

**TESTIMONY OF GEORGE ROTHMAN, PRESIDENT OF MANNA, INC.
BEFORE THE DC ZONING COMMISSION REGARDING
THE INCLUSIONARY ZONING TEXT AMENDMENT**

MONDAY, JULY 25, 2005

Good evening, Commission Members I'm George Rothman, President & CEO of Manna, Inc , a 23-year old nonprofit developer and builder of affordable homeownership housing throughout DC

I am here today on behalf of our staff and aspiring lower income homebuyers to strongly support the proposed mandatory inclusionary zoning text amendment proposal put forth by the Campaign for Mandatory Inclusionary Zoning (CMIZ), with certain provisions and changes The changes we propose are limited to for-sale affordable housing and are based on many years of experience as practioners who actually develop, build, sell affordable housing and train the owners of new properties They are also based on the expressed desires and needs of our many aspiring first time lower and moderate income buyers. The changes we propose are based on **fairness and workability**. The changes we propose are also consistent with positions of other leading practioner organizations across the entire country which with we consult on a regular basis

Inclusionary Zoning must be workable both in the short and the long run. It must consider the realities of the marketplace, the needs of the neighborhoods, and the value in terms of affordable units produced. It must clearly differentiate the guidelines and criteria between affordable rental and affordable homeownership It must consider the long-term needs, aspirations, hardwork and rights of the low-income owners from a practical standpoint. It must recognize the limitations of government agencies And it must provide fair incentives to real estate owners and developers

We believe a goal of affordable homeownership is to help very low and low income persons have the same opportunity of participating in the American Dream for themselves and their families as anyone else would Homeownership has always been a primary way lower income people have had to overcome economic poverty. It is not to permit a quick windfall, nor is it to provide substantial equity as a gift Ideally, beginning with settlement, the affordable buyer should have the same opportunity to enjoy the financial rewards of homeownership as others, and this can be accomplished through low-interest loans, soft second mortgages

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covenants, and often lower prices connected to deferred financing. The opportunity for some sort of equity buildup should be the goal.

In the Commission's Notice of Public Hearing, you distributed a chart comparing the CMIZ and Office of Planning proposals. I will address these by topic.

Eligible incomes and % of set-aside that must be devoted to that population. There should be a definite distinction made between rental and for-sale affordable housing throughout this amendment.

Based on costs and market forces for homeownership, it is unrealistic to require a 50% set-aside for those with incomes up to 50% of AMI, (and remember this testimony is being presented by an organization which strives to serve incomes as low on the affordability spectrum as possible.) We simply recognize the realities of the marketplace and want IZ to be a success. We believe the program will be more successful and feasible with a more relaxed standard, e.g. 50% set-aside at 80% AMI with the remainder negotiable depending on the project and the current status of the local economy. In today's market, a 50% set-aside for 50% AMI could be too stringent a requirement, I regret to say.

Condo fees make a big difference in the ability of low-income persons to qualify for mortgages. Lower prices and low interest rates won't provide the requisite help if condo fees are high. Therefore, to make IZ units affordable, we suggest that condominium and homeowner association projects subject to IZ regulations be required to calculate the percentage interests of units, and therefore condo fees, by the par value method rather than the square footage method, and further, that the par value method bear substantial relationship to the proposed selling prices listed in the public offering statement. Furthermore, initial condo fees on affordable units should be adjusted in the future to coincide with the expiration of the control period--with appropriate disclosure in the public offering statement.

Development Standards A lot of condo construction in the city involves rehab where developers are often constrained by existing structural conditions and historic preservation requirements or needs. Specific minimum square footage requirements could lead to higher costs for some affordable units. Therefore, flexibility of guidelines is needed in this area.

Pricing Methodology. It is unrealistic to limit sales such that monthly payments cannot exceed 30% of gross income. This provision shows a lack of understanding about affordable homeownership and the mortgage loan process and what is often needed to help low income buyers.

Manna's recent experience, and that of other developers and owners, both nonprofit and for-profit, has indicated that smaller households have been a majority of buyers in recent years, not 4-person households. Therefore, it is misleading to use family incomes of 4-person households when discussing subsidies needed and maximum incomes permitted unless the 4-person household guidelines apply to any size household.

There should be no limitation on percentage of income devoted to housing costs. That should be determined by the seller and lender. In high cost cities, such as Washington, it could be, and often is, necessary to pay over 40% of gross income for housing costs, and IZ shouldn't limit that. It could hurt those who want and need affordable housing and are willing to pay for it and have good credit. A 40-42% guideline is more realistic and workable, if a guide is required.

Control Period. Aspects of fairness, the purpose of ownership, and marketability come into play here. In short, we propose recapture of public subsidies and/or price discounts through personal covenants and a reasonable limit of 5-15 years on any type of sharing of capital gains.

There are two issues here: (1) recapture of subsidy and/or price discount from market; (2) sharing of future capital gains.

In projects where there is a government subsidy, that subsidy should be recaptured upon re-sale or re-finance (under certain conditions) by the new/first time owner. When there's a substantial price discount from market, which will be the rule and NOT the exception, that discount should be recaptured upon re-sale or refinance (under certain conditions). In either case, when that amount is recaptured, it should revolve back into the Housing Production Trust Fund, or similar vehicle, so that benefits continue into the future for affordable housing. In homeownership, as opposed to rental, this is more preferable than excessive control periods which just discourage buyers and discriminate against the low income folk homeownership is supposed to benefit.

New low and moderate income owners who receive benefits through IZ should have covenants attached to their units which establish a reasonable affordability period of 5-15 years, depending on location, and amount of subsidy, and limit the capital gains during that period. A

common method is an equal pro rata per year increase of the capital gains kept by the new/first time owner until the end of the control period when that owner will be able to retain 100% This requirement should be implemented on a case-by-case basis to discourage quick resale.

However, we do not believe there should be long term or permanent percentage recapture of capital gains. That discriminates against the low-income buyer and goes against what homeownership is all about. For example, if a first time owner gets a benefit of \$70,000 toward the purchase of a condo unit, that \$70,000 could be recouped by the original seller or government, depending on the source of the benefit, when the unit is transferred or refinanced and revolved back into a fund dedicated to affordable housing. It should be handled like the successful HPAP program of the city. New, first time owners should also have to stay in their units for a specified time period, say three years, before renting them out, unless there's an emergency and special permission is given, or there would be a penalty, e g acceleration of loans and covenants against the property

A provision whereby a new owner has to sell to a second owner in the same income category ignores the reality of enforcement. While theoretically DHCD or DCHA could administer this, in reality, say ten years after the initial closing, there is a high probability that virtually no one will remember the project financing or want to get involved with a program they know nothing about This is a reality and we often encounter as people come and go in DC government agencies In addition, what happens if the owner cannot find a qualified person?

Relief from Requirements. We all know about the affordability crisis in housing in DC IZ will help the condition, but is only part of the solution. That is why Manna's position today, as it has been consistently for years, is to maximize the production of affordable units and preservation of existing units. That means not requiring developers of buildings in the downtown core of the city to build affordable units on-site The owners and developers of downtown real estate should, by right, be able to opt for "in lieu of" fees to the HPTF or offsite development in neighborhoods all over the city There should be no offsite distance limitation. That means having the flexibility to build almost anywhere in the city where you can get more "bang for the buck " It means being able to build an all affordable project Yes, we believe in mixed income projects We do them and have been doing them longer than most anyone else in this town. But we also know that you don't need mixed income in homeownership projects to realize a social goal and a successful long term project Manna and many others have proved that over the years.

The ownership mentality usually leads to success no matter whether a project is all affordable or mixed income

Relief from requirements should be relatively easy to obtain provided it leads to either more affordable units and/or the requisite amounts produced quickly. We do believe in and support the principle requiring trade-offs to occur in certain near-downtown neighborhoods, like Shaw and Columbia Heights. However, if there are no sites available, then developers should be able to go to other neighborhoods in the city to fulfill their requirements for affordable homes.

Eligibility requirements for persons seeking housing made available through the program. The Public Purchase Option is a wonderful, idealistic notion, but is out of touch with reality. In general, government agencies don't have the nimbleness to administer or manage a scattered-site program, and nonprofits don't have the resources or the property/asset management ability to undertake the risk.

Thank you.