

TESTIMONY of TAD BALDWIN of the CMIZ
Before the
District of Columbia Zoning Commission, JULY 25, 2005

Good Evening Chairperson Mitten and Members of the Commission.

I will briefly explain the technical methodology upon which the CMIZ proposal is based. My primary role within the Campaign was the number work; a secondary role sharing useful insights from my long working experience with the Montgomery County inclusionary zoning program.

1. Our analysis has been built upon construction and soft cost numbers provided to us by the local building community. That analysis shows that developers of low rises will be able to make a profit on even the affordable units they are required to provide; the high rise affordable units are close to break-even, with some developers needing to utilize part of their profit on bonus units to make up the difference in the cost and allowable sales/rental prices of the affordable units.
2. By way of example, you have several sheets that provide a simplified example of an affordable two bedroom garden apartment condo. The first page provides the components of the estimated building cost which totals \$101,136, excluding land. The second sheet summarizes these costs again and then focuses in on Unit Affordability by Income Level. A 3 person household at 65% of the AMI spending 30% of their income for this sale housing will end up after taxes, insurance and condo fees with \$11,172 for mortgage expenses. I have capitalized that payment stream at rates varying from 7 to 8 percent and find that at 7 and ½% a mortgage of \$133,200 is supportable. This amount exceeds the unit cost noted above by \$32,000, allowing profit on even these affordable units in addition to the normal profit on the bonus market rate units. This difference also will allow an "affordability gap" to be created if the maximum price charged for the affordable units is reduced so that families at 5% or 10% below the maximum AMI can more easily afford to buy or rent.
3. One of our primary goals was to serve as low an income population as possible. We subtracted and added 15% to the 65% AMI level calculated above and recommend that half the affordable units be provided to households at 50% of the AMI, half at 80%.
We believe it important to require this same mix on both low and high rise units for the following reasons.
 - A. A sharper pencil and designing the smaller affordable units permitted can improve on project economics making 80% too high an income target for all the high rise units.
 - B. Fewer affordable and more market rate bonus units are specified. This permits a portion of the normal profits from bonus units to be redirected to cover a portion of the affordable unit costs if break-even on the affordable units is not achieved in some of the high rise developments.

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- C. Using only the 80% measure for high rise structures, as OP recommends, will exclude those most in need from the more prestigious and higher cost areas of the city, weakening the income integration that is such a key advantage of this program. Housing Choice Vouchers only work for all unit sizes at the 50% AMI level, excluding their use in high rises if the 80% only measure is accepted. Also, the 80% unit price level will be too high for the Housing Authority or non-profits to purchase or lease these units, eliminating the ability to reach income levels even below 50%.
 - D. A program with one set of basic rules is easier for consumers to understand and government employees to administer.
- 4. We have recommended a 20% bonus of units in all cases and set the low rise requirement of affordable units at 15%. These same numbers are used widely nationally. Because of the added cost of high rise housing, we've reduced the affordable requirement to 12%, thereby reducing the cost of providing these lower cost units and increasing the number of market rate bonus units. Since substantial rehab is such an active element of the current DC housing scene and those buildings rehabbed generally serve only higher income households, we've recommended that a 7 & ½ % portion of those units also become a part of this program. The OP proposal is silent on substantial rehab.
 - 5. Long control periods on both sale and rental housing are essential since the affordable housing crisis will always be with us. 20 years on sale units and 50 on rental are about mid-range nationally. MC has lost over 7,000 of its 11,000 affordable units because of short price controls; this winter they went to 30 years for sale and 99 for rental. The OP proposal is silent on control terms.
 - 6. The DC HA and qualified non-profits have the exclusive right to purchase or rent 40% of the affordable units produced. Utilized in Montgomery County also, this clause has permitted additional outside subsidies to allow households at even below 50% AMI to benefit from the program. This assures that this program will not "cream off the top of the affordable housing need" and also allows special needs serving non-profits to provide affordable housing resources in diverse locations. No less important is the fact that these units generally remain affordable in perpetuity, the expected length of the need for affordable housing. The OP proposal is silent on this point.

Thank you for the opportunity to share these thoughts.

**INCLUSIONARY ZONING UNIT COST ANALYSIS
DISTRICT OF COLUMBIA
July 2005 Cost Estimates**

Table 1

UNIT TYPE: 2 Bedroom, Garden Condo, 1 Bath

850 sq. ft. with 1 bath

I. UNIT COST

Per Sq. Foot	74.75
Structure Cost	63,538
Lot Dev. Cost	8,030
Add/Subtract adjustments	<u>0</u>

TOTAL UNIT HARD COST 71,568

II. SPECIAL CHARGES

Water & sewer charges	2,200
Sprinkler	1,700
Other charges	

TOTAL CHARGES 3,900

SUBTOTAL, HARD COSTS 75,468

III. FINANCING FEES AND EXPENSES

Construction Financing	2.88%
Loan Fee	1.50%
Legal & Closing	3.50%
Marketing & Sales	4.50%
Development Allowance	5.00%
Overhead	<u>8.00%</u>
Soft Cost Subtotal	<u>25.38%</u>

IV. PRICE CALCULATION

Inverse Proportion	74.62%
Price Calculation	101,136
Architectural Compatability	0

PRICE 101,136

dc iz unit cost garden condo 2 br 1 bath

SALE UNIT PRODUCTION COSTS AND AFFORDABILITY
DC Cost Estimates, June, 2005

TABLE 2

I. SUMMARY COST COMPONENTS:

<u>COST COMPONENTS</u>	<u>Garden Apt. (2 BR, 1 bath)</u>
Square Foot Unit Size	850 sf.
Per Sq. Ft.	74.75
Structure Cost	63,538
Land Development Cost	8,030
Total Unit Hard Cost	<u>71,568</u>
Special Charges (water/sewer, sprinkler, etc)	3,900
Subtotal	<u>75,468</u>
Financing Fees & Expenses	25.38%
Inverse Percentage	74.62%
TOTAL PRICE	101,136

II. 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	-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	79,500
at a mortgage rate of 0.075	176,300	161,900	133,200	118,800	90,000	75,700
at a mortgage rate of 0.08	168,000	154,300	126,900	113,200	85,800	72,100