District of Columbia
Office of Planning

MEMORANDUM

TO: **District of Columbia Zoning Commission**

FROM: JLS Jennifer Steingasser, Deputy Director Development Review & Historic Preservation

DATE: May 13, 2016

SUBJECT: Zoning Commission Case 04-33G, Waiver of Rules for Late Submittal of a Report pertaining to Inclusionary Zoning

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The supplemental report concerning Zoning Commission Case 04-33G is being submitted after the deadline specified by the Zoning Commission at the last hearing. The Office of Planning respectfully requests that the Commission accept this report into the record.

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ZONING COMMISSION
District of Columbia
CASE NO. 04-33G
EXHIBIT NO. 230

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DRAFT

MEMORANDUM

TO: **District of Columbia Zoning Commission**

FROM: JLS for Eric Shaw, Director

DATE: May 12, 2016

SUBJECT: ZC 04-33G Inclusionary Zoning Amendments Supplemental Report

At the request of the Zoning Commission, this supplemental report provides further discussion on the issues raised at the public hearings held on March 3 and April 14, 2016.

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I. Balancing Affordability and Land Values

This section provides the Zoning Commission a high-level discussion on how and why many IZ programs across the country attempt to balance the affordability requirements with bonus density. It includes additional information on the economics of residential development in the District and the impact of changing construction types and parking on land values and the benefits that provides in terms of affordability.

A. Cost of Construction and Land Values

This section addresses the Zoning Commission's questions regarding the development costs used to test the impacts of the proposed changes to the IZ program on residential development.

1. Stick Frame versus Steel & Concrete

Figure 1 below presents the development costs used in the modeling exercises. The table shows that the main differences between mid-rise and high-rise construction are:

- Above grade hard costs of $121,631 per unit for a mid-rise[1] development and $157,813 per unit for a high-rise development;
- Soft costs are a percent of hard and parking costs; and
- Land costs represent the residual value after all other costs are paid including the developer/investor's return.

The table illustrates that the residual land values for high-rise developments are smaller per unit than the mid-rise project because of the increase in construction costs due to the use of steel and concrete. High-rise projects are slightly more valuable because of the floor premiums as buildings add additional floors, but this does not make up for the increase in hard costs. This is the main reason why the District's IZ requirements vary by density and the permitted mix of competitive uses. As OP stated during the public hearing on March 3, 2016, land value is the measure of the bonus's density's ability to balance the affordability requirements. In essence, bonus density is a subsidy of $45,000 to $90,000 per unit that balances the gap created by the reduction in revenues from the IZ requirements. Figure 1 illustrates that land values in high-rise developments have less power to balance the requirements of IZ. This is discussed in greater detail in Section I.B.

Figure 1. Sample of Total Development Costs

	C-2-A Development Costs			CR Development Costs		
		Per Unit	Percent		Per Unit	Percent
Hard Costs	$	121,631	35%	$	157,813	45%
Parking	$	23,156	7%	$	24,581	7%
Soft Costs	$	33,301	10%	$	41,951	12%
Contingency	$	7,239	2%	$	9,120	3%
Land Costs	$	90,302	26%	$	45,459	13%
Hurdle Rate	$	73,779	21%	$	74,661	21%
Total Costs	$	349,409	100%	$	353,584	100%

Source: DC Office of Planning

2. Parking

The analysis for all the options included parking requirements and the changes to those requirements from the Zoning Regulation Review (ZRR) process that resulted in the Zoning Regulations of 2016 (ZR16). OP's analysis determined that for the 100 unit building modeled, ZR16 parking reductions enabled developers to potentially eliminate one whole level of parking by reducing the need for two levels of parking down to one. The table in Figure 2 lists the zones that received the benefit from parking reductions. In general, the denser the zone the smaller the reduction could be and still eliminate one whole level of parking. The full ZR16 parking reductions occur when a property is close to metro or priority bus corridor. OP reviewed where these zones are mapped to ensure that all the zones receive the full reduction in parking benefit.

[1] Cost based on a steel and concrete plinth with five stories of wood frame construction above.

Figure 2. Impact of ZR16 Parking Reductions on Project Costs

Zone	Pre IZ FAR	Parking Requirement* Current	ZR16	Estimated Savings
C-3-A	4.00	0.50	0.17	$ 2,250,000
CR	6.00	0.33	0.17	$ 1,500,000
W-3	6.00	0.33	0.17	$ 1,500,000
C-2-C	6.00	0.25	0.17	$ 1,500,000
C-3-C	6.50	0.25	0.17	$ 1,400,000
* Spaces per residential unit				

Source: DC Office of Planning

The table illustrates that the ZR16 parking reductions saves the 100 unit project OP modeled anywhere from $1.4 million to $2.25 million in hard construction costs thereby potentially increasing land values (see OP February 26, 2015 Technical Appendices Figure 18). It would also save a project the construction time necessary to dig and construct the extra level. This would reduce the construction financing and holding costs, however this element of the savings was not measured. The model assumes that the savings is captured entirely by the cost of land. In actuality, any savings resulting from the parking reduction could be spread between land, developer's return, and potentially a greater supply of competitive units by improving the feasibility of the developments on currently marginal sites.

OP's inclusion of parking in the model only focused on what the zoning requires and not the parking built in response to demand. This was for two reasons, first, many developers during the ZR16 process stated that the parking reductions would improve affordability. This analysis attempts to measure and quantify the extent of that benefit. Second, it assumed that parking provided above that required by zoning is a business decision done to add value to the feasibility of the project and therefore not a drag on the project land values.

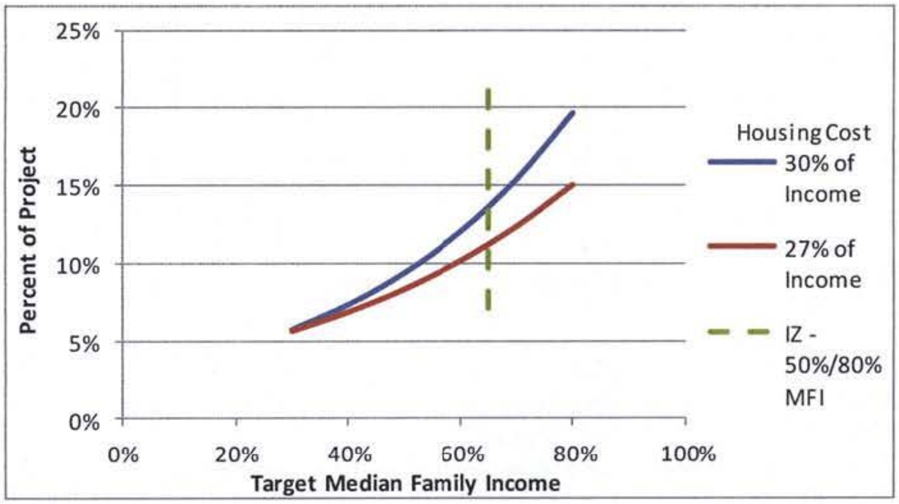
B. Bonus Density

The discussion above illustrates how land values per unit vary by type of construction. This variation has an important effect on the ability of bonus density to balance the impact of affordability requirements. For sites using steel and concrete construction, land prices are a smaller percentage of the development, so a 20 percent increase in density has a relatively smaller benefit to a steel and concrete project.

The Zoning Commission asked OP to discuss how the land values and bonus density function to balance the IZ requirements. The Commission specifically asked how productive an IZ program can be in terms of the percent of IZ units delivered given different Median Family Income (MFI) targets while minimizing the impact on residential development. Figure 3 below illustrates the theoretical strength of the bonus density to balance different MFI targets and rent schedules at both 27 percent and 30 percent of the income limit for a stick construction project. It reflects the transition from a market rate non-IZ project to an IZ project.

The blue and red lines indicate balance between the affordability and bonus density, which maintain both current land values and investor returns. IZ requirements that lie above the lines such as 15 percent of square footage at 60 percent of MFI would reduce land values, while requirements below the lines like 10 percent of square feet at 80 percent of MFI would increase land values. The chart illustrates that as the household income targets change from 30 percent MFI up to 80 percent MFI, a 20 percent bonus density is sufficient to balance only 6 percent of units at 30 percent MFI, up to just over 20 percent at 80 percent MFI.

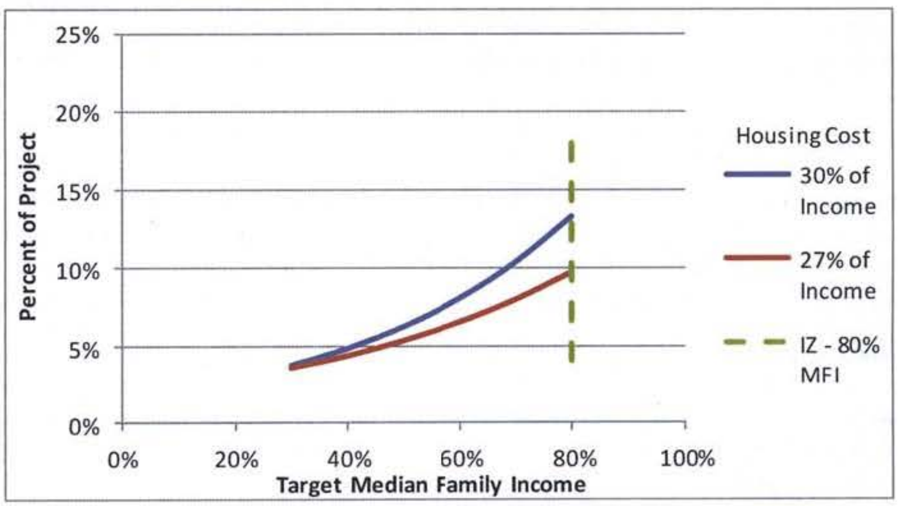
Figure 3. Depth of Affordability Market to IZ with a 20% Bonus Density & Stick Construction



Source: DC Office of Planning

Figure 4 below illustrates a similar relationship for a steel and concrete project using the 20 percent bonus density to balance the affordability requirements at various MFIs and rent schedules.

Figure 4: Depth of Affordability Market to IZ with a 20% Bonus Density & Steel and Concrete Construction



Source: DC Office of Planning

The charts demonstrate that the District's IZ requirements are well balanced for stick construction at 12.5 percent (75 percent of bonus density) of the project targeted to both 50 percent and 80 percent MFI. However, the balance in the denser commercial zones at 8.3 percent of the project targeted to just 80 percent MFI significantly increased land values as demonstrated on page 18 of OP's report dated February 26, 2016.

C. Developers Submission

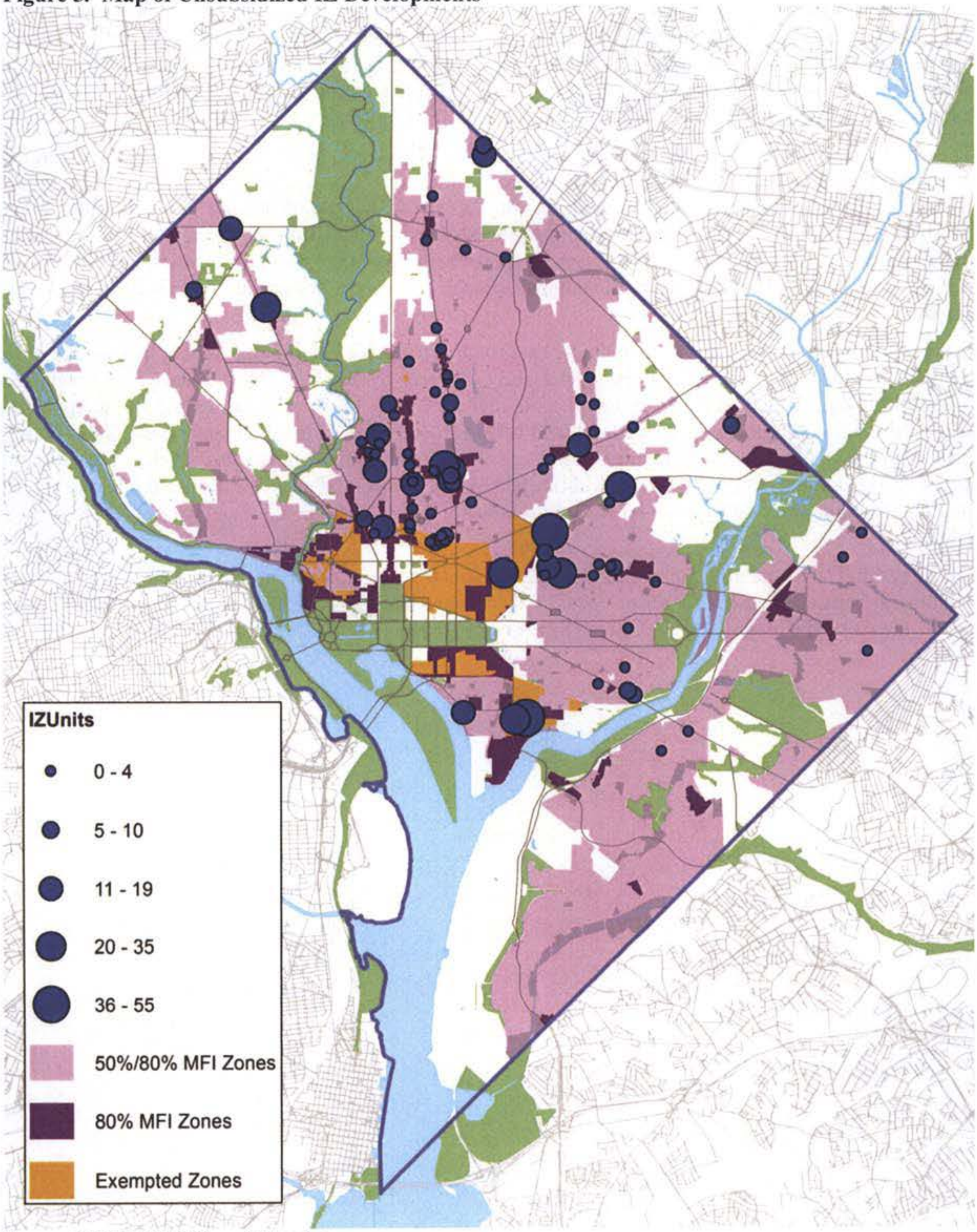
The DCBIA submission to the record dated April 28, 2016 is generally consistent with OP's analysis, however some numbers were significantly different. Some of these differences were due to updates and corrections OP made to certain elements of the model just prior to completing our report. OP contacted the developers to verify the source of the differences and their impacts.

The submission states that IZ impacts a high cost neighborhood differently from an emerging neighborhood in part because hard costs do not vary by location. This is contrary to previous discussions with developers. In 2006, developers working with OP stated that the IZ balance between affordability and bonus density was consistent across neighborhoods because land values and their ability to balance the requirements through bonus density got proportionally larger as the gap between market and IZ revenues got larger. This was due to the range of changes that occur across sub-markets including rents, cap rates, and construction costs.

Developers stated in the past that amenities, exterior finishes, and interior finishes/appliances and even the main structural components can be significantly different by location. Project design and materials might differ significantly between sub-markets and one location might have siding and surface parking, while the other is more likely to have brick and below grade parking. In certain sub-markets developers may even forgo significant development rights of 80 feet and 5.0 FAR in favor of stick construction to maximize land value. Upon discussion with DCBIA representatives after their submission, it was agreed that construction costs do vary somewhat on an order of less than 10 percent and averaging closer to 3 percent.

OP agrees that IZ's potential impact on emerging markets is reasonable a concern, however CIZC and building permits applications for unsubsidized projects have been approved and issued in neighborhoods across the city. The map in Figure 5 on the following page shows that IZ developments are now across the city.

Figure 5. Map of Unsubsidized IZ Developments



Source: DHCD, DC Office of Planning.

II. Analysis of Supply

This section covers the Zoning Commission's questions regarding the supply of housing and includes both budgetary resources the District, the cost of subsidizing different households, and how the resources are allocated across the spectrum of need. In addition, it includes a discussion on the effects of market rate supply on affordability.

A. Subsidized Housing

1. Budgetary Resources

Per the request of the Zoning Commission, Figure 6 presents estimates of program funds for affordable housing for Fiscal Year 2017.

Figure 6. Estimates of Fiscal Year 2017 Affordable Housing Budget

FY 2017 (Proposed) in Millions	Median Family Income				Total
	30%	50%	60%	80%	
Public Housing					
Section 8 Housing Choice Vouchers					
Local Rent Supplement					$ 59.4
Housing Assistance Payment Contracts					
DBH funds					
DHS funds					$ 43.0
Housing Production Trust Fund	40%	40%	20%		$ 100.0
Tax-Exempt Bonds*	Project Dependent				$ 195.0
DC Open Doors*					$ 60.0
LIHTC (4% and 9%)*	Project Dependent				$ 70.0
Federal Funds					$ 53.8
Emergency Solutions Grant					$ 1.2
CDBG	Project Dependent				$ 42.1
HOME	Project Dependent				$ 11.6
HOPWA					$ 7.0
Affordable Dwelling Units (ADU)					Variable
Home Purchase Assistance Program		Applicant Dependent			$ 16.0

Notes:

ADUs are dependent based on PUDs and public land disposition in given year.

* Numbers estimated based on past performce and dependent on applications

2. Costs to Subsidize by MFI

OP used a variant of the IZ impact model to estimate the cost to subsidize an affordable housing unit at various target MFIs and then discussed the estimates with staff at the Department of Housing and Community Development (DHCD) to verify their validity. Figure 7[2] below presents those estimates. The estimates reflect the cost of subsidizing a newly constructed unit in one of the higher cost neighborhoods of the District. The amount required to subsidize would therefore be less in a lower cost neighborhood where land prices are lower. In addition, actual subsidies per unit are even lower because most subsidized housing projects involve the rehab of an existing building as opposed to new construction

[2] Because it is a variant of the model used to test the impact of the IZ amendments some differences exist.

Figure 7. Estimated Required Subsidy per Unit

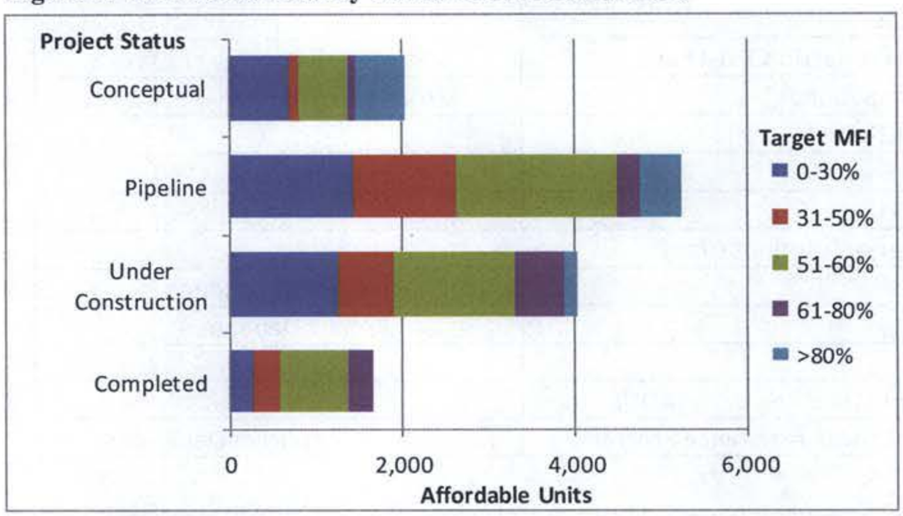
Target MFI	Subsidy per Unit
30%	$ 262,000
40%	$ 230,000
50%	$ 197,000
60%	$ 165,000
70%	$ 132,000
80%	$ 99,000

Source: DC Office of Planning

3. Resulting Pipeline

As presented in OP's report dated February 25, 2016 the District is investing in a lot of affordable housing projects. Figure 8 below illustrates the scale of the investment and breaks down by project status and MFI. The pipeline is almost 13,000 units of new or preserved affordable units, of which 1,670 units were recently completed since 2015. Eighty-one percent of the pipeline is units targeted to households at or below 60 percent of the MFI. Only nine percent is targeted to households between 60 percent and 80 percent MFI.

Figure 8. Affordable Units by Status and MFI since 2015

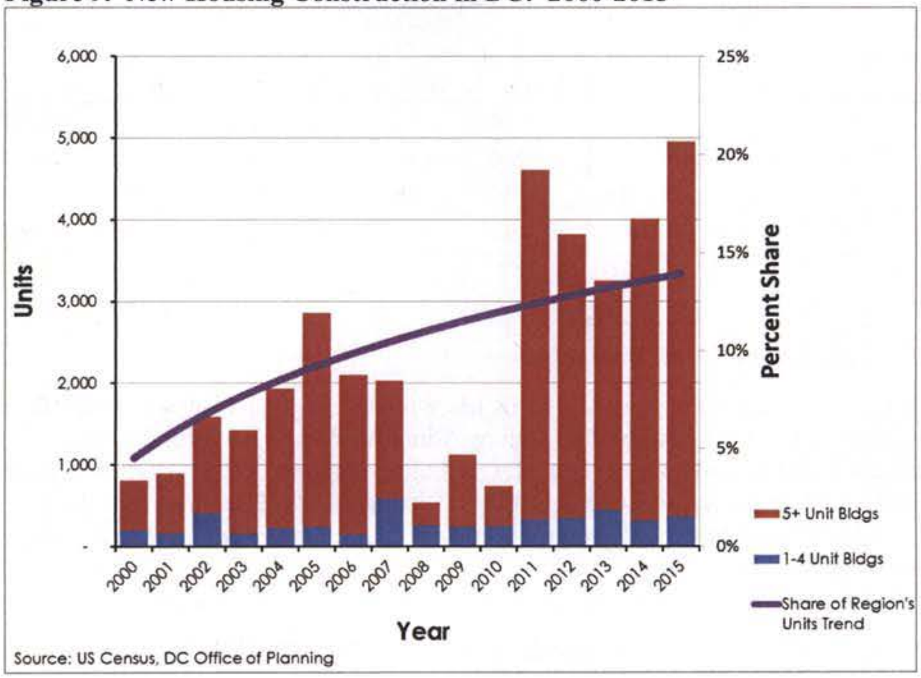


Source: DMPED

B. Market Rate Production

The production of housing in the District has been very strong since the end of the recession. In fact, the number of new units issued building permits has averaged over 4,100 per year since the recession ended and IZ began implementation. This is double the amount of units issued permits before the recession started. Conversely, the number of units filed in the rest of the region post recovery is down 40 percent from pre-recession levels. Figure 9 below illustrates those trends and demonstrates the District's position relative to the region's share of new units.

Figure 9. New Housing Construction in DC: 2000-2015



In light of the total demand for housing, it is clear that the new production has helped to moderate rate of increasing rents. Delta Associates reports that since 2011, rents for Class A apartments have only risen 0.9 percent and 2.3 percent for Class B rents. This does not include smaller older buildings that Delta Associates does not track.

III. Other Considerations

A. Unit Mix

This section provides the Zoning Commission, information on the type of IZ units that are being delivered. The administrative rules in 14 DCMR § 2202 (f) permits IZ units to be the smaller of the average market rate unit or of certain minimum sizes. This means if the market rate units are smaller than the minimum sizes than the IZ units can be smaller as well. Figure 10 below present the breakdown of IZ unit production by size and MFI to date.[3] It shows that in general IZ production is delivering units that are smaller, by an average of 65 square feet than the market rate units, but that they are averaging appropriate sizes. Some IZ studio units have been as small as 360 square feet when the market rate units were that small. These have tended to be in locations like Dupont Circle. OP confirmed with DHCD that even these small IZ units get leased once the developer is given the authority to market the units after the lottery has been exhausted.

[3] Not shown on the table are the six four-bedroom single-family homes that have delivered, which have averaged 2,473 square feet.

Figure 10. Production of IZ Units by MFI, Unit Type and Size

	50% MFI			80% MFI			Totals		
	Number of Units	Total SF	Average Size (sf)	Number of Units	Total SF	Average Size (sf)	Number of Units	Total SF	Average Size (sf)
Studio	19	10,013	527	94	50,008	532	113	60,003	531
1BR	27	16,713	619	104	67,184	646	131	83,897	640
2BR	11	9,944	904	54	49,140	910	65	59,084	909
Totals	57	36,670	643	252	166,332	660	309	202,984	657

Source: DHCD

B. Impact on Small Projects

Public testimony at the hearing suggested that IZ has a relatively greater impact on small buildings than on larger buildings. OP worked with the Zoning Administrator to better understand the focus of the testimony and narrowed it to two elements of the zoning regulations. First, § 2603.3 requires the first IZ unit be set aside for households at 50 percent MFI. Second § 2605.2 requires that the proportion of IZ studios and one-bedrooms not exceed the proportions of market rate studio and one-bedrooms. Section 2605.2 means if only one two-bedroom unit is delivered then it must be an IZ unit. The combination of the two IZ rules impact small projects differently from larger projects in several ways:

1. A small project's IZ revenues may only be from one 50 percent MFI unit instead of averaging closer to 65 percent MFI as 80 percent MFI units are added in larger projects;
2. A small project may have to set aside a greater proportion of two-bedroom units, which have lower revenue per square foot than smaller one-bedroom units; and
3. The project may have to provide more square footage than the IZ requires.

Figure 11 below demonstrates how IZ might impact a small 10-unit non-IZ building of 10,000 gross square feet (gsf) in the C-2-A zone. IZ would permit the building to achieve 12,000 gsf and 12 units. The IZ requirement based on 75 percent of the bonus density would be 1,230 net square feet of residential space. Because the project includes two-bedroom units, at least one must be an IZ unit. However, one two-bedroom unit of 990 feet is insufficient to fulfill the IZ requirement, so the project must dedicate a one-bedroom unit as well. This means the proportion of IZ two bedrooms is 50 percent instead of 30 percent for the market rate units. In the extreme example used below where the IZ units are the same size as the market rate units, the project must set aside 1,725 net square feet of space or 18 percent of the net residential gsf instead of 12.5 percent. In actuality, IZ units average 65 square feet smaller than the market rate units.

Figure 11. Small IZ Building Scenario

Land Area	Zone	FAR	GSF	Building Efficiency	Net SF	IZ Net SF
4,000	C2A(IZ)	3.0	12,000	82%	9,840	1,230
Unit Type	Market Units	Size	Net SF	IZ Units	Net SF	Total Net SF
1	7	735	5,145	1	735	5,880
2	3	990	2,970	1	990	3,960
Total	10		8,115	2	1,725	9,840
Percent of Project			82%		18%	100%

Source: DC Office of Planning

Of the projects DHCD tracks through CIZC applications, twenty-three percent of IZ projects have less than 20 total units, but they reach completion at the same rate as overall. Small projects average almost the exact same building efficiency and bonus density achieved as larger projects. Smaller projects do tend to set aside 12 percent more IZ square feet then required compared to 2 percent for all projects, but not the 40 percent more the table above illustrates. In addition, small projects do tend to set aside a greater percentage of two-bedroom IZ units (58 percent of units) than larger projects (18 percent of units). However, smaller projects are more likely to be ownership projects, which usually have a greater percentage of two-bedroom units due to demand.

What negative impact this has on small developments is unclear. Testimony mentioned the number of small IZ projects that are not feasible and therefore never submit CIZC applications. The testimony seemed to suggest IZ caused it to occur at a more frequent rate. Developers have stated in other venues that they pursue options on many properties before being able to find a feasible site and that many transactions do not close for a variety of reasons. This makes it hard to separate if a property sale failed due to the impact of IZ, the expectations of the landowner, or some other challenge. OP can state that smaller IZ projects have delivered in a wide range of neighborhoods from H Street NE, to Georgia Avenue, NW and down in Shaw. The map provided in Figure 12 of OP's Technical Appendices report dated February 26, 2016 shows small IZ projects are scattered across a variety of neighborhoods in all Wards with the exception of Ward 3. In fact, the first IZ unit sold was in an 11 unit building that received no bonus density in Shaw.

C. Impact on Neighborhood Character

During the March 4 hearing, testimony by residents raised concerns about the impact of the voluntarily participation in the IZ program through §2602.1 (e) and the 20% bonus density on the neighborhood character of low-density zones. OP investigated this concern by:

- Reviewing the zoning regulations for the lower density zones;
- Identifying the location of these zones; and
- Cross-referenced the zone locations with other GIS information to get an accurate understanding of existing conditions of properties that might pursue a voluntary IZ program.

OP's looked at the frequency of the conditions and potential aggregated impacts they may have on neighborhood character in the context of the R-2, R-3, R-5-A, and the R-5-B zone districts.

It is very unlikely that developers of single family developments in the R-2 and R-3 zones would want to take advantage of the voluntary program. For example, if a five (5) dwelling development in the R-2 were pursued, a 20% bonus density would only achieve 1 additional dwelling and that would be required to be an IZ unit—so there would be no market-rate dwelling offset. A ten (10) dwelling development would be able to achieve one IZ dwelling and one market rate dwelling. However, it would seem the opportunities to develop ten or more single family homes in the R-2 and R-3 districts would be a rarity. Additionally, much of the R-2 and most of R-3 zoned lands in the District are not vacant but are established older neighborhoods.

A more likely application of voluntary IZ would be in the R-5-A and R-5-B zones, where multifamily units are permitted on a floor-area-ratio (FAR) basis, and where the unit size and unit number can be modified. These types of developments may involve renovating multifamily buildings that seek to take advantage of the 20% bonus density. For example, an existing 15 unit multifamily building in the R-5-A zone can achieve a 1.08 FAR with the bonus, as opposed to the .9 FAR by right. In this scenario, the bonus could equate to an additional three units, whereby 75% of the bonus GFA would be IZ units (or ~two units) and one market unit could offset the additional IZ units.

The majority of the R-5-A zoned areas are in the southeast and northeast area of the city, east of the Anacostia River, and are primarily larger-scale developments of low-scale apartment housing. The majority are not within a historic district. There are also areas north of Georgetown University along MacArthur Drive, and near Catholic University. There are other areas zoned R-5-A that contain commercial uses (Cleveland Park), or that are older 7-10-story towers (Cathedral Heights) that are nonconforming in terms of height, at minimum. Ultimately, there could be some properties that could utilize the voluntary program primarily in the southeast and northeast areas of the city where this district occurs with frequency.

The majority of the R-5-B zoned areas are primarily in the center of the City, along 16th Street NW, north of Massachusetts Avenue in neighborhoods like Dupont, Adams Morgan, Shaw, Columbia Heights, etc. These areas continue to be of strong interest by developers and continue to have high land values. There appears to be a mix of older/historic apartment buildings that may have some non-conformities, such as building height; and others that may be ripe for renovation. OP studied an existing historic apartment building property with a land are of 19,000 sf that appears to meet the height and lot occupancy regulations. The matter of right density generated is ~49 units and with the bonus for IZ, ~58 units would be generated. With the increase of 10 units, 2-3 of those could be market-rate units, since 75% of the bonus is required to be attributed to IZ units. This may or may not be incentive enough for a developer to undertake a renovation.

OP expects the impact on neighborhood character to be limited. There are economic reasons based on testimony regarding IZ's impact on small projects and the minimum size needed before bonus density is large enough to offer more market square footage; nonconforming buildings/uses are not likely to take advantage of the option and if they did so, it would require BZA for review; in historic districts the review process would provide for compatibility with neighborhood character; and the IZ regulations do not adjust permitted height or lot occupancy in the R-5-A or the R-5-B so the building form would not differ from what is permitted currently.

Allowing for the voluntary opt-in to the IZ regulations in low-density zones may provide additional IZ housing. However, In some areas, there may be limited opportunities for the voluntary opt-in due to the presence of various factors like existing non-conformities. However, there is a prevalence of R-5-A zone districts in certain parts of the City, but it would require an owner to undertake renovation in order for the bonus to be available. The voluntary program will likely not be a primary source of IZ housing but it would be additive to the program overall.

D. Green Buildings

The Zoning Commission requested information on whether or not the costs of green building requirements were taken into account and what impact they have on affordability of the IZ units. OP worked with developers and architects to verify estimates of construction costs. While green building costs were not specifically discussed, studies have documented that green building requirements do not necessarily increase building costs. In addition, DC's new building code adopted in 2014 essentially require buildings to achieve the equivalent of LEED Silver. To that extent green building costs were included in the numbers shown in Figure 1 above. The impact model also used the most recent utility schedule, which reflects the lower utility bills that result from more energy efficient buildings.

E. Rent Control

At the public hearing on April 14, 2016, the Commission heard testimony expressing concern that the IZ amendments will conflict with Rent Control. The testimony focused on the proposed amendment to §2602.1 (c) which clarifies that IZ applies to an existing portion of the building when an addition of 10 or more units represents a 50 percent or more expansion to the existing structure. The testimony focused on three points:

1) The two programs set rents in different ways creating a potential conflict;
2) Providing IZ would require overly concentrating them in the new addition; and
3) It creates an economic disincentive to maximize an underutilized property's total potential number of units due to the multiple layers of affordability and limits to property revenues from both rent control and IZ.

DHCD administers both the IZ and the rent control regulations. They have agreed to review the two programs and resolve any conflicts between them either administratively or by legislation if necessary.

F. Tax Abatement

The Zoning Commission asked for information regarding New York City's 421a Tax Abatement Program. The 421a program is New York State law that applies specifically to New York City. It offers an exemption from an increase in real estate taxes that result from the construction of residential units, provided a minimum of 20 percent of the units are affordable to families of low and moderate income. The program expired this past January 2016 and has not been reinstated. OP contacted New York City planners regarding the program and learned that they did design their Mandatory Inclusionary Housing (MIH) program to dovetail but not rely on the 421a tax abatement.

New York City's 421a and MIH program combine to require between 25 percent and 30 percent of units to be affordable at an average of 60 percent of MFI, but this only applies when the city undertakes a rezoning of an area that increases FAR by more than 40 percent. New York is currently working on reenacting the 421a program. These programs are tailored to New York City's ability to significantly increase density and height, as well as New York City's tax structure for residential properties. Their requirements, as designed, therefore do not represent a model for the District of Columbia.

OP has participated in both the District's Comprehensive Housing Strategy Task Force and the Mayor's Affordable Housing Preservation Strike Force. Both efforts discussed tax abatements in the context of affordable housing projects receiving capital subsidies from District agencies. Any tax abatements are the purview of the Council and the Mayor and would be reviewed by the Office of Chief Financial Officer (OCFO) for their fiscal impact to the District.

IV. Review of Alternatives

The Commission asked OP for any additional comments or recommendations regarding the options presented. The Office of Planning continues to recommend Option 1A based on conclusion below:

- The Applicant's Petition
  - Lowering income targets to 50 percent MFI for rental along with reducing the rent schedule caused substantial negative impacts to land values that would potentially create significant delays in development; and
  - Providing additional bonus density was inconsistent with the current Comprehensive Plan and in many cases negatively impacted land values because it required a change to more expensive construction methods.
- OP's Option 1B
  - Lowering income targets to 60 percent MFI for rental had negative impacts to land value. There was concern it placed a greater burden on rental projects than on ownership markets at a time when rental projects are in high demand and providing a needed form of housing.
  - Required substantial changes to administrative processes at a time it when DHCD was still trying to make needed administrative improvements to the programs and required amendments to both the administrative regulations and the IZ Act to.

- OP's Option 1A
    - o Achieves deeper affordability by both expanding the number of zones required to target 50 percent MFI and by adjustments to the rent schedule that would lower rents to improve marketability and serve lower income households.
    - o Keeps DHCD's current administrative structure allowing DHCD to continue to improve the program without major shifts in policy.
    - o Minimizes negative impacts to the pace of residential development to a limited geographic area and by phasing in changes over time.

V. Conclusion

The Inclusionary Zoning program is one part of the District's broader affordable housing strategy. The District is acting on many fronts including:

- The Mayor's Affordable Housing Preservation Strike Force, which is about to publish its recommendations on how the District can better preserve the stock of both subsidized affordable and non-subsidized market rate affordable housing. And
- The District's Inter-Agency Council on Homelessness, which has the focused charge of ending chronic homelessness of individuals and families by 2017.

IZ has a defined role among these other efforts and within the District's larger affordable housing strategy. IZ is best focused on delivering moderate levels of affordable units in high cost areas of the city. Therefore, there are significant reasons for keeping IZ's current policy of splitting the affordability requirement between 50 percent and 80 percent of the MFI. These include:

- 10,600 affordable units, or 81 percent of the District's pipeline of over 13,000 affordable units, are already targeted to households under 60 percent MFI;
- There is demand for affordable housing at the 80 percent income band and IZ is one of the few programs that target this income range;
- Adjustments to the rent schedule separate from any zoning change can:
    - o Serve to reduce households burdened by rental costs,
    - o Increase the depth of affordability to serve households with lower incomes,
    - o Improve the marketability of the IZ units to improve administration by helping to reduce the time between lottery and occupancy, and
    - o Be accomplished in a way that minimizes the impact on market rate residential development compared to a sudden change from 80 percent to 60 percent MFI;
- The ability to reach 50 percent MFI households which represent a great need particularly for ownership opportunities;
- The percentages are consistent with the legislative Act and the administrative process will not need to be significantly overhauled; and
- The changes recommended achieve deeper affordability in several of the most productive zones and only require approval by the Zoning Commission.

The IZ program is still in its infancy with significant production only achieved in the past year or so. DHCD has made dramatic strides in improving administration, and continue to make improvements and should be accomplished before a major shift in policy is enacted.

Finally, Policy H-1.2.2 of the Comprehensive Plan states:

Policy H-1.2.2: Production Targets

> Consistent with the Comprehensive Housing Strategy, work toward a goal that one-third of the new housing built in the city over the next 20 years should be affordable to persons earning 80 percent or less of the area wide median income (AMI). Newly produced affordable units should be targeted towards low-income households in proportions roughly equivalent to the proportions shown in Figure 5.2. 504.7

Figure 5.2 on page 5-13 of the Comprehensive Plan sets as a goal that 30 percent of the District's affordable housing supply should be targeted to households earning between 60 percent and 80 percent of the MFI. OP expects the Housing Element of the Comprehensive Plan to be a major focus of the amendment cycle and expects the process may result in changes to the Housing Element. The Office of Planning is committed to returning to the Zoning Commission should those changes apply to the District's Inclusionary Zoning Program.

VI. Appendix

A. List of IZ Projects

Project	Address	Units	Market	IZUnits	AMI50	AMI80	ADU
2910 Georgia Avenue	2910 Georgia Avenue NW	22	20	2	1	1	-
Capital Hill Oasis	919 12th Street NE	16	14	2	1	1	-
Kelsey Gardens	1301 7th Street NW	256	201	55	-	55	-
Alabama Avenue Senior Housing	2515 Alabama Avenue SE	91	-	13	6	7	78
1700 Euclid Street	1700 Euclid Street NW	19	16	3	1	2	-
Ava H Street	318 I Street NE	143	129	14	-	14	-
77 H Street	77 H Street NW	303	277	26	-	26	-
House of Lebanon	27 O St NW	100	2	8	4	4	90
4924 Nash Street	4924 Nash Street NE	14	12	2	1	1	-
Takoma Central	255 Carroll Street NW	69	60	9	5	4	-
The Drake	1355 17th Street NW	230	213	17	-	17	-
Park 7	4004 Minnesota Ave NE	370	45	27	-	27	298
The Harper	1919 14th Street NW	144	133	11	-	11	-
The Standard Eleven	1109 M Street NW	11	10	1	-	1	-
Swift at Petworth	920 Randolph Street NW	218	200	18	-	18	-
Severna Phase II	43 K Street NW	133	-	10	-	10	123
Aria on L	300 L Street NE	60	53	7	-	7	-
Lima	2101 11th Street NW	31	28	3	-	3	-
V Street Residential	2001 15th Street NW	266	95	22	-	22	149
22nd St Parkside	1406 22nd St, SE	10	2	1	1	-	7
Georgia Gibson	3205 Georgia Ave, NW	31	26	5	3	2	-
2221 14th Street Apartments	2221 14th St, NW	30	26	4	-	4	-
Israel Manor Senior Homes	2401 Washington Place NE	45	-	6	-	6	39
2920 Georgia Avenue	2920 Georgia Ave NW	26	24	2	1	1	-
1115 H Street	1115 H Street NE	16	12	4	2	2	-
5333 Connecticut Avenue Apartments	5333 Connecticut Ave, NW	261	242	19	10	9	-
The Centrie	435 R St, NW	22	20	2	1	1	-
G Street Apartments	1209 G St, SE	12	10	2	1	1	-
2537 Pennsylvania Avenue SE	2537 Pennsylvania Ave SE	26	23	3	2	1	-
1350 Maryland Avenue Residential	1350 Maryland Ave NE	84	77	7	-	7	-
3939 South Capitol Residential	3939 South Capitol	49	-	5	3	2	44
Kingston Condominiums	401 15th St SE	13	11	2	1	1	-
Bentley, The	1328 14th St NW	50	46	4	-	4	-
Shay West, The	1924 8th St NW	156	144	12	-	12	-
Shay East, The	1921 8th St NW	91	84	7	-	7	-
Colonel, The	1250 9th St NW	67	61	6	3	3	-
2030 8th Street Residential	2030 8th St NW	65	59	6	-	6	-
301 H Street Condominiums	303 H St NE	25	22	3	-	3	-
Metro Village Apartments Building 1	7051 Spring Pl NW	63	13	7	4	3	43
Metro Village Apartments Building 2	7053 Spring Pl, NW	87	17	11	6	5	59
Fahrenheit Condominiums	3930 Georgia Ave NW	38	35	3	-	3	-
4455 Connecticut Avenue	4455 Connecticut Ave, NW	297	271	26	-	26	-
Lumen	2202 14th St NW	18	16	2	-	2	-
2112 8th Street Residential	2112 8th St NW	310	281	29	-	29	-
3707 14th Street Residential	3707 14th St NW	20	18	2	1	1	-
1412 Chapin Street	1412 Chapin St Nw	30	26	4	2	2	-
Tenley View	4600 Wisconsin Ave NW	60	54	6	-	6	-
6925 Georgia Avenue	6925-6929 Georgia Ave NW	27	-	3	2	1	24
Bailey Flat at Blagden	926 N St NW	12	10	2	1	1	-
Highland Dwellings - 24 Unit Building	400 Atlantic St SE	24	-	2	1	1	22
Adamo, The	1827 Adams Mill Rd NW	40	37	3	2	1	-
Logan13	1311 13th St NW	67	62	5	2	3	-
Ontario 17	1700 Columbia Rd NW	80	69	11	-	11	-
Gainsville Courts	2550-2562 16th St SE	19	-	2	1	1	17
Eastbrooke Apartment Homes	323 62nd St NE	39	-	5	3	2	34
1600 Pennsylvania Ave SE	1600 Pennsylvania Ave SE	77	69	8	4	4	-
5505 5th Street Residential	5505 5th St nw	30	26	4	2	2	-

Project	Address	Units	Market	IZUnits	AMI50	AMI80	ADU
12th & Franklin Condominiums	2724 12th St NE	22	20	2	1	1	-
2321 4th Street	2321 4th St NE	116	-	9	-	9	107
1511 A Street	1511 A St NE	18	16	2	1	1	-
Holm, The	1550 11th NW	38	35	3	2	1	-
The McIntyre	3146 16th St NW	85	77	8	4	4	-
5026 B Street SE	5026 B St SE	12	11	1	1	-	-
401-417 17th Street Row Houses	401-417 17th St, NE	26	14	2	1	1	10
Beacon Center Housing	6100 Georgia Ave NW	99	-	14	7	7	85
Girard Street Apartments	1545 Girard St NE	25	-	5	3	2	20
Corey, The	1350 Florida Ave NE	49	43	6	3	3	-
Corcoran at 14th, The	1350 Corcoran, NW	28	25	3	-	3	-
919 Sheridan Street NW	919 Sheridan St NW	16	14	2	1	1	-
SOME Benning Road	4414 Benning Rd NE	202	-	8	-	8	194
Elysium Fourteen	1925 14th St NW	57	53	4	-	4	-
Hecht Warehouse Redevelopment	1401 New York Ave NE	334	307	27	10	17	-
3300-3314 9th St NE	3300-3314 9th St NE	17	16	1	1	-	-
The Grove at Parkside	600 Kenilworth Tr NE	186	-	18	9	9	168
Eden	2360 Champlain St NW	12	10	2	1	1	-
Ballpark Square 701	1277 1st Street SE	326	276	50	-	50	-
2300 4th Street NE	2300 4th Street NE	17	15	2	1	1	-
10Eleven	1011 M St NW	71	64	7	-	7	-
Channing Place Homes	1710 7th St NW	56	-	5	-	5	51
Morton Street Mews	3401-3409 Sherman Ave NW	12	10	2	1	1	-
N Street Condominiums	1745 N St NW	39	36	3	-	3	-
One-Five, The	1500 Pennsylvania Ave SE	40	34	6	3	3	-
The Corcoran Flats	1865-1871 Corcoran St NE	10	9	1	1	-	-
1400 14th Street	1400 14th St NW	30	26	4	-	4	-
GA Views	3559 Georgia Ave NW	20	18	2	-	2	-
Jemal's Takoma Park	6921-6925 Maple St NW	102	91	11	6	5	-
West End Square 50	1211 23rd St NW	61	6	5	-	5	50
Jackson Place Flats	3205-3221 12th St NE	34	31	3	2	1	-
3035 15th St NW	3035 15th St NW	19	17	2	1	1	-
Channing Place -Building B	806 Channing Pl, NE	139	127	12	-	12	-
Morgan, The	2345 Champlain St NW	40	36	4	2	2	-
Apollo H Street	600 H St NE	431	396	35	3	32	-
Bowen Flats	2620 Bowen Rd SE	41	-	5	3	2	36
1326 Florida Ave NE	1326 Florida Ave NE	43	39	4	2	2	-
Capitol Gateway Marketplace	5850 E Capitol St NE	312	-	31	16	15	281
3542 Warder St NW	3542 Warder St NW	12	11	1	1	-	-
Archer Park LP	1200 Mississippi SE	190	-	24	10	14	166
Kensington Place Condomiums	2112-2126 3rd St NE	16	14	2	1	1	-
5702 Georiga Condominiums	5702 Georgia Ave NW	32	29	3	-	3	-
2101 Champlain Apartments	2101 Champlain NW	132	117	15	-	15	-
Patterson House	15 Dupont Circle	92	85	7	-	7	-
4308 Georgia Ave NW	4308 Georgia Ave NW	20	18	2	1	1	-
3825 Georgia Ave NW	3825 Georgia Ave NW	32	-	7	4	3	25
1515 Rhode Island Avenue Residential	1515 Rhode Island Ave NE	20	18	2	1	1	-
Tourus	1827 Benning Rd NE	18	16	2	1	1	-
1032 Otis St NE	1032 Otis St NE	10	9	1	1	-	-
2109 R Steet SE	2109 R St SE	18	16	2	1	1	-
3619 Georgia Ave NW	3619 Georgia Ave NW	27	25	2	-	2	-
2341 Ontario Road Condominiums	2341 Ontario Rd NW	14	12	2	1	1	-
Banneker at Fort Lincoln	Fort Lincoln Dr NE	42	37	5	3	2	-
Edison at Union Market	340 Florida Ave NE	187	149	38	-	38	-
1244 South Capitol	1244 South Capitol St SE	291	268	23	-	23	-
Atlantic Plumbing	945 Florida Ave NW	162	140	22	-	22	-
Blagden II, The	91 Blagden Alley NW	44	40	4	2	2	-

Project	Address	Units	Market	IZUnits	AMI50	AMI80	ADU
Blagden I, The	90 Blagden Alley NW	79	72	7	4	3	-
Sheriff Road Apartments	4726 Sheriff Rd NE	12	10	2	1	1	-
The Wharf - Parcel 11	600 M St SW	109	98	11	5	6	-
Benning Road Apartments	4000 Benning Rd NE	71	-	7	4	3	64
118 Projects	Totals	9,728	6,457	987	205	782	2,284