Testimony before the District of Columbia Zoning Commission

Testimony on Coalition for Smarter Growth's Proposal to Change Inclusionary Zoning
Case Number 04-33G
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Good evening Chairman Hood and Commissioners. I am Leslie Steen. Thank you for allowing me to testify again regarding the proposed changes to inclusionary zoning. I will be brief. Tonight I am here to be a resource to the Zoning Commission. After the DCBIA presentation and I have had some time to review it, not as I write this testimony, I would be happy to provide my thoughts on the results.

First, in regard to the DCBIA financial analysis, as a developer of affordable housing I am unable to discern how the numbers were derived, particularly in Table 1 that compares Option 1B to the current requirements. I trust that this evening DCBIA will present more in depth information to back up their analysis. In Tables 2 and 3 demonstrating the impact of Option 1B on projects I can comment that there is insufficient information to know the underlying assumptions to make a judgment as to the validity of the analysis. There are many assumptions that underlie DCBIA's results. We don't know what they are. One detail that is evident is the assumed operating expenses of $11,092 per unit. This is extraordinarily high and results in significantly lower debt to support project costs.

Regarding OP's economic analysis I would like to focus on the shift in targeted median family income from 80% to 60% of family median income. The OP analysis revealed that in some zones current bonus densities increase the benefits to developers beyond the cost of the IZ units – it leaves value on the table -- which in turn could have the impact of increasing land costs. This value needs to be used. The analysis shows that a reduction of the requirement to serve 80% of MFI to 60% of MFI:

- does not overly burden the land value in high density zones; and
- in low density zones the burden can be lessened, if the set aside is reduced from 10% to 8%.

Option 1B with the modification in percentage set aside is a balanced approach to capturing this value while meeting the housing needs. The partial changes applied to only some zones proposed as Option 1a of OP's final recommendation is insufficient. It ignores the productive capacity in C-2-A and CR, ignores the proposal to lessen the percentage set aside from 10% to 8% in the low density zones, all of which would enable targeting to lower incomes. This is supported by OP's Set Down Report excerpted below. Option 1A continues to produce units affordable at 80% of MFI, which does not match the significant need at lower incomes.

In addition, let me emphasize that OP's economic analysis embodies many assumptions. Based on my knowledge of the multi-family industry, many of these assumptions are overly conservative. If these assumptions were revised to reflect more realistic market assumptions, the result would further lessen

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the negative impact to land value or even increase land values. For example, the analysis assumes that equity investment is made in one lump sum up front as opposed to incrementally over time, which is not how the market works. The time value of the equity investment is a significant factor in determining returns. In turn, returns impact the value of land.

Further, the margin of error for the impact on land values assumed to be acceptable for the purpose of the analysis is 4%. This is too narrow. As a developer, I can say that there are many assumptions used in developing a project proforma. At the time of tying up the land for a project, there are many unanswered questions. A developer must allow for a significant margin of error that they must be prepared to absorb. Much about the project is still to be established. When the project is ready for construction start, the contingency can often be reduced to 5% as is used in the analysis. The 4% margin in OP's analysis at time of land acquisition sets the stage to result in an overly large impact to the land value.

Second, without debating the underlying assumptions in a proforma, to support Option 1B are the charts presented in OP's Set Down Report and further analysis by the Petitioner. Below is an excerpt from the technical appendices of OP's February Set Down Report Technical Appendices (pages 19-20). It provides a comparison of Option 1A and 1B, but does not present an apples to apples comparison. Figure 17 shows the impact to land under the current program. Figure 18 shows the impact to land when the ZRR parking is added along with Option 1A changes and the proposed reduction in percentage of income used for housing costs. An analysis of Option 1B as currently proposed and including the impact of the ZRR parking shows significant value in some high rise zones. These big cost savings can and should be applied to offset deeper affordability. Below is the analysis provided by the Petitioner followed by the OP charts.

ZONE	Base IZ (2009 Pre-IZ Land Values)	ZRR Parking	ZRR Parking Plus Base IZ	ZRR Parking Plus Proposal 1B	Base IZ Plus ZRR Parking Plus Proposal 1B	ZRR Parking Plus OP Proposal
C-2A	-0.4%	0.0%	-40.0%	-3.6%	-4.0%	
CR	18.9%	14.4%	36.0%	-1.9%	16.6%	
C-3-A	16.9%	12.5%	31.5%	3.1%	20.5%	7.2%
R-5-A	-5.4%	0.0%	5.4%	-60.0%	2.6%	
R-5-D	-0.1%	0.0%		-4.7%	-4.3%	
C-2-B	15.1%	0.0%		-4.2%	6.0%	-4.5%
R-5-B	-1.2%	0.0%	-1.2%	-3.8%	-5.0%	
C-3-C	13.7%	13.1%	34.1%	-2.9%	15.2%	
C-2-C	-3.9%	13.3%	16.4%	-1.8%	90.0%	
W-3	18.9%	14.4%	36.0%	-1.9%	16.6%	

Office of Planning Set Down Report

Figure 17: Summary Impact Analysis by Zone Ranked by Total Development Capacity

Rank Zone	Square Feet Percent Development of Capacity	Current IZ on 2009 Pre-IZ Land Values Rental	Ownership	OP 1A on Current Land Values Rental	Ownership	OP 1B on Current Land Values Rental	Ownership
1 C-2-A	24,705,367 18%	-0.4%	-4.9%	-4.6%	0.0%	-4.0%	4.9%
2 CR	24,360,707 18%	18.9%	4.1%	-3.2%	-4.1%	-1.9%	0.0%
3 C-3-A	23,210,803 17%	16.9%	7.5%	2.4%	-2.5%	3.1%	0.0%
4 R-5-A	13,296,429 10%	-5.4%	-7.7%	-6.8%	0.0%	-5.2%	7.2%
5 R-5-D	9,464,705 7%	-0.1%	-4.2%	-5.4%	0.0%	-4.2%	4.8%
6 C-2-B	7,998,179 6%	15.1%	7.6%	-8.5%	-2.6%	-7.9%	0.0%
7 R-5-B	7,303,141 5%	-1.2%	-5.2%	-5.0%	0.0%	-3.8%	5.2%
8 C-3-C	6,886,802 5%	13.7%	0.4%	-4.2%	-4.2%	-3.0%	0.0%
9 C-2-C	3,807,195 3%	-3.9%	0.4%	1.1%	-1.2%	2.2%	0.0%
10 W-3	3,609,595 3%	18.9%	4.1%	-3.2%	-4.1%	-1.9%	0.0%
Sub-Total	124,642,923 92%						

Source: DC Office of Planning.

Red outline reflects zones that are proposed to change; other zones are presented for evaluation purposes.

Figure 17 shows how OP's proposed Options 1A and 1B affect land values across different zones. Option 1A measures the total impacts of a combination of reducing the rents down to 27 percent of the income limit to expand the range of households who could afford the IZ units and requiring zones to split their requirement between 50 percent and 80 percent of the MFI. Option 1A only amends four zones (C- 2-B(1), C-3-A, SP-1 & W-2) and only two of those had development capacity in the top ten. The other zones (CR, C-3-C, C-2-C and W-3) in the table are presented for evaluation purposes. Option 1A has a negative impact to land values[3] of rental projects ranging from negative 3.2 percent (W-3) to as much as a negative 8.5 percent (C-2-B). Ownership projects were only affected in zones where requirements shifted from just 80 percent MFI to split between 50 percent and 80 percent MFI.

Option 1B measures splitting the requirements by tenure of the building; 60 percent of the MFI for rental and 80 percent of the MFI for ownership projects. 1B did not include reducing the rents as well, but keeps them at 30 percent of the income limits. The table shows that 1B had similar impacts to rental development as 1A, but had positive impacts for ownership projects where the requirement shifted from being split between 50 percent and 80 percent MFI to solely at 80 percent.

The major difference between the two proposals is that 1B happens all at once and has disparate impacts between rental and ownership projects. 1A the impacts between tenure are comparable and changes to the rent schedule can be implemented over time.

Figure 18. Option 1A (Revised) Impact on Land Values of Rental Development

Zone	ZRR Parking Change	Split Units 50/80	Remove Percent of Bonus	29% of Income	28% of Income
C-2-A	0.0%	NA	NA	-1.5%	-3.1%
CR*	14.4%	NA	NA	12.2%	10.1%
C-3-A*	12.5%	5.4%	7.2%	6.1%	5.1%
R-5-A	0.0%	NA	NA	-2.3%	-4.5%
R-5-D	0.0%	NA	NA	-1.8%	-3.6%
C-2-B	0.0%	-5.9%	-4.5%	-5.4%	-6.2%
R-5-B	0.0%	NA	NA	-1.7%	-3.3%
C-3-C*	13.7%	NA	NA	11.5%	9.2%
C-2-C*[2]	17.9%	NA	NA	15.8%	13.7%
W-3*	14.4%	NA	NA	12.2%	10.1%

* ZRR Parking reductions triggering significant cost savings

[2] Includes proposed correcting amendment to add 10 feet in height.

Building on its strengths, and changing its shortcomings, IZ can make a much larger contribution to the severe housing challenges faced by our city. We need to ensure that we are using this powerful tool to its maximum potential.

Thank you for your efforts in making the most of Inclusionary Zoning to provide affordable and equitable housing.