For the lowest income households, however, very high housing cost burdens create serious problems that affect their ability to find and keep employment and that affect the health, education, and safety of their children. High housing costs often limit job opportunities available to low-income families because they are forced to live far away from job centers to seek affordable housing. Moreover, high housing costs often force families to move frequently. This instability interferes with the ability of adults to secure and maintain stable employment. Additionally, high housing costs squeeze already limited budgets, forcing families to sacrifice other necessities that allow them to work like child care, work clothes, and money for transportation.²

High housing costs also have a number of negative effects on children. Frequent moves prompted by high housing costs result in poor school performance, especially since it leads to poor attendance.³ High housing costs force some families to sacrifice money for adequate food. Children in these families are much more likely to suffer a litany of problems associated with inadequate nutrition, such as stunted growth.⁴ Additionally, because limited affordable housing often leads families to live in substandard housing or in high-poverty neighborhoods, the children are more likely to experience serious asthma attacks or be the victim of violent crimes.⁵

The District's current housing market, while a sign of the city's economic progress, appears to be putting pressure on those least able to absorb rising costs. The stated goal of attracting 100,000 new residents to the District over the next decade is likely to exacerbate the shortage of affordable housing for the District's poorest residents. The findings of this analysis suggest that identifying resources and policies to assist the District's lowest income households should be addressed as part of policies to attract more residents to the District.

Definitions of "Low-Income" May Result in Housing Relief that Bypasses the Most Burdened Households

This analysis examines the housing burdens of all District households, as well as comparing housing cost burdens between low, moderate, and high-income groups. According to HUD standards, households have unaffordable housing cost burdens if they spend 30 percent or more of their household income in housing-related costs. They have severe housing cost burdens if they spend 50 percent or more of their income on these costs. This analysis uses data from the American Community Survey (U.S. Census) and the decennial census to measure total housing-related costs, including rent/mortgage and utilities.

² *The Increasing Use of TANF and State Matching Funds to Provide Housing Assistance to Families Moving from Welfare to Work*, Center on Budget and Policy Priorities, February, 2000.

³ See, e.g., "A Report from the Kids Mobility Project," March 1998, available from the Hennepin County Office of Planning and Development, Government Center A-2308, 300 S. Sixth St., Minneapolis, MN 55487-0238, (612) 348-4466.

⁴ Allan R. Meyers et al., "Housing Subsidies and Pediatric Undernutrition," *Archives of Pediatric Adolescent Medicine* (1995), 149:1079-1084.

⁵ Lawrence F. Katz, Jeffrey R. Kling, Jeffrey B. Liebman, *Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program*, Unpublished Preliminary Draft, 1999.

Housing programs operated both by the U.S. Department of Housing and Urban Development (HUD) and the District typically set income eligibility levels using the area median income (AMI). Median indicates that half of the households in the area have incomes above the threshold and half have incomes below. HUD defines households with income below 80 percent of AMI as “low-income”, households below 50 percent of AMI are defined as “very low-income”, and households below 30 percent of AMI are “extremely low-income”.

While these categories would appear to reflect relatively low-income populations, they are misleading in their representation of the income of District households. HUD’s area median income figures for the Washington metro area include not only the District but also the surrounding Maryland and Virginia suburbs. The Washington metropolitan area includes some of the wealthiest suburban counties in the nation. As a result, area median income — \$84,800 for a family of four in 2003 — is one of the highest in the nation and much higher than median income in the District alone. The median income for a four-person household in the District was \$55,700 in 2003 — 66 percent of the metropolitan AMI. This means that most District households have income well below the area median income and thus could be considered “low-income”. For example, as shown in Table 1, more than two-thirds of the District’s households — 69 percent — were classified as “low-income” using the 80 percent of AMI standard as a threshold in 2003.

Table 1
2003 Area Median Income Thresholds for Four-Person Households
in the Washington Metropolitan Area

Low-Income Status	Percent of AMI	Threshold*	Percent of DC Households Under Threshold
Low-Income	80	\$67,840	69%
Very Low-Income	50	\$42,400	59%
Extremely Low-Income	30	\$25,440	33%
*These reflect income thresholds used in the District’s housing programs, such as the Housing Production Trust Fund. The HUD rules for setting these levels result in somewhat different income thresholds.			

Consequently, programs that target “low-income” households using HUD standards actually cover nearly 70 percent of the District’s households. This is significant for the allocation of limited housing assistance resources for two reasons. First, as discussed in the remainder of this analysis, housing affordability problems in the District are concentrated among households with income far below the area median. The greatest affordability problems are experienced by households below 30 percent of AMI. In fact, District households with income close to the “low-income” threshold generally do not have housing affordability problems.

Second, rents and sale price for homes developed under many housing programs, such as the District’s Housing Production Trust Fund, often are set to be affordable to families with incomes close to the eligibility limit and not necessarily to those with income far below the limit. For example, the Low-Income Housing Tax Credit is targeted on households below 60 percent of AMI, and most units developed under the program are affordable to households with income

close to 60 percent of AMI. Private developers, who produce most of the units, often prioritize families with higher incomes because the higher rent payments that can be made by these families make the housing projects easier to finance. Families with lower incomes, however, cannot afford the units. This means that housing programs targeted on “low-income” households using HUD standards may result in little assistance going to the District households most in need of aid.

This suggests that limited housing resources should be targeted on the neediest households. The findings of this research suggest that matching resources to needs would mean focusing on households with incomes below half of the area median income, with a substantial share of those funds used to assist families below 30 percent of AMI.

Affordable Housing Problems Have Worsened Since 1990

The District has seen increases in rent and home prices that have outpaced the growth in income of many District residents. As a result, many more households are paying too large a share of their income in housing costs and much more than they were paying 15 years ago.

- Some 37 percent of District households — 88,000 out of 236,000 households — had housing cost burdens in 2003 — meaning that they paid 30 percent or more of their household income in housing costs.⁶
- This represents a significant increase from 1990 when 30 percent of the District’s households — 73,400 out of 248,000 — had unaffordable housing burdens.
- Renters are almost twice as likely to experience unaffordable housing burdens as homeowners. Almost half—46 percent—of renters (over 61,000 out of 133,000 renting households) have housing burdens. This compares to 26 percent of homeowners — over 26,000 out of 103,000 owner households — that have housing burdens. (See Figure 3)

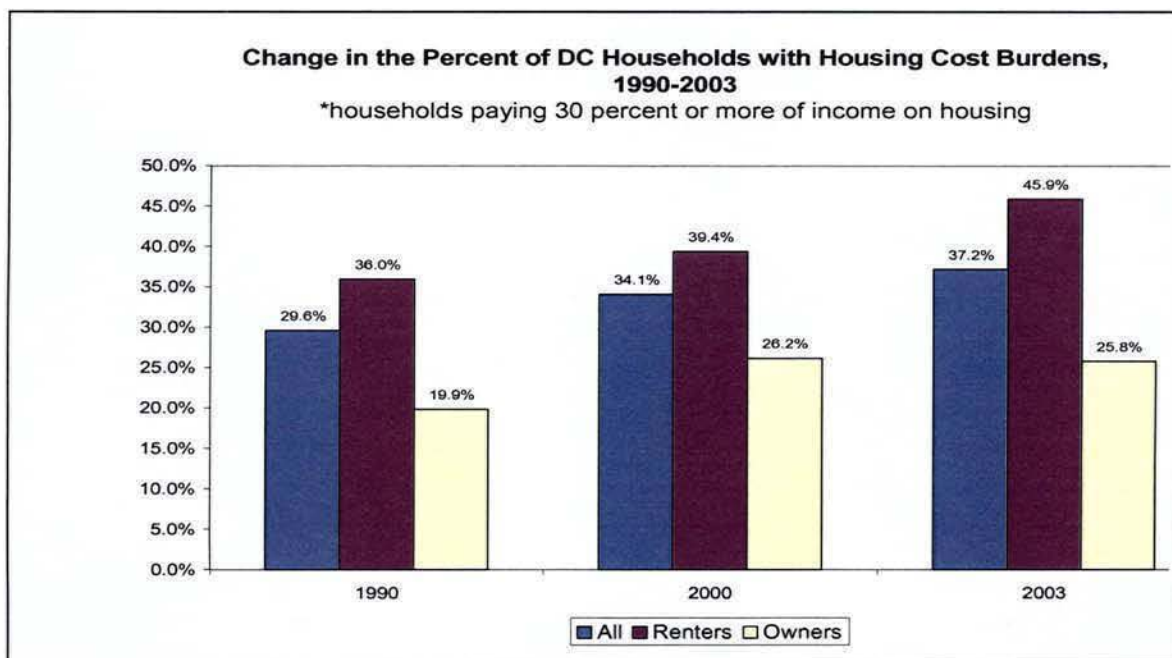
Severe Housing Burdens Have Also Increased

Almost one in every five District households — some 44,000 — has severe housing burdens, meaning they spend 50 percent or more of their income on housing. This is a substantial increase since 1990, when 13 percent of households — some 32,000 — had severe housing burdens.

- Some 25 percent of renter households have severe housing burdens compared with 10 percent of homeowners.
- The majority of the District households with severe housing burdens are renters. Of the 44,000 households, some 34,000 are renters. (See Figure 4)

⁶ Note that the approximately 11,000 households reporting “no cash rent” were not included. Because they report no gross rent or selected monthly owner costs, their housing burden could not be calculated.

Figure 3



Housing Burdens Disproportionately Affect Low-Income Households

Although unaffordable housing cost burdens are experienced by households at a variety of income levels in the District, low-income households are significantly more likely to face housing affordability problems.

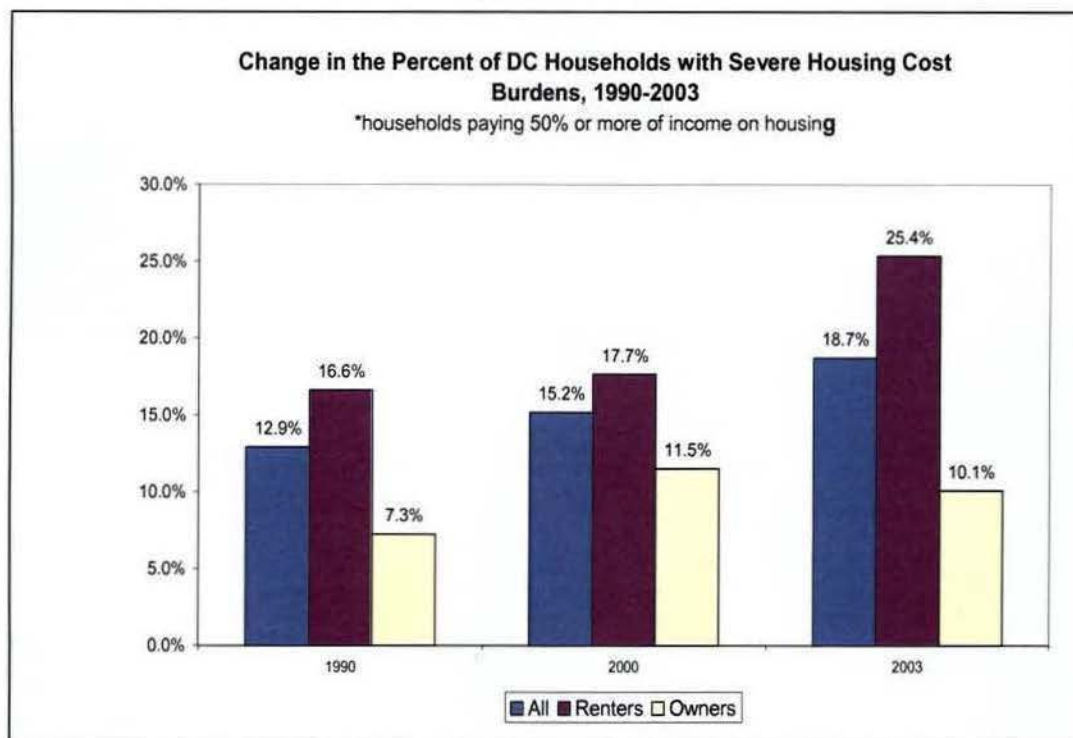
- Some 80 percent of District households with income below 30 percent of AMI have unaffordable housing burdens. (See Figure 5.)
- Half of District households with income between 31 and 50 percent of AMI have housing burdens.

The percentage of burdened households decreases significantly at higher income levels. Some 28 percent of households with incomes between 51 and 80 percent of AMI and 18 percent of those between 81 and 120 percent of AMI have unaffordable housing burdens. Only a small fraction of households with income above 120 percent of AMI — seven percent — face such problems.

Severe housing burdens are almost exclusively a problem for households with income below 30 percent of AMI.

- Some 60 percent of all District households with incomes below 30 percent of AMI — three out of five — have severe housing burdens. (See Figure 6.)

Figure 4

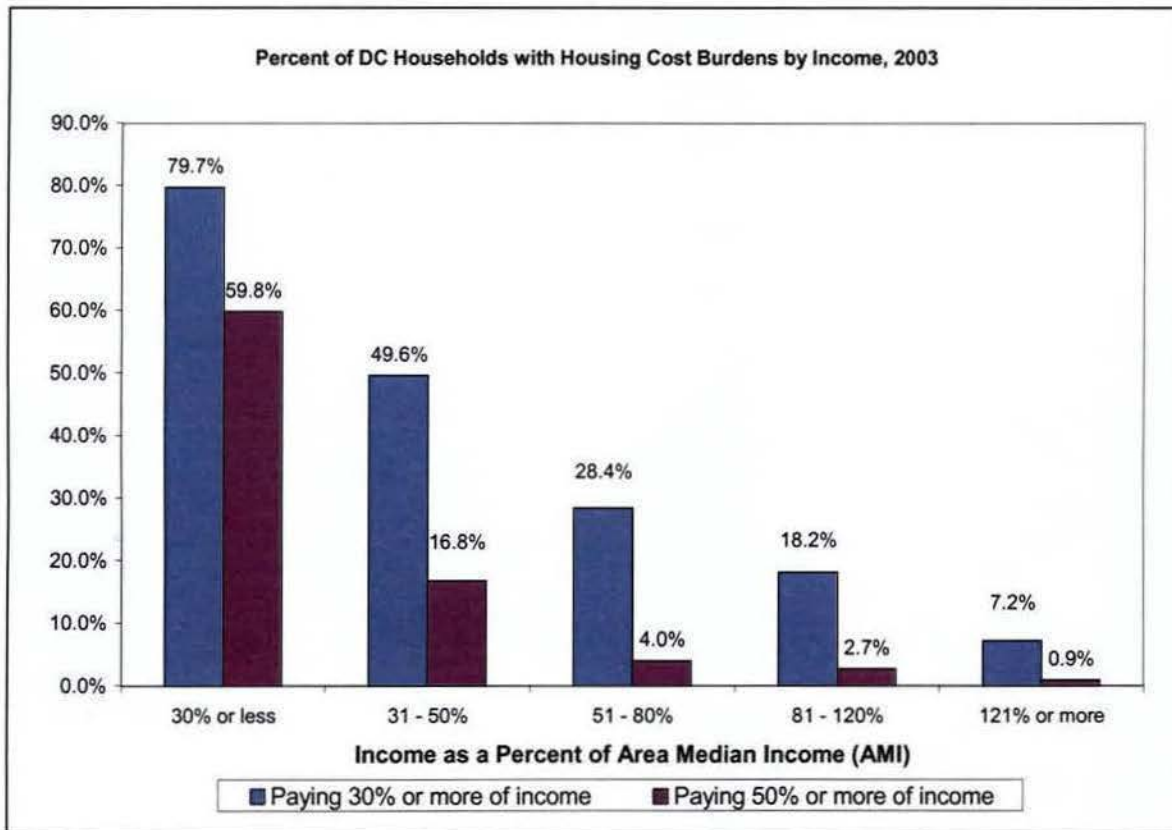


- The incidence of severe housing problems declines rapidly as income rises. Just 17 percent of households with income between 31 and 50 percent of AMI have severe housing burdens.
- Fewer than four percent of those in income groups above 50 percent of AMI — \$42,400 or more for a four-person household — have housing burdens this high.

Because lower-income households are much more likely than moderate or high-income households to have housing problems, they represent the vast majority of District households with unaffordable housing burdens. Nearly all of the District households with severe housing cost burdens have extremely low incomes.

- More than half of the 88,000 District households with housing cost burdens have income below 30 percent of AMI.
- Nearly three out of four households with housing cost burdens have income below 50 percent of AMI. (See figure 7.)

Figure 5

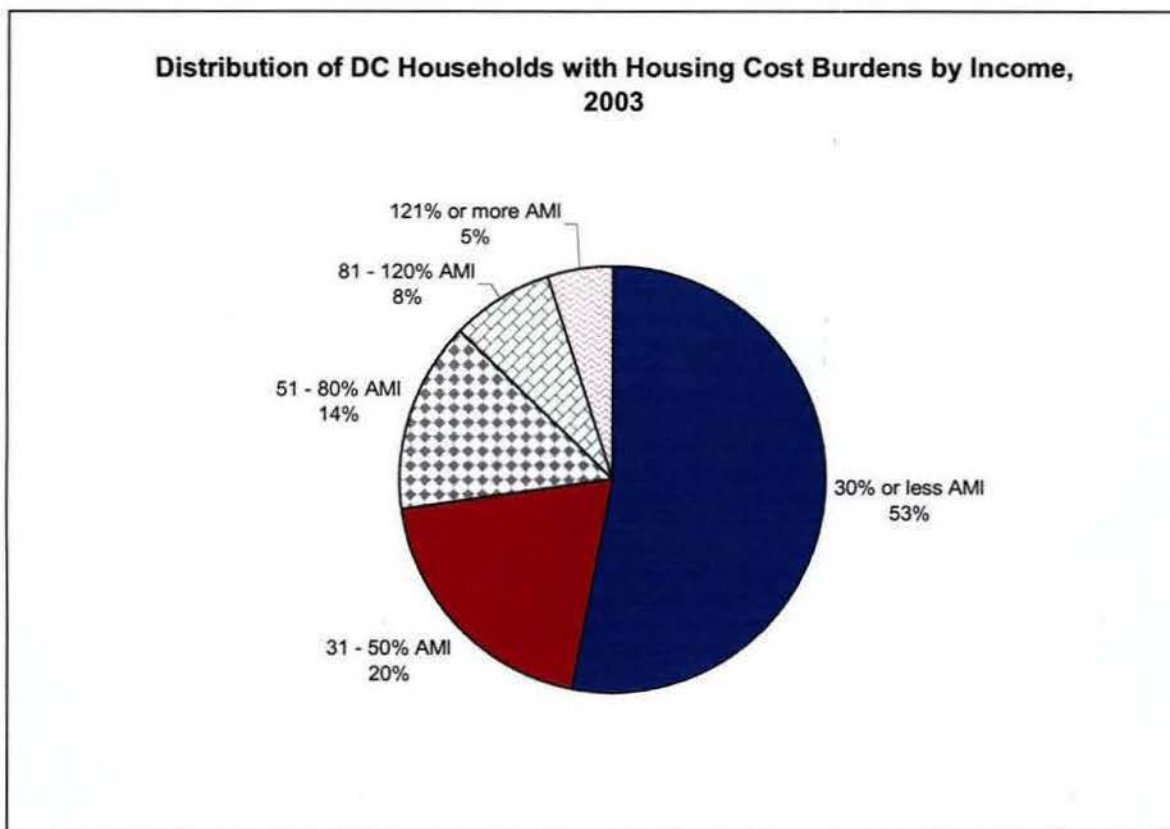


- Of the 44,000 District households with severe housing burdens, 80 percent — or 35,000 households — have income below 30 percent of AMI.
- Some 41,000 — or 93 percent — of the households with severe housing cost burdens have income below 50 percent of AMI.

Households Below 30 Percent of AMI Find Little Relief

As noted, the 66,000 extremely low-income households in the District are more likely to face housing affordability problems than any other income group. Some 80 percent of them have housing cost burdens; many of those who do not face these burdens likely receive housing assistance that helps cover their housing costs. These households are a diverse group. It includes many elderly and disabled households, many of whom rely on fixed incomes. This group also includes many who work but at low wages. Extremely low-income households also include families that face housing affordability challenges because they rely on very meager public assistance benefits. In many cases, extremely low-income households are unable to find affordable housing or keep pace with escalating rents and home prices.

Figure 6



- Almost one in four of the District households with income below 30 percent of AMI is headed by an elderly resident. *(See Figure 9.)*
- Another 10 percent of these households is headed by a non-elderly adult with a disability.
- Some 67 percent of the households with income below 30 percent of AMI — 45,000 households — have at least one non-elderly, able householder or spouse. Some 28 percent of the non-elderly households have children and 39 percent have no children.

Most Low-Income Householders Work, But in Low-Wage Jobs

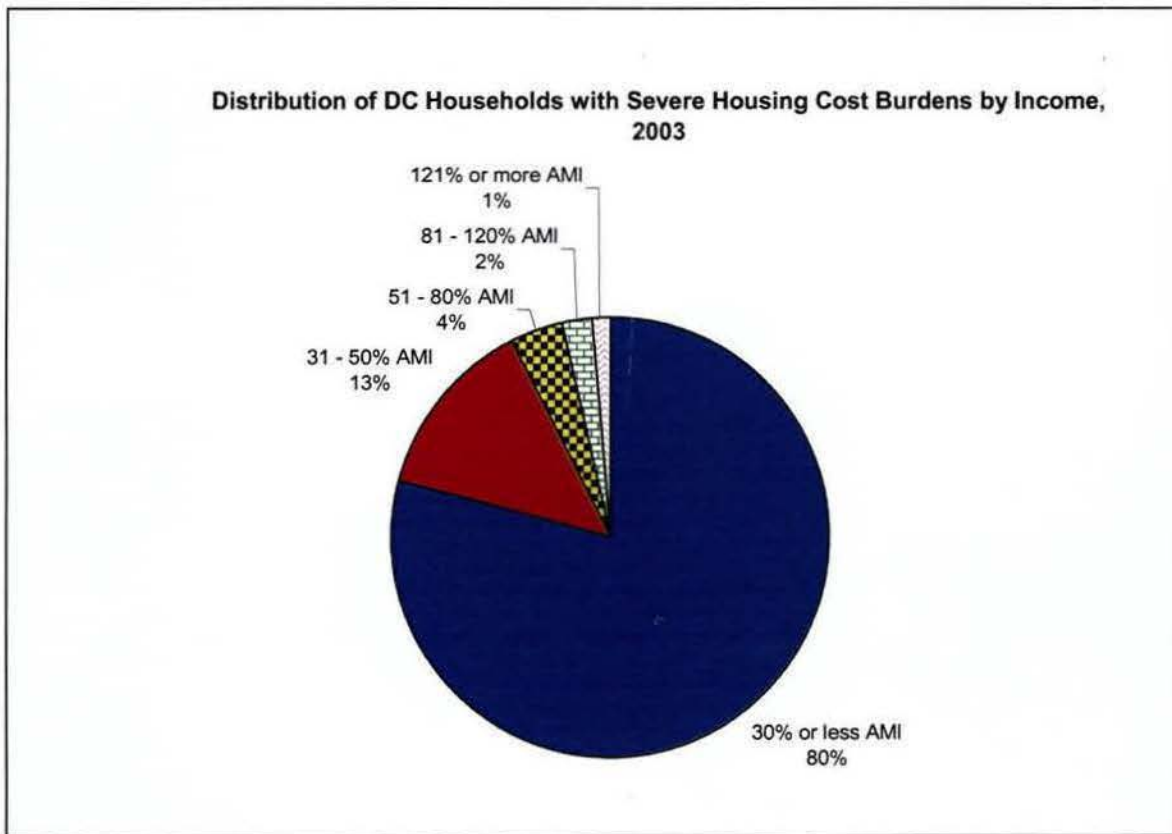
Most of the extremely low-income households in which adults are not disabled or elderly have at least one working adult.

Profile of a Burdened DC Household

Mary, 69, and Joe, 83, paid 66 percent of their annual income in housing costs in 2003. They received a combined \$15,700 in benefits from social security. They rented a 2 bedroom apartment for \$860 per month.

**Names have been made up, but reflect actual households reporting income and housing costs on the 2003 American Community Survey.*

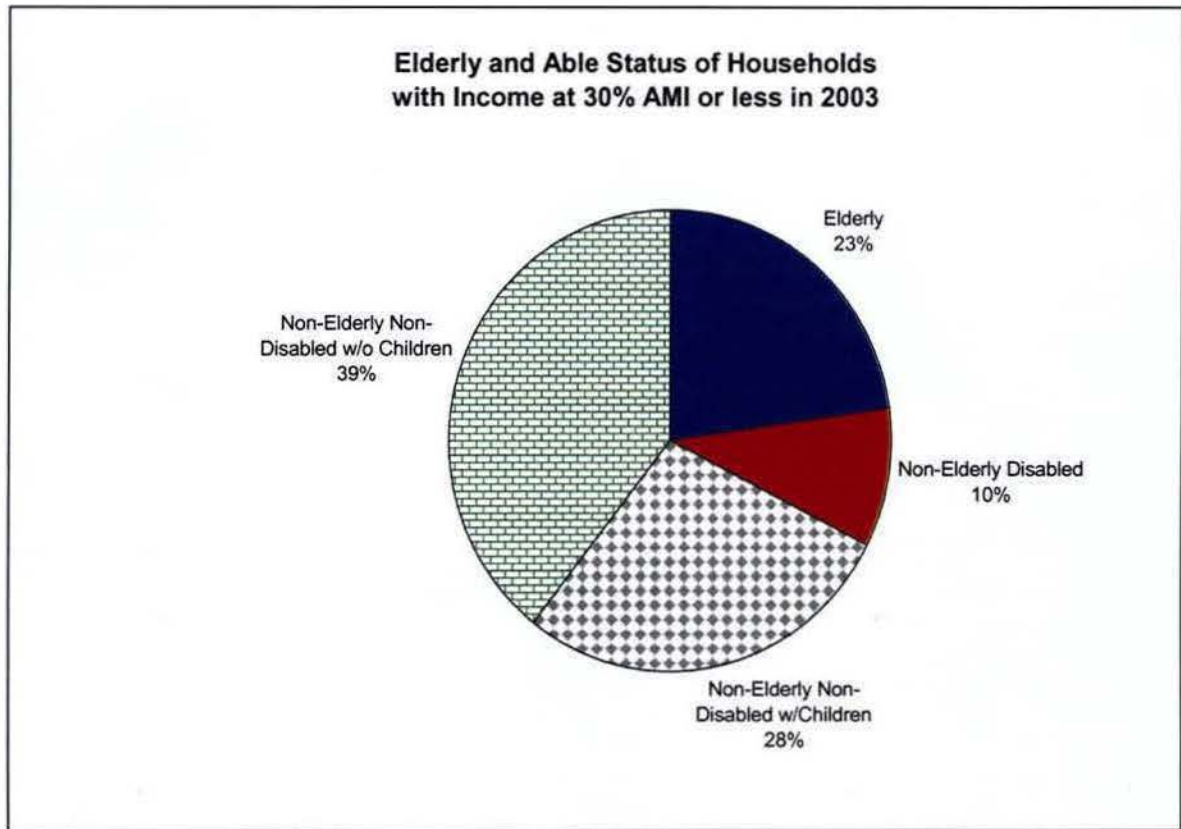
Figure 7



- Two-thirds of these 45,000 households had at least one householder or spouse who worked in 2003.
- Some 35 percent worked 1040 hours — the equivalent of a full year of employment at half-time — or less. An additional 31 percent worked more than half-time (1040 hours or more).

Profile of a Burdened DC Household
 Jane, 44, paid 64 percent of her income in housing costs in 2003. She is disabled and received \$10,800 in benefits for the year. She rented a studio for \$580 per month.
**Name has been made up, but reflects actual households reporting income and housing costs on the 2003 American Community Survey*

Figure 8



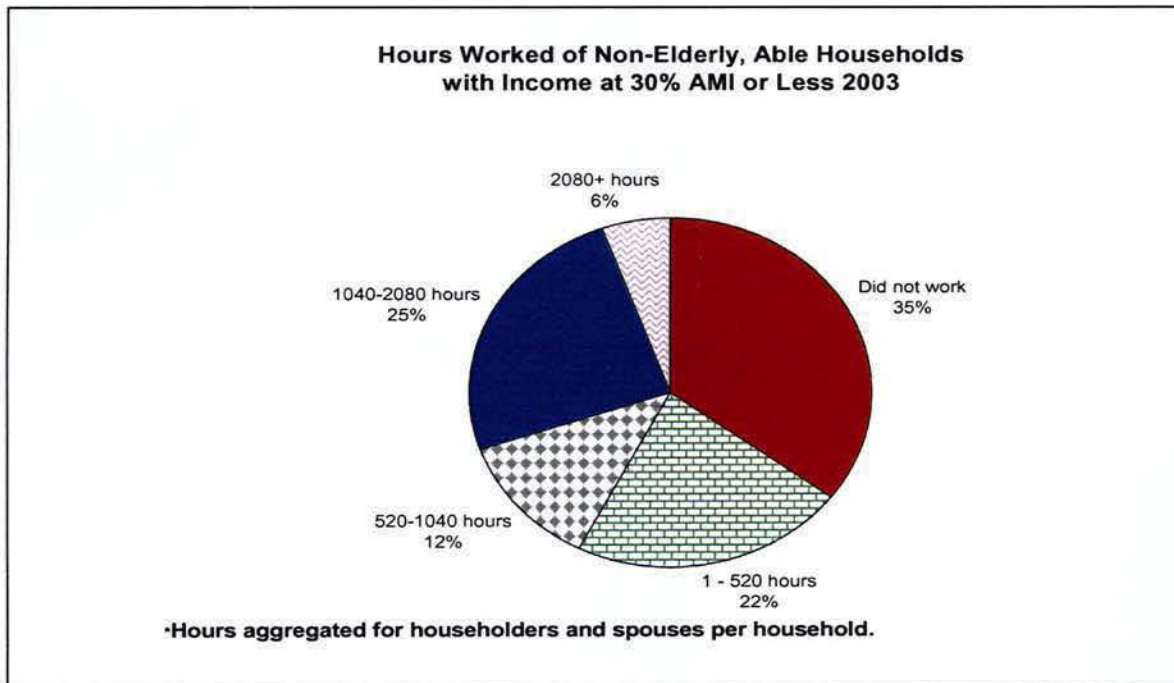
Working adults in households with income below 30 percent of AMI are employed in a variety of low-wage jobs. As shown below, they play critical roles in the local economy.

Table 2
Top Ten Occupations Among Working Households with Extremely Low Incomes

Occupation	Number Employed
Security Guards	2,555
Janitors	2,523
Cashiers	2,515
Maids	1,634
Secretaries/Admin Assistants	1,302
Receptionists	1,192
Teacher Assistants	1,025
Home Health Aides	981
Child Care Workers	970
Restaurant Wait Staff	674

Source: U.S. Census, 2003 American Community Survey

Figure 9



Despite Work and Public Assistance, Low-Income Residents Still Have Difficulty Finding Affordable Housing

While many low-income households are working, many also depend on public assistance. Too often, these families rely on very modest assistance that makes it difficult to find affordable housing. The maximum benefit for a single mother with two children is now just \$379 per month, or \$4,548 per year — 29 percent of the federal poverty level. Adding in food stamp benefits raises this family's income to \$750 per month, or \$9,000 per year. This is still only 60 percent of the federal poverty level.⁷ Moreover public assistance benefits declined significantly over the past decade and a half. The value of the maximum welfare benefit for recipients with no other income dropped by 40 percent, after adjusting for inflation, between 1990 and 2004.

Profile of a Burdened DC Household

Tom, 32, and Michelle, 31, paid 49 percent of their income in housing costs. They have a nine year old daughter, Taylor. While Tom did not work in 2003, Michelle worked full-time as a hairstylist and earned \$28,000 in 2003. They rented a 2 bedroom apartment for \$1,140 per month.
*Names have been made up, but reflect actual households reporting income and housing costs on the 2003 American Community Survey.

Profile of a Burdened DC Household

Martin, 31, paid 62 percent of his income in housing costs. He worked full-time as a construction laborer in 2003 and earned \$14,700. He rented a one bedroom apartment for \$754 per month.
*Name has been made up, but reflects actual households reporting income and housing costs on the 2003 American Community Survey.

⁷ *The District Should Use Its Upcoming TANF Bonus to Increase Cash Assistance and Remove Barriers to Work*, Dc Fiscal Policy Institute, September 2004.

Sharp Increases in Rent and Home Prices Have Made Affordability Problems Worse

Increases in both rents and home prices in the District have been substantial over the past 15 years. The most dramatic changes have taken place in just the last three years, as the city's real estate market heated up sharply in an apparent response to the District's increasing popularity among middle and upper income households. Rising rents have had an especially adverse effect on the District's low-income population. As the number of higher-cost rental units has grown, the number of units affordable to low-income families has diminished rapidly. The gap between the number of low-income households who need affordable housing and the number of affordable units available to them has grown substantially, and particularly since 2000.

Average Rents Increased by over 50 Percent between 1990 and 2003

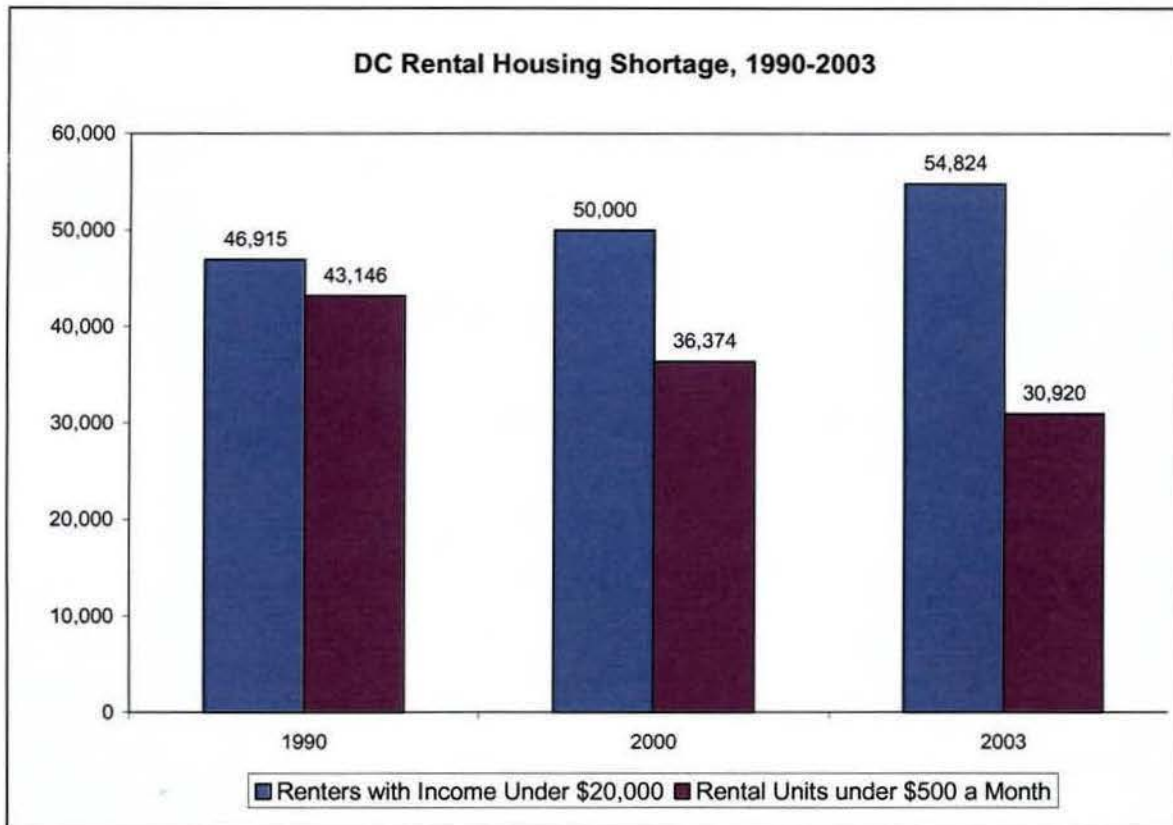
- In 1990, the average gross rent was \$440 per month.⁸ The majority of District renting households — 72 percent — could afford the average rental in 1990.
- By 2000, the average gross rent had increased by 76 percent to \$774 per month. (All figures adjusted for inflation to equal 2003 dollars.) Some 53 percent of District renter households could afford the average rental in 2000 — 19 percentage points fewer than in 1990.
- In 2003, the average gross rent was \$840 — a 8.5 percent increase since 2000 and a 91 percent increase over the 1990 average rent. Only 43 percent of the District's renter households could afford this average.

These figures refer to rents paid by all DC renters, which includes a number of households living in units with below-market rents, such as households in subsidized housing and those living in rent-controlled apartments. Other indicators of market rents suggest that the costs of *obtaining* rental housing in DC have grown even faster. For example, a recent report from the Fannie Mae Foundation found that the median rent for advertised two-bedroom apartments in DC rose 84 percent between 2001 and 2003, from \$950 per month to \$1,750 per month.⁹

⁸ All figures are adjusted for inflation to equal 2003 dollars.

⁹ *Housing in the Nation's Capital, 2004*, Fannie Mae Foundation, December 2004, p. 37.

Figure 10



The Shortage of Affordable Rental Housing Has Worsened Since 1990

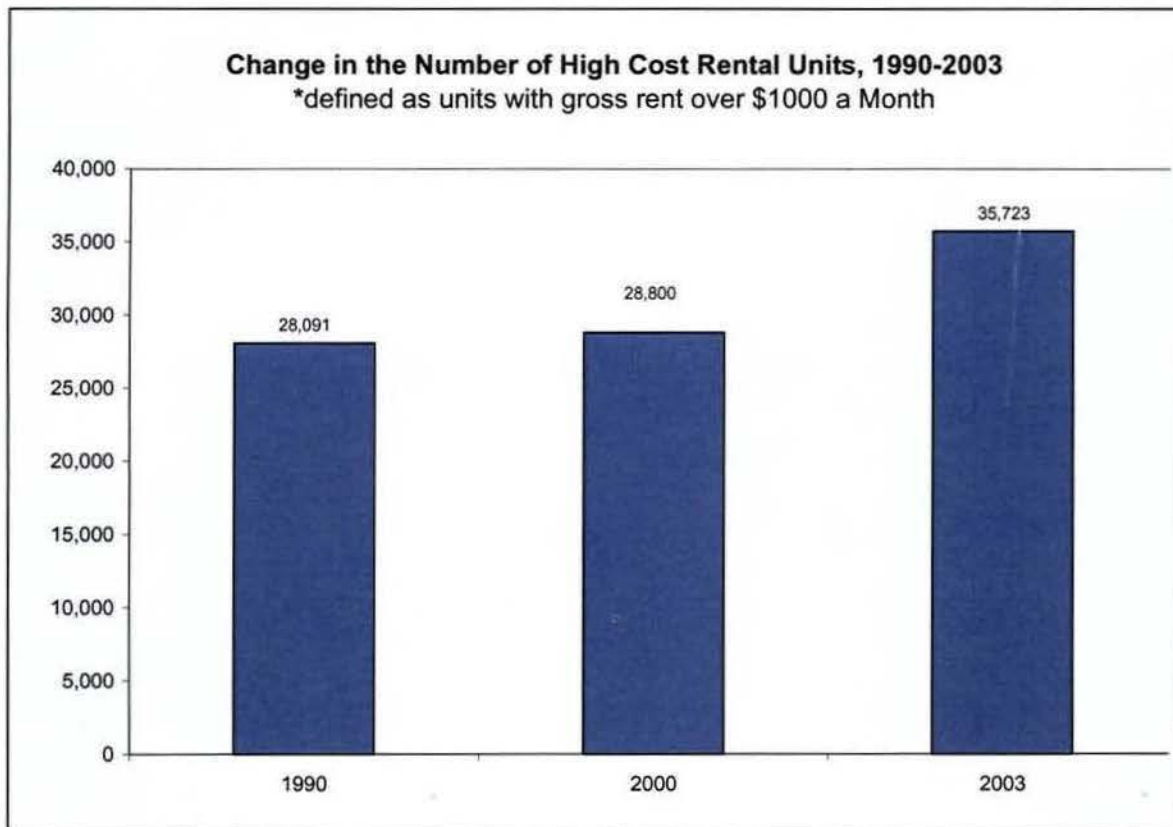
One way to assess the District's affordable housing shortage is to measure the gap between the number of low-cost housing units and the number of low-income households who need the units.

This analysis defines low-income households as those with income below \$20,000 per year — which equaled 24 percent of AMI in 2003 — and low-cost rental units as those with gross rent at less than \$500 per month — 30 percent of a \$20,000 annual income. The District's affordable housing gap has grown since 1990, both because the number of low-income households rose while the number of low cost housing units declined. The gap widened substantially in just the past three years.

- In 1990, there were 46,900 renting households with annual incomes less than \$20,000.¹⁰ There were 43,100 rental units with gross rent below \$500 — a shortage of 3,800 units.

¹⁰ All incomes were adjusted for inflation to equal 2003 dollars.

Figure 11

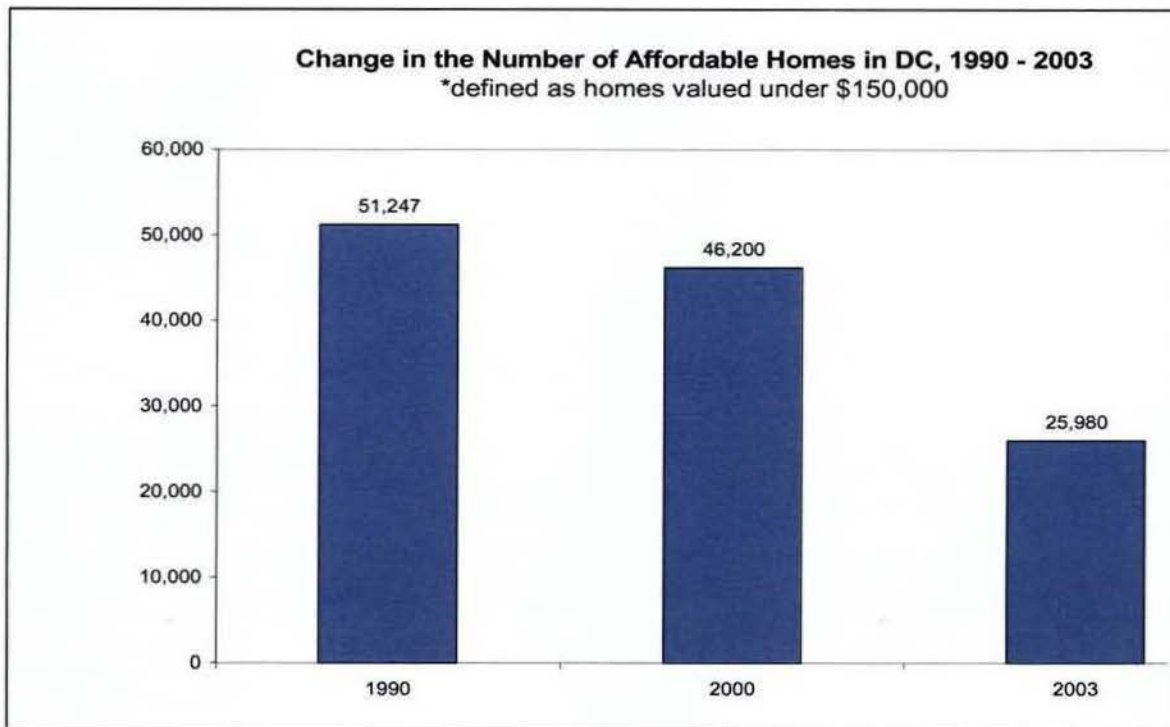


- Between 1990 and 2000, the affordable housing gap grew to 14,000 as the number of low-income households rose to 50,000 and the number of low-cost rental units fell to 36,400.
- By 2003, there were 54,800 renting households with income below \$20,000 per year and only 30,900 units with gross rent below \$500. In just three years from 2000 to 2003, the District's affordable housing shortfall grew an additional 10,000 units, from 14,000 to 24,000, as much as it had in the entire 1990s. (See Figure 10.)

The recent increase in the affordable housing shortfall resulted in large part from a precipitous decline in the city's supply of low-cost housing. At the same time, the number of available high-cost rental units rose by a similarly dramatic amount. This suggests that the District's hot real estate market, and gentrification in many neighborhoods, is having a direct adverse effect on the city's low-income households.

- Between 2000 and 2003, the number of low-cost units fell by more than 5,000 from 36,400 to 30,900. In just three years, the District lost 15 percent of its affordable housing supply.

Figure 12

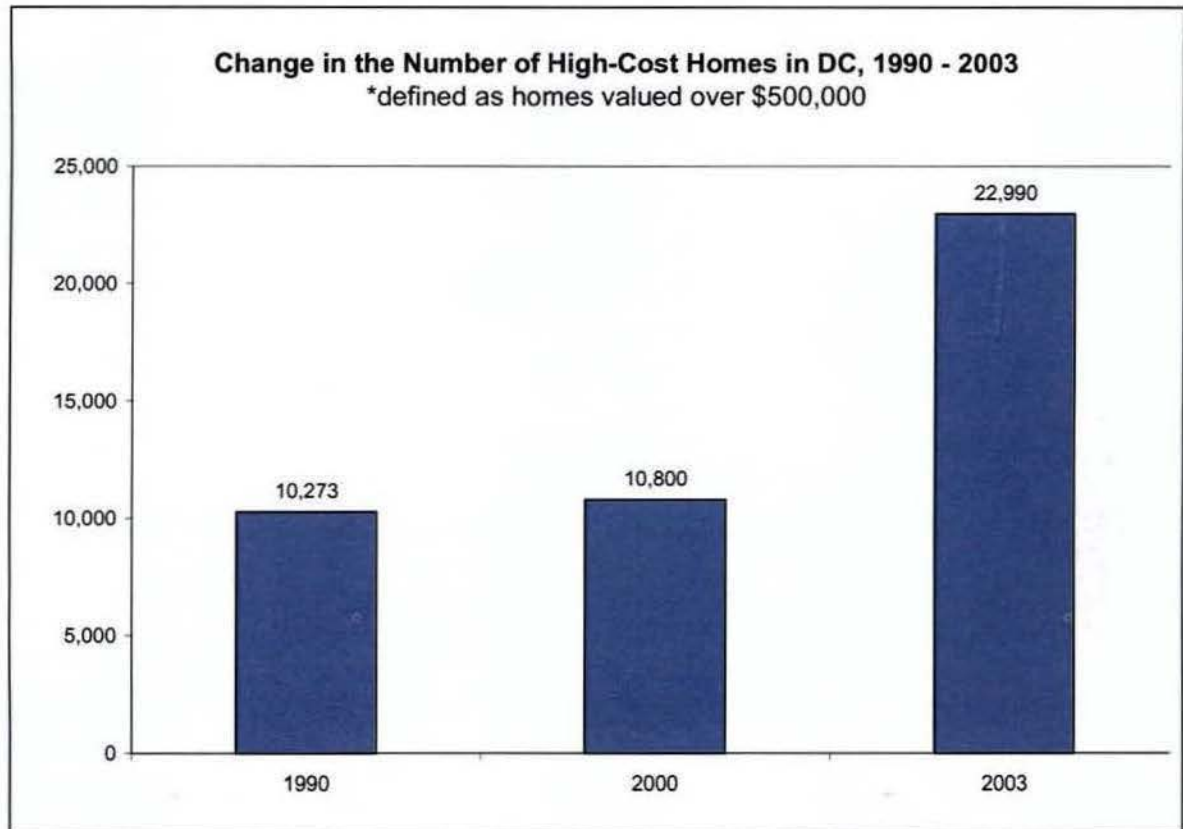


- During that same period, the number of high cost units, defined here as those with rents \$1,000 or more, grew from 28,800 to 35,700. This is an increase of nearly 7,000, or 25 percent. (See Figure 11.)

Counting the number of rental units affordable to households with annual income of \$20,000 or less per year is just one way to demonstrate the shortage of affordable housing units. Analyzing lower incomes, however, would yield an even wider gap. For example, in 2003 almost half — 47 percent — of the units with gross rent below \$500 were clustered in the \$300 to \$500 range. This means that households would need incomes of at least \$12,000 (and up to \$20,000) to afford half of the units. Two-thirds of the renters counted as having income below \$20,000 actually earn less than \$12,000. Therefore, the \$300 to \$500 units were unaffordable for these households.

Moreover, low-income households compete for the most affordable rents with households that earn more. In other words, all of the units with gross rent below \$500 per month are not necessarily rented by the households with income below \$20,000. Some of those units are occupied by households with greater income. If low-rent units are occupied by high income households, then the number of units affordable to low-income households actually is lower.

Figure 13



The District Has Lost Nearly Half of its Affordable Homes Since 2000

Just as the District has experienced a sharp decline in affordable rental housing, the supply of low-cost owner-occupied homes also has dwindled, particularly in the past three years. The number of high value homes, by contrast, has increased rapidly. This suggests that sharp rises in home prices in the District are reducing opportunities for homeownership for the city's lower-income households.

- The District has lost more than 20,000 units of its affordable homeowner properties since 2000. The number of District homes valued under \$150,000 decreased from 46,000 in 2000 to 26,000 in 2003.¹¹
- This follows a decade in which the number of low-value homes fell by 5,000. Overall, the number of homes valued at \$150,000 or less has fallen by half since 1990, from 51,000 to 26,000. (See Figure 12.)

¹¹ All values are adjusted for inflation to equal 2003 dollars.

While the number of affordable homes has drastically declined, the number of high-value homes — defined here as homes valued over \$500,000 — has increased just as dramatically

- The number of high-value homes more than doubled — from 11,000 units in 2000 to almost 23,000 in 2003.
- This follows a 10-year period in the 1990s, when the number of high-value homes increased only modestly, from 10,000 to 10,800 (*See Figure 13*)

Conclusion

There appear to be few areas within the District that have not been affected by the tremendous rebound in the city's real estate market. Rents and home sales prices are rising throughout the District, a strong sign of economic progress and the increasing popularity of the city as a place to live. While this is good news in many ways, housing costs are now rising far faster than incomes, especially for lower-income households.

This means that many DC residents are finding it increasingly difficult to remain in the city, including many who work and make important contributions to the local economy. As affordable housing choices dwindle, low-income families become more concentrated in the few neighborhoods that remain affordable, the resulting concentration of poverty contributes to a variety of negative outcomes, including poor school performance and high crime. Moreover, families forced to pay most of their limited incomes for housing face difficulty meeting other basic needs, such as food, and are regularly at risk of losing their home.

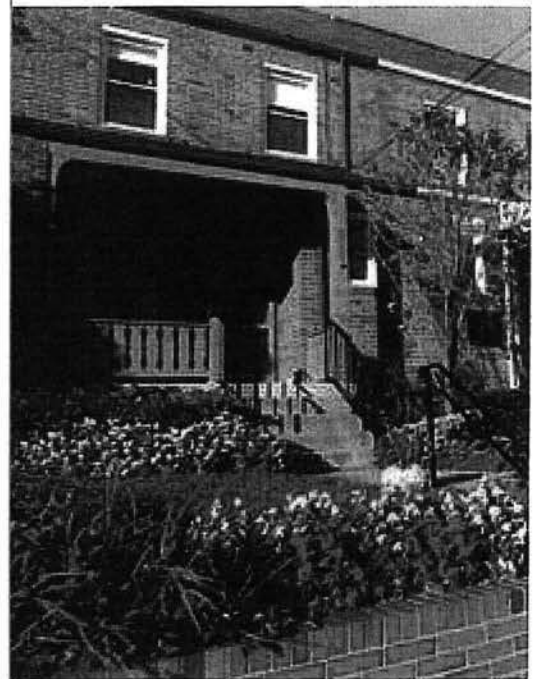
These findings suggest that a comprehensive housing strategy for the District should make a priority of addressing the needs of the city's lowest-income residents. Such an investment will enhance family and neighborhood stability and will promote economic growth by making the District a place to call home to a broad workforce.

Housing in the Nation's Capital

For more than a decade, the Washington metropolitan area has experienced robust economic health and vigorous population growth. The region weathered the recent national economic downturn remarkably well and is now enjoying more rapid growth in employment and wages than almost any other metropolitan area in the country.

This economic prosperity generates tremendous opportunities — and tremendous challenges. Home prices and rents are rising faster than incomes, creating serious housing hardship for working families. Unbalanced patterns of growth within the region are exacerbating these market pressures: Home prices and rents are highest where job opportunities are most abundant, a combination that fuels sprawl by pushing families into the outermost suburbs in search of affordable homes.

The unintended consequences of our current growth are already raising alarms — about spiraling home prices, traffic congestion, endless commutes, deteriorating air quality, and the loss of farmland, open spaces, and wildlife habitat. But it is not too late to choose a different path, capitalizing on our prosperity and managing growth more strategically.





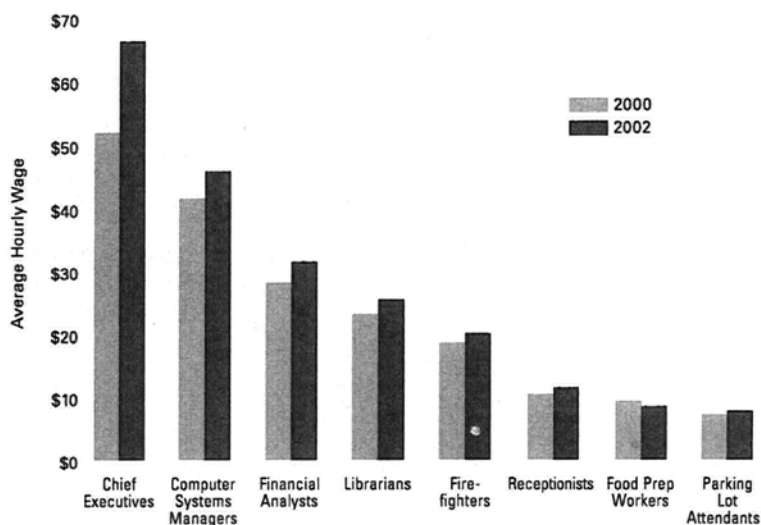
Regional Economy Remains Robust

The Washington region's economy is now outperforming most metropolitan areas nationwide. Unemployment as of 2003 was the lowest of the nation's top 100 regions, and employment growth since 2000 has outpaced all but a few metro areas. Growth in federal contracting for defense and homeland security helped the area economy weather the post-2000 economic downturn better than almost any other region. And the economic assets of the Washington region are now paying off even more dramatically than a year ago. Over the past year, the emerging national recovery has spurred growth in tourism and finance, enterprises in which our region specializes.

All income groups are benefiting from the region's prosperity, with wage rates and wage growth substantially above national averages. But recent gains are much larger for high-wage occupations than for low-wage jobs. For example, the average wage for chief executives in the Washington region grew by 27 percent between 2000 and 2002, while the average pay for parking lot attendants rose only 8 percent. This disparity widened the already substantial gap between the highest and the lowest wage earners (Figure ES.1).

The already substantial gap between the highest and the lowest wage earners is widening.

FIGURE ES.1: Substantial and Increasing Gap in the Region's Wages



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

The District of Columbia has shared in the region's robust economic performance. The number of jobs located in the city has climbed steadily since the late 1990s, and private-sector job growth is now



nearly as strong in the District as in the region as a whole. Trends in the number of employed residents are also encouraging, with only a slight drop since 2000, a period when most of the rest of the country experienced a pronounced economic downturn.

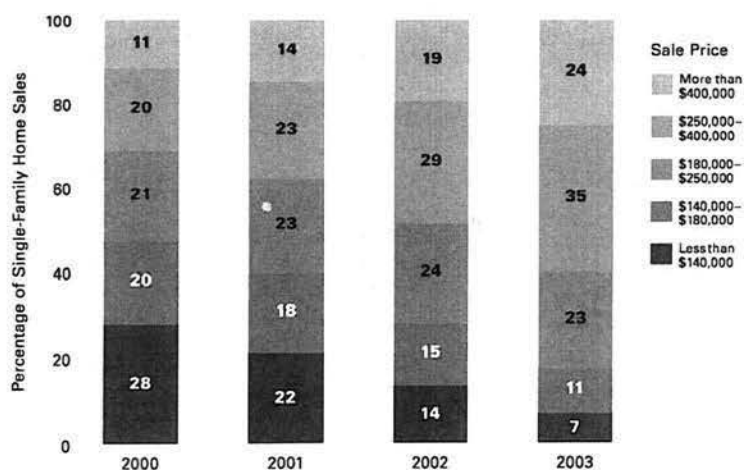
Information on population trends in the District is contradictory: The U.S. Bureau of the Census estimates a decline since 2000; city officials disagree. Evidence based on the number of federal tax filers, however, suggests that the number of households living in the city is on the increase, regardless of population trends.

Housing Market Pressures Intensify

The regional economic boom is intensifying housing market pressures. From 1990 to 2000, housing production failed to keep pace with population growth, causing significant declines in both rental and homeowner vacancy rates. A drop in the number of residential building permits issued relative to population growth since 2000 suggests that inadequate production remains a serious concern.

Rapid increases in both home sale prices and rents reflect increasingly tight housing market conditions across the region. For example, in 2000, three of every 10 single-family home sales exceeded \$250,000; by 2003, this proportion jumped to six in 10. As shown in Figure ES.2, the share of homes priced above \$400,000 more than doubled between 2000 and 2003. During this same period, the share of homes reasonably priced for lower-income families dropped precipitously.

FIGURE ES.2: Single-Family Home Prices Skyrocketing in the Region



Source: Metropolitan Regional Information Systems, Inc.

The regional economic boom is intensifying housing market pressures.



The District's housing market is especially hot. The median price of a single-family home rose 26 percent — reaching \$292,000 — just from 2002 to 2003. Condominiums, with a median price of \$249,000 in 2003, are also moving out of reach for families with modest incomes. Advertised rents spiked even more, climbing by 60 percent between 2001 and 2003 for a one-bedroom apartment. Families at the low end of the job scale face heightened pressures. The median advertised rent for a one-bedroom apartment now exceeds the reach of a family supported by a full-time receptionist, bookkeeper, or parking lot attendant.

Levels of housing hardship throughout the region are high. In 2000, for example, the majority of low-income families — those supported by a nurse or firefighter, for example — struggled with unaffordable housing costs. This trend is on the rise, stretching (and sometimes breaking) the capacity of low-income workers to make ends meet. Moderate-income families are also beginning to feel the squeeze.

Unbalanced Growth Fuels Sprawl, Burdens Working Families

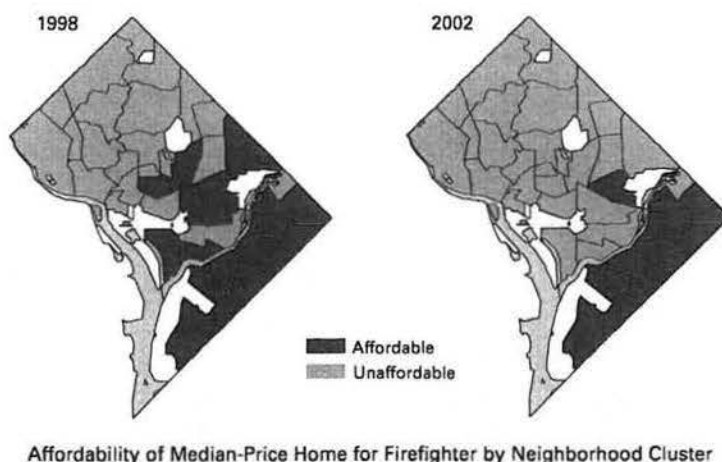
Unbalanced patterns of growth within the region are contributing to the housing challenges that families face. Higher-wage jobs (such as those for lawyers, computer system managers, and chief executives) are concentrated in the District of Columbia and the western suburbs — particularly along the Dulles and I-270 corridors. Housing demand in these areas has sent housing costs soaring.

As a consequence, the region has a geographic mismatch between homes and jobs: Affordable housing is most scarce where well-paying jobs are most abundant. Fairfax County, for example, accounts for 17 percent of the region's jobs paying under \$35,000, but only 10 percent of the region's homes that are affordable to families earning under \$35,000. In fact, more than four of every 10 housing units in Fairfax require a household income greater than \$75,000 to be affordable. The high housing costs in the job-rich western suburbs are helping to fuel sprawl, as families look farther and farther out for affordable housing. Between 2000 and 2003, two-thirds of the region's total population growth occurred in the Outer and Far Suburbs, with Loudoun County becoming the nation's fastest-growing county. (Map 1.1 in the Introduction shows the Outer and Far Suburbs and the other subareas of the Washington region.)



Housing market pressures are not only fueling sprawl and extending commuting times but also generating a pattern of declining affordability within the District of Columbia. The upward spiral of prices has moved once-affordable neighborhoods out of reach for many working families. As shown in Map ES.1, a family supported by a firefighter could afford the median-price home in only 12 neighborhood clusters in 2002, down from 18 in 1998.

MAP ES.1: Working Families Priced Out of More Neighborhoods in the District



Sources: District of Columbia Real Property Assessment Files, 1998 and 2002; U.S. Bureau of Labor Statistics, Occupational Employment and Wage Estimates, 1998 and 2002.

Note: A firefighter could afford a first home costing \$111,000 in 1998 and \$128,000 in 2002.

The upward spiral of prices has moved once-affordable neighborhoods out of reach for many working families.

Despite these ominous trends, pockets of affordability remain — and are not limited to the Far Suburbs. In many neighborhoods east of the Anacostia River in the District and throughout Prince George's County, prices and rents are more affordable for low- and moderate-income families. And many of these areas could benefit from higher levels of housing demand, highlighting the importance of investments in public safety, school quality, retail development, and other neighborhood amenities.

Transforming Adversity into Opportunity

What do the coming decades hold for our region if current growth and development patterns continue? Looking to other metropolitan areas around the country, we see the potential consequences of the kind of unbalanced growth we are now experiencing. Will the Washington region become more like the San Francisco Bay area, where housing



costs are completely out of reach for all but the most affluent? Or like Los Angeles, where a typical peak-period commuter endures 93 hours of traffic delays each year? Will our region become more like the Houston area, where sprawling development and traffic congestion have produced the nation's worst air quality? Will highly skilled workers avoid moving to the area because of its high-priced housing and deteriorating quality of life? Will potential new businesses begin to see escalating housing costs and long commuting times as significant liabilities and look elsewhere to invest and grow?

None of these scenarios is inevitable. None need become reality. The Washington region retains the capacity to capitalize on its prosperity, managing growth wisely and transforming adversity into opportunity. Local governments, business leaders, nonprofit organizations, and residents can change course, pursue new opportunities, avert the consequences of unbalanced growth, and use current challenges to forge a consensus that embraces the necessity for regional change. Action on three interrelated imperatives would give the region a promising start:

- ▶ Expand housing production in higher-density, mixed-income developments in the District, the Inner Core, and the Inner Suburbs, to accommodate growth without encouraging sprawl.
- ▶ Preserve and expand affordable housing choices throughout the region, to enable lower-income families to live closer to their jobs.
- ▶ Promote more balanced job growth to ease pressures on the highest-cost suburban communities and expand employment opportunities in areas where housing affordability options are more abundant.

In the early 1990s, these ideas might well have been politically unthinkable. But conditions have changed markedly since then. Congestion is much worse, the costs of unmanaged growth much more evident, and the share of households attracted to higher-density urban living much larger. These new realities open up new opportunities. Our region may be primed for change, more willing than before to think seriously about options that were once off the agenda. Regional success does not demand a deceleration of growth, but an acceleration of strategic growth — not less development, but more thoughtful development. In a region with so rich an endowment of talent and resources, this much should be achievable.

Introduction

This is the third in a series of annual reports about housing in the Washington region. It assembles and analyzes the most current data on housing conditions and trends in the District of Columbia and the surrounding suburbs.

This year's report focuses on the challenges posed by the region's remarkable economic prosperity and highlights potential strategies for tackling the challenges this good fortune poses. It is our intention to provoke focused, sustained dialogue among our region's policy-makers, business representatives, community-based organizations, and advocates.¹

The two previous reports in this series provided a comprehensive portrait of housing trends and challenges in the District of Columbia within the context of the region as a whole. This year's report takes a somewhat different approach. It is shorter and more focused, and it highlights regional challenges resulting from emerging economic and demographic trends. More specifically:

Chapter 1 takes a close look at the exceptional strength of the regional economy and includes demographic data that highlight the nature and scope of the growth that the region is experiencing.

Chapters 2 through 5 document the housing market pressures that result from the region's growth, focusing in turn on housing production, the home sales market, the rental market, and the prevalence of housing hardship.



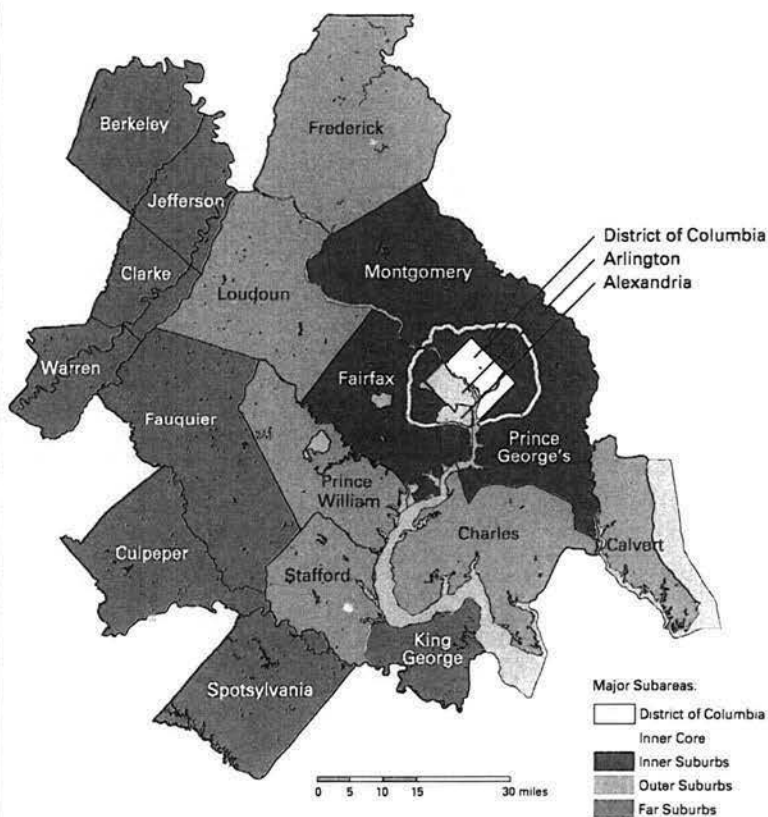


Chapter 6 provides new information about the unbalanced patterns of employment and housing growth that are exacerbating market pressures.

Chapter 7 looks toward the future, imagining what our region might be like in coming decades if current trends continue but also identifying strategic opportunities for managing growth more effectively.

The Washington region encompasses a wide diversity of communities across three states and the District of Columbia. For most of the analysis presented here, we use the federal government's 1999 definition of the Washington, D.C., Primary Metropolitan Statistical Area and have defined five major subareas within it (Map 1.1 and Appendix A). Within the District, we present data for 39 neighborhood "clusters," which have been defined by the city government on the basis of consul-

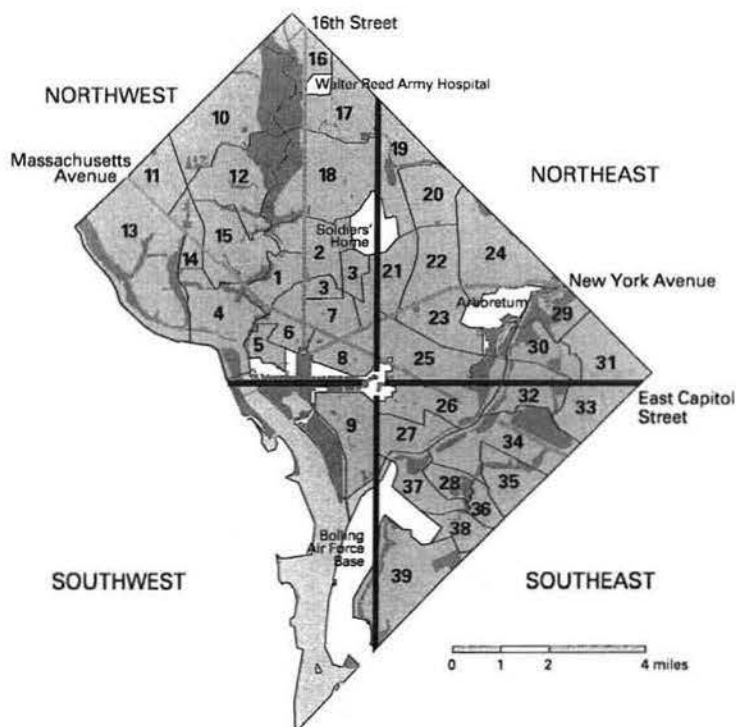
MAP 1.1: Washington, D.C., Metropolitan Area



Source: Office of Management and Budget, 1999.

tations with community organizations and residents (Map 1.2). Because clusters contain more than one neighborhood, they are referred to in the text by the first neighborhood listed for each cluster in Table A.2, followed by the cluster number in parentheses.

MAP 1.2: Neighborhood Clusters in the District of Columbia



Source: District of Columbia Office of Planning, 2002.

Note: See Appendix A, Table A.2, for names and descriptions of clusters.

Just as in last year's report, we provide context for understanding conditions and trends in the Washington-area housing market by offering information for five comparison regions — metropolitan areas that roughly match ours in size but that differ with respect to key economic and demographic characteristics. These comparison metropolitan areas are:

- ▀ **Atlanta:** a rapidly growing region with more moderate rents and house values than the Washington area
- ▀ **Boston:** a slow-growing region with high housing costs
- ▀ **Houston:** a fast-growth region with relatively low rents and house values
- ▀ **Philadelphia:** a very slow-growth region with low housing costs
- ▀ **Seattle:** a fairly rapidly growing region with high housing costs



As discussed in the first chapter, Washington stands out among these comparison areas by virtue of its booming economy and rapidly escalating housing costs.

Finally, because this year's report focuses on the relationship between employment trends and housing challenges, it highlights a set of occupations associated with different income categories. More specifically, for each of the income categories commonly used by the U.S. Department of Housing and Urban Development (HUD), Table 1.1 identifies several occupations and the income an individual could earn working full-time in these occupations.² Throughout the report, these occupational categories are used to illustrate the housing challenges facing working families in the Washington region.³

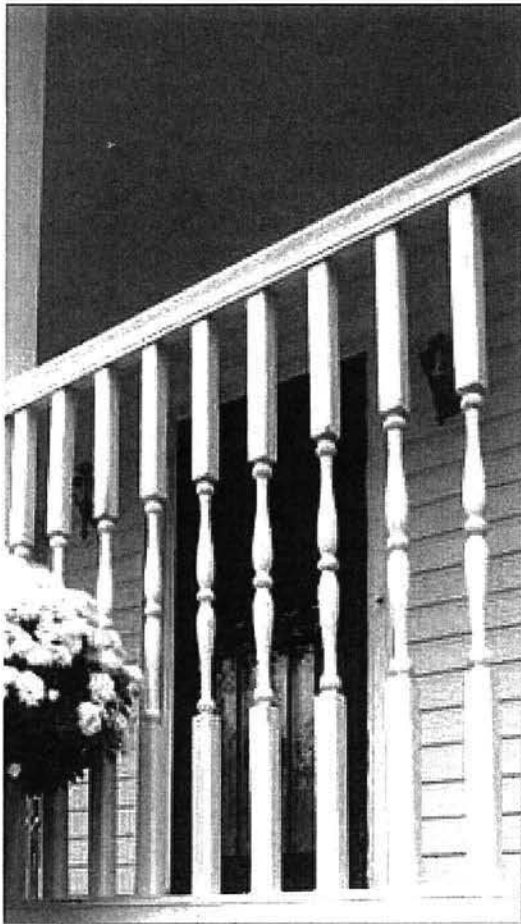
TABLE 1.1: Occupations by HUD-Defined Income Categories for the Washington Region

Selected Occupations by HUD Income Categories	2002 Average	
	Hourly Wage	Annual Wage
Extremely Low Income (below 30 percent of area median)		
Parking lot attendants	\$8.13	\$16,910
Food preparation workers	\$8.96	\$18,637
Receptionists	\$11.75	\$24,440
Very Low Income (below 50 percent of area median)		
Bookkeepers	\$15.56	\$32,365
Firefighters	\$20.43	\$42,494
Schoolteachers	\$21.96	\$45,686
Low Income (below 80 percent of area median)		
Nurses	\$25.83	\$53,731
Librarians	\$26.10	\$54,288
Financial analysts	\$32.00	\$66,560
Moderate/Middle Income (below 120 percent of area median)		
Pediatricians	\$41.28	\$85,862
Computer system managers	\$46.38	\$96,470
High Income (above 120 percent of area median)		
Lawyers	\$55.21	\$114,837
Chief executives	\$66.55	\$138,424

Sources: U.S. Bureau of Labor Statistics, Occupational Employment Statistics, 2002;
U.S. Department of Housing and Urban Development for income categories.

Note: Income categories assume a family supported by one full-time worker in that occupation.

Strategic Opportunities



The Washington region clearly has a lot going for it — formidable assets in a strong, dynamic economy and a desirable living environment that should be the envy of other metropolitan areas nationwide. But troubling trends threaten to undermine the essential foundations of regional well-being.

This chapter looks ahead to what the coming decades might hold for the Washington metropolitan area if current growth and development patterns continue, and it explores opportunities to choose a different path that might avert problems looming on the horizon.

If Current Trends Continue . . .

Although it is impossible to forecast future regional conditions in any precise way, the logical extension of current trends could well lead to:

- Ongoing economic strength and growth, with jobs in leading sectors further enhancing the District's strength but growing more abundantly in the Outer and Far Suburbs
- Continued sprawl as families search for affordable homes farther from the region's core
- More severe traffic congestion and environmental degradation
- Insufficient housing production — as jurisdictions attempt to control sprawl, preserve open spaces, and protect the environment — resulting in even faster house price increases

A widening gap between high- and low-wage earners, with intense financial pressures on working families, widespread housing hardship, and more homelessness

Increasingly limited homeownership opportunities throughout the region for workers in key community service occupations such as firefighting, policing, teaching, and nursing

Persistent racial disparities between eastern and western communities and limited access to high-wage opportunities for residents of predominantly minority communities

Ultimately, these trends could undermine the very assets that make the region such a desirable place to live and work, discouraging both employers and families from locating in the region. In fact, some might argue that these problems have reached critical levels and are already threatening the region's quality of life and economic competitiveness. And the experience of other metropolitan areas strongly suggests that, in the absence of a comprehensive strategy to counter current trends and meet emerging challenges, things will get worse. Our region is not immune to the deterioration that is straining the resources and testing the will of other urban centers across the nation.

Traffic congestion is a perfect example. The average peak-period traveler in metropolitan Washington experienced 67 hours of traffic delay in 2002, well above the 46-hour average for 85 metropolitan areas studied. However, two other metropolitan areas had higher rates: San Francisco-Oakland, at 73 hours, and Los Angeles, at 93 hours. The annual cost of total congestion per resident in that year was estimated at \$600 for Washington and \$879 for Los Angeles, compared with a \$435 average.

Air pollution is another prime example. The Washington area is ranked by the American Lung Association among the nation's 25 worst metro areas for ozone air pollution. Between 2000 and 2003, the region exceeded a key federal ozone standard by an average of almost 20 days per year. Other metro areas face even more severe air pollution problems, topped by Houston at 33 days per year. Another important indicator of environmental stress is the amount of rural land consumed by development. In metropolitan Washington, the rate of land consumption from 1970 to 1990 averaged 3.1 times the rate of growth in

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population. The comparable ratio was 2.5 for the 25 largest metropolitan areas nationwide.

The economic pressures facing low-income working families also could intensify. For example, in 2003, the median single-family home price in metro Washington was 3.4 times the region's median family income. This compares to ratios of 4.4 and 6.1 in the Boston and San Francisco areas respectively. There is thus ample room for the already serious affordability problem in the D.C. region to deteriorate.

Learning from the Past, Shaping the Future

These deteriorating conditions are by no means inevitable — or irreversible. In our judgment, the Washington region has the ability to capitalize on its remarkable prosperity and manage its growth much more effectively. In recent years, the District of Columbia has begun moving in this direction — attracting more high-wage employers to the city, preserving affordable housing, promoting reinvestment in lower-valued neighborhoods, and increasing housing density, especially along transit corridors and around Metro stations. Local governments, business leaders, nonprofit organizations, and residents throughout the region could begin moving toward a better future by pursuing similar strategic opportunities.

Unfortunately, we do not have existing regional models to follow. No other U.S. metropolis has yet tackled this full range of problems successfully. But our region certainly possesses the intellectual and policy capacity to craft new models for the rest of the nation. Therefore, we recommend that leaders from the public, private, and nonprofit sectors from across the Washington area come together to explore three key opportunities for making the most of the region's assets. In outlining these opportunities, our goal is not to prescribe specific policy remedies, but rather to catalyze serious discussion, debate, and action.

1. Seizing the potential inherent in higher-density growth

Attracting a larger share of incoming population to the region's central areas is one way to accommodate growth without encouraging sprawl. And achieving higher density while expanding the affordable housing supply clearly has the potential to moderate housing costs. We suggest



that the barriers to this approach are more likely to be political than physical. They are not insurmountable.

Why? The primary reason is that many jurisdictions are becoming less negative when it comes to higher-density development, particularly when that density is focused around highly accessible locations like transit stops. Two arguments have played a prominent role in shifting popular opinion on this issue. First, proponents now argue that transit-oriented development often attracts forms of retail, service, and office activity (cafés, specialty shops, small professional firms) that might not be attracted to a traditional, low-density jurisdiction. Therefore, this sort of growth is a net plus for economic development and for municipal revenues. Second, new forms of development are breaking down the old monolithic view about the connection between higher density and property values. That view held that higher-density housing would bring racial and economic diversity, which would inevitably undercut property values. Today, this view is held less widely and with less certainty. A suburb with an exciting town center at its transit stops and abundant housing opportunities surrounding that center may offer higher value than a centerless suburb with uniformly low-density housing.

Some jurisdictions already are taking action consistent with this point of view. We noted earlier that the District of Columbia is now working on such a strategy. Arlington County has won national recognition for applying this approach in its four-mile-long, half-mile-wide Rosslyn-Ballston corridor. The plan is encouraging higher densities around each of five Metro stations along with creative streetscape improvements that emphasize "a network of walkable streets rather than a fixed greenway."⁴¹ Bethesda and Silver Spring also have intensified business and residential development around Metro stops. More should be possible along these lines at other Metro stations in the Inner Suburbs.

2. Making the preservation and expansion of affordable housing a regional priority

The Washington region clearly needs more housing units that are affordable to lower-income families. And this housing should be dispersed throughout the region, not confined to those communities that historically have served a disproportionate share of low-income house-



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holds. Historically, many suburban communities have resisted the development of affordable housing on the grounds that it undermines property values. As noted above, this connection is tenuous at best. In addition, mounting evidence suggests that the economic viability of many suburban communities depends on the ability to attract reliable workers at every skill level.

One tool that is attracting attention in hot housing markets is inclusionary zoning, which requires developers of new housing to include a predetermined share of affordable units. Montgomery County's Housing Opportunity Program is nationally recognized as a model inclusionary zoning program, and it has substantially expanded the availability of affordable homes throughout a fast-growing jurisdiction. The program has done so without any adverse effect on property values or quality of life. Prince George's, Fairfax, and Loudoun Counties also have adopted inclusionary zoning programs, and the District is currently exploring this option. Inclusionary zoning alone cannot solve the whole affordable housing challenge, but it is a useful tool that also taps the vitality of the private market.

The flip side of affordable production is preservation, and communities throughout the region need to take steps to preserve the existing housing stock that is affordable to low- and moderate-income families. Possible tools include low-interest loans for improvements to older rental properties in return for continued affordability, local tax or regulatory incentives, and financial support for organizations, including tenant groups, that seek to purchase existing properties and maintain their affordability.

Each jurisdiction in the region must decide for itself on the best combination of inclusionary zoning, regulatory requirements, financial incentives, and subsidies to preserve and expand the stock of affordable housing. But every jurisdiction should commit to serving its fair share of the region's low- and moderate-income residents.

3. Promoting more balanced job growth

As Chapter 6 showed, the region's western suburbs have been much more successful than the eastern suburbs in attracting employers —

particularly employers offering high-wage job opportunities. And these job-rich areas clearly wish to retain their edge. In a region that spans three states and the District of Columbia, it is not surprising that jurisdictions compete with one another for new business. And it is hard to imagine Montgomery or Fairfax Counties handing off a prospective new firm to Prince George's County.

But if future job growth is concentrated in currently popular locations, the consequences will help no one. The continuation of current growth patterns is a prescription for more severe housing affordability problems, more sprawl, and more traffic congestion. Alternatively, any action that promotes the development of new employment centers on the eastern side of the region would relieve the stresses and strains that the western counties are now enduring. This developmental rebalancing would have the added benefit of bringing high-wage employment opportunities to the mostly minority residents of Prince George's County and east-of-the-river neighborhoods in the District.

According to the Metropolitan Washington Council of Governments, several Inner Suburban locations on the region's eastern side have significant potential as future employment centers. These include U.S. Route 1 near the Greenbelt Metro Station, the Greenbelt/NASA area, the New Carrollton Transit Triangle, the Largo Center Circle, and the National Harbor site.⁴² Communities throughout the region would benefit if more employment growth could be directed toward these potential employment centers. To move toward this goal, however, the region's business and political leaders will need to reach across jurisdictional lines to explore strategies that benefit the region as a whole.

The 2003 annual report of the region's Transportation Planning Board (TPB) suggests nascent movement in this direction. The TPB's forthcoming Regional Mobility and Accessibility Study, which explores the long-term implications of alternative land-use scenarios, addresses the imbalance in employment growth between the region's eastern and western suburbs. In addition, the TPB Citizens Advisory Committee focused several of its recent public meetings on topics related to the region's east-west divide.

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Breaking Down Barriers, Opening Up Opportunities

Are these ideas simply pie-in-the-sky? Recent press accounts, emphasizing the barriers to regional cooperation, make them seem politically infeasible.⁴³ To be sure, some jurisdictions in this region still openly try to attract new job opportunities at the same time that they restrict the production of housing for the people who would hold those jobs. And some residents in the region's central areas still bitterly oppose density increases "in their backyards."

These accounts, however, do not tell the whole story. Circumstances have changed in important ways since the early 1990s, when smart growth principles seemed to be anathema to local politicians. What has changed? First, congestion is much worse — and more painful to many more voters.⁴⁴ Second, demographic and economic shifts have expanded the share of households attracted to a high-density, urban lifestyle.⁴⁵ Third, as noted earlier, the myth that higher density invariably leads to declining property values is beginning to break down. Finally, the voices of opposition to new development in fringe areas are much stronger now, and the opponents of decentralization are now as vocal and politically engaged as the opponents of centralization.⁴⁶ In brief, public opinion, once hostile, is now more hospitable to ideas that would redress some of the imbalances undermining the future of the Washington region.

In this environment, public officials appear more likely to consider the strategies we identify — not just on the grounds that they are noble, but because they are in the self-interest of their constituents. This should be particularly true for public officials in Maryland and Virginia. Some of their constituents (particularly established homeowners in counties that are adding jobs but not residents) may gain in some ways from the status quo. But it should be possible to demonstrate that a much larger number of their constituents will fall victim to, rather than become beneficiaries of, strategies that aim to "stay the course." And it is difficult to believe that the status quo has real appeal to households that are paying the cost of school construction and infrastructure development while simultaneously bearing the burdens of congestion, environmental degradation, and the lack of affordable housing. New realities demand new strategies. Circumstances are very different from



what they were a decade ago, and elected officials from every part of our region may now see the incentives they need to work together to reassess priorities and rethink positions.

It would, of course, be naive to assume that the forces that create sprawl and snarl traffic can be eliminated altogether. But complete change is not necessary. Much progress can be made simply by shifting toward alternative development patterns. This process can begin with small steps: densities that are a little higher, zoning that is a little more inclusionary, housing that is a little more mixed, investment that is a little less concentrated in the western side of the region. All of this might add up to a region that has a better chance of seizing the opportunities and meeting the challenges that prosperity is bringing its way. And these initial small steps might make a big difference in our region's capacity for continued growth.