DC CAMPAIGN FOR INCLUSIONARY ZONING

May 12, 2016

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

Re: Case No. 04-33G
Petitioner's Response to April 28, 2016 Submission by DCBIA

Thank you for the opportunity to respond to additional information on economic impacts of the proposed changes submitted by the DC Building Industry Association (DCBIA) on April 28, 2016.

We were unable to replicate the results in the DCBIA submission using the Office of Planning land value impact model, or to identify the source of the discrepancy between these results and our and OP's results. It appears that the analysis used a previous version of the model, from which several minor changes have since been made by OP. However, even when using the previous version of the model, we were still unable to reproduce the results or determine how those results could have been obtained without modifications to the model's inputs or assumptions, or an error having occurred. It is our understanding that Office of Planning is communicating with DCBIA regarding their analysis. If the Commission accepts corrected materials from DCBIA regarding this analysis, we would be glad to again review and respond in a timely fashion.

Summary Impact Analysis by Zone

An analysis of Option 1B using Office of Planning's model, changing no inputs or assumptions, shows only modest impacts to present land values, in contrast to the figures presented in Table 1 of DCBIA's submission. We obtained results equivalent to Office of Planning's, as reported in OP's final report (Exhibit 119A, Table 17) — with the exception of two zones where we have suggested modifications to the required set-aside. Like Office of Planning's, our analysis of Option 1B incorporates the ZRR parking requirements which are anticipated to reduce development costs in several zones.

Table A shows the impact of Option 1B on present land values, which incorporate any value added or reduced by current IZ.[1] Option 1B, with two modifications,[2] has effects within -5 percent on present land values, consistent with a policy approach that responsibly stretches the market.

[1] As outlined in the Petitioner Statement (Exhibit 151), using current IZ values as the baseline assumes that the value that current IZ has added to many zones is developments' and land owners' to keep, and cannot be used to achieve deeper affordability.

[2] R5A: Modifying the required set aside to the greater of 8% residential floor area or 50% of bonus density (from greater of 10% residential floor area or 75% of bonus density).
C2B: Modifying the required set aside to 7% residential floor area (from greater of 8% residential floor area or 50% of bonus density).

Table A. Summary Land Value Impact Analysis by Zone

Zone	Option 1B Impact to Base IZ Rental	Explanation of Change in Land Value
C2A	-4.0%	Small effect from small reduction in targeted income, from an average of 65% MFI (half at 80%, half at 50%) to 60% MFI.
CR	-1.9%	Reducing targeted income from 80% to 60% MFI is largely offset by significant cost savings from ZRR parking.
C3A	3.1%	Reducing targeted income from 80% to 60% MFI is largely offset by significant cost savings from ZRR parking.
R5A*	8.5%	To offset a relatively larger negative impact, the Petitioner suggests modifying the required set aside to the greater of 8% residential floor area or 50% of bonus density. (Impact without modification is -10.4%).
R5D	-4.2%	Small effect from small reduction in targeted income, from an average of 65% MFI (half at 80%, half at 50%) to 60% MFI.
C2B*	-4.2%	To offset a relatively larger negative impact, the Petitioner suggests reducing the required set aside to 7% residential floor area. (Impact without modification is –7.9%).
R5B	-3.8%	Small effect from small reduction in targeted income, from an average of 65% MFI (half at 80%, half at 50%) to 60% MFI.
C3C	-3.0%	Reducing targeted income from 80% to 60% MFI largely offset by significant cost savings from ZRR parking.
C2C	2.2%	Reducing targeted income from 80% to 60% MFI largely offset by significant cost savings from ZRR parking.
W3	-1.9%	Reducing targeted income from 80% to 60% MFI largely offset by significant cost savings from ZRR parking.

Zones are ordered by development capacity as determined by Office of Planning. Option 1B assumes ZRR parking
* The second column shows the impact of Option 1B incorporating the petitioner's suggestion of modified set asides in these zones.

Impact on Developed and Emerging Neighborhoods

The DCBIA submission attempts to approximate developed and emerging markets by inputting higher and lower market rents, respectively, into the Office of Planning impact model.

We note that this analysis, in Table 3 of the DCBIA submission, appears to include an erroneous addition of 5 feet of bonus height to Option 1B (visible in the third line from the bottom of Table 3). We assume this was an error, as neither the Petitioner nor Office of Planning have proposed additional height in C2A. We were unable to replicate the results of Table 3 with or without the height, though we were able to identify the issues outlined below.

In any case, the DCBIA submission fails to demonstrate a disparate impact of Option 1B on emerging neighborhoods, for the following reasons:

- In contrast to a project in a developed market, a project in an emerging market would command natural market rents closer to, or even below, IZ rent affordable to 60% MFI. This makes affordability restrictions less likely to impact the project economically, because the project could achieve close-to-market or market rents in all its units, whether IZ or unrestricted. In fact, the additional units permitted by bonus density may even make some sites in emerging markets more economically feasible. We note that Table 3 of the DCBIA submission models an emerging market with market rents of $1.63 per square foot — a level *below* IZ rent at 60% MFI (approximately $2.03 per square foot, adjusting for unit size). It follows that Option 1B affordability requirements could not be a burden on that project.

- Inputting different market rents without changing other inputs to the model cannot fully capture the difference between developed- and emerging-market projects. Notably, Table 3 keeps construction costs the same across the developing and emerging scenarios. Yet a project in an emerging-market location commanding low market rents would be designed to a different specification and amenity package than one in a developed, higher-rent location — for instance, type of façade, interior finishes, size of amenity spaces, and surface versus structured parking. Assuming the same development costs regardless of market conditions is inconsistent with the principles and practices of real estate financing.

- Finally, Table 3 shows a negative land value *even in* the market-rate scenario which assumes no IZ requirement (highlighted row, 3rd column from left). Because the model finds the land to be a negative asset even in the absence of IZ, it then assumes the developer obtains the land for a negative price, driving down the total development costs — an implausible phenomenon. A neighborhood where market rents are so low as to yield a negative land value would be more likely the site of subsidized, rather than market-rate, development. That development would be subject to the affordability restrictions of the funding source — likely equivalent to or deeper than Option 1B. Therefore besides the issue with rent and costs outlined above, Table 3 cannot illustrate a disproportionate effect of Option 1B in a weaker market.

Thank you again for the opportunity to provide this response.

Sincerely,

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On behalf of the DC Campaign for Inclusionary Zoning