

Council Members

Thank you for the opportunity to speak tonight on the subject of Inclusionary Zoning. My name is Don Deutsch and I am the Senior Managing Director of Faison & Assoc. We are active multi-family developers in the District and have completed and have under construction over 800 units representing an investment in this market of well over \$300 mm within the past 3 years.

Like most of the developers that will speak tonight, I too support the goals of Inclusionary Zoning. We have built affordable housing as part of a development in Adams Morgan and have been involved in many of the discussions that have preceded this hearing tonight. While we share the goal of increasing the availability of affordable housing in the District, I do have a number of concerns with an approach that essentially places the resolution to this issue at our doorstep.

First let me state that the results of our efforts and the risks that we take every day are evident in the \$1.2 billion dollar surpluses that the District now enjoys. These surpluses are paid for, to a large extent, by the taxes generated by the increase in property values that result from our developments and the 10% franchise tax that we pay on our profits. We simply do not understand the logic of additionally burdening the one group that has already contributed substantially to the financial health of the District. If affordable housing is a social goal, and we believe that it is, why does the District of Columbia not use some of the gains that result from our investment in this city to address this need; rather than driving away investment with this ill-considered resolution? I believe that this resolution is ill-considered in a number of areas.

- 1) We question the economic assumptions of the OP report. We simply disagree that one affordable unit for each market rate unit of bonus density is an acceptable trade-off for the substantial losses that we will incur on each affordable unit. Our calculations show that in many instances, particularly with hi-rise construction, we would need 2 to 3 market rate units to pay for the cost to develop one affordable unit.

ZONING COMMISSION
District of Columbia

CASE NO. 04-33
EXHIBIT NO. 03

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- 2) The assumptions in the OP report are based upon current costs and sales assumptions. We currently enjoy a strong market environment. This will not last, all markets cycle. The only stressing of the assumptions in the OP numbers was to assume that interest rates rise 1%. That is hardly a stress and all of us remember far more difficult markets than a 7.5% interest rate environment. The problem with the OP recommendations is that it is inflexible. This is a policy that assumes a stable market and one that does not adjust when the market environment changes. Who would ever invest in a business in which profitability was assured only in the best of cases?
- 3) Given that we believe that this will have a negative impact on our overall profitability, there is likely to be a negative impact on land values in the District. Just the risk of this occurring should give the Zoning Commission pause to enact this program. To the extent that one analyst at the Office of Planning is wrong in his assumptions, and there will be a lot of smart people parading in front of you explaining that he is, there will be enormous consequences to the tax base of the District.
- 4) Finally, there exists in the District an economic system of transferable development rights. The TDR system has been in place many years and many developers and land owners have enormous investments in these rights or have vested rights that are assets that may be severely undermined by this legislation. There is nothing in the OP report that addresses this issue. Has any consideration been given to the undermining of this economic system and the potential liability the City will have as these assets become far less valuable, as demand for these rights evaporates?

To conclude, we have had a few years of success that has greatly benefited the tax base of this city – but this will not always be the case. The market will slow and interest rates will rise, but this policy will still be in place – making residential development in the District increasingly difficult and property values increasingly lower. This policy assumes a permanently strong housing market – and there is no such thing. Use the gains that we generate to further the goals of affordable housing, do not destroy the means by which these surpluses were created.