

TESTIMONY BEFORE THE DC ZONING COMMISSION
IN SUPPORT OF ZONING CASE No 04-33G: INCLUSIONARY ZONING

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April 18, 2016

Chairman Anthony Hood, DC Zoning Commission, 441 4th Street, NW, Suite 210, Washington, DC 20001

Re: Zoning Case No. 04-33G: Make Inclusionary Zoning More Affordable and Effective

Dear Chairman Hood and Members of the Zoning Commission:

My name is Tad Baldwin and I testified in favor of this Zoning Case on April 14, 2016. During the question and answer period following our group's testimony, Commissioner Cohen asked if I would share the key number work that I had developed for the Campaign for Mandatory Inclusionary Zoning way back in 2005. It had formed the basis of our original proposal which was much weakened by the Mayor and City Council at the time the law was promulgated. Both building costs and median household income (MHI) have increased in the past 11 years.

My analysis technique is one that I learned while working as a development economic consultant in the 1970s for Gladstone Associates here in DC. It consists of a pro-forma of the basic unit costs of a variety of the housing units expected to be produced. It is done in as simple and clear a method as possible, recognizing that many interested parties do not easily comprehend the complex and lengthy pro-formas often provided by the development community and regulating government agencies. I am an urban planner and have spent most of my career developing and rehabbing mixed income housing for both government and non-profits. I began working on IZ in Montgomery County in the early 1970s and continued working with that program until my retirement in 2001.

My basic conclusion back in 2005 was that the IZ units in lower density townhouse and garden apartment communities, both rental and sale, would easily provide additional profit to the developers. Steel and concrete elevator mid and high rises depended upon the profits from the 20% bonus units to carry a portion of the costs of the IZ units (at 12% not the 8% finally approved) that could not be covered by borrowing at an estimated 7.5% mortgage rate. The example shown on Table 2A assumes the bonus market rate units in a 100 unit high or mid rise would generate a \$800,000 profit and the IZ units would fall \$433,200 short of breakeven, still providing a net \$366,800 profit on the IZ portion alone.

I hope Table 2A and the following three tables are comprehensible.

Thank you for asking for additional information.

Tad Baldwin, 3507 Morrison St., NW, Washington, DC 20015

ZONING COMMISSION
District of Columbia
CASE NO. 04-33G
EXHIBIT NO. 227

SALE UNIT PRODUCTION COSTS AND AFFORDABILITY
 DC Cost Estimates, May, '03 (revised September 8, 2005)

TABLE 2A

I. SUMMARY COST COMPONENTS: Costs Increased by 15%, 10% more in 9/05

<u>COST COMPONENTS</u>	<u>Townhouse 3 BR, 1.5ba</u>	<u>Garden Apt. (2 BR, 1 bath)</u>	<u>High Rise 2 BR, 1 ba</u>
Square Foot Unit Size	1050 sf	850 sf.	850 sf.
Per Sq. Ft.	79.70	82.23	145.48
Structure Cost	83,685	69,896	123,658
Land Development Cost	11,575	8,030	10,000
Total Unit Hard Cost	<u>95,260</u>	<u>77,926</u>	<u>133,658</u>
Special Charges (water/sewer, sprinkler, etc.)	3,900	3,900	3,900
Subtotal	<u>99,160</u>	<u>81,826</u>	<u>137,558</u>
Financing Fees & Expenses	25.38%	25.38%	25.38%
Inverse Percentage	74.62%	74.62%	74.62%
TOTAL PRICE	132,887	109,656	184,345

II. PROFIT TRANSFER TO LOWER AFFORDABLE UNIT PRICES FOR MID/HIGH RISES (@65% AV. AMI)

	<u>Unit Price</u>	<u>Portion of Bonus Profit</u>	<u>Adjusted 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	148,245

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

	<u>@80% of AMI</u>	<u>@ 75% of AMI</u>	<u>@65%</u>	<u>@60%</u>	<u>@ 50%</u>	<u>45% AMI</u>	<u>30% AMI</u>	
Sale Price Affordable								
Median 4 person Income (1/03)	89,300	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	26,790	
60% of Median for 3 persons HH (more typical family size)	64,296	60,278	52,241	48,222	40,185	36,167	24,111	
Housing Cost Max. at 30%	19,289	18,083	15,672	14,467	12,056	10,850	7,233	
Less Hazard Insurance @ \$50 a month	-600	-600	-600	-600	-600	-600	-600	
Less Real Estate Taxes at	-1,500	-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	-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>	<u>2,733</u>	
Supportable Mortgage capitalized at a mortgage rate of	0.07	185,200	170,100	139,900	124,800	94,600	79,500	34,200
at a mortgage rate of	0.075	176,300	161,900	133,200	118,800	90,000	75,700	32,600
at a mortgage rate of	0.08	168,000	154,300	126,900	113,200	85,800	72,100	31,000

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
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)	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

	3 BR Unit		2 BR TH (Price < 10%)	
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 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		<u>-250</u>	<u>-250</u>	<u>-200</u>
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

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

Comparison of Text Amendment Wording and Est. Costs and Affordability
 DCIZ June 22, 2005
 Garden Apartments

Sheet 2

	<u>2 BR Garden Unit</u>		<u>1 BR Garden Unit</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

	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.	2 BR Unit	1 BR Unit	1 BR Unit	1 BR Unit
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	2 BR Unit	3 Person	2 Person	1 Person
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	<u>-200</u>	-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

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.	2 BR Unit		1 BR Unit (Price < 10%)		
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	<u>250</u>		<u>200</u>		
Total Monthly Pymts	<u>1,574</u>		<u>1,387</u>		
Total Annual Pymts	18,888	Same	16,644	Same	Same

IV. Capitalized Mortgage Affordable at Income Level	2 BR Unit		1 BR Unit (Price < 10%)		
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	<u>-250</u>	<u>-250</u>	<u>-200</u>		<u>-200</u>
Net available for Mortgage	<u>1,001</u>	<u>856</u>	<u>800</u>		<u>683</u>
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

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.