

June 28, 2021
Zoning Commission
District of Columbia
IZ XL Phase 2 Testimony
DC BID Council

Good afternoon Chairman Hood and members of the Commission. My name is Rick Ammirato, Executive Director of the DC BID Council, which is comprised of all 11 BIDs in the District of Columbia and I appreciate the opportunity to give testimony today regarding IZ XL Phase 2.

I would like to begin by thanking you for your service to the District. The work you do here has a profound effect on almost all aspects of life in our City. I say this because zoning laws, regulations, and the framework they create are incredibly powerful tools to meet the goals set by our elected officials and our citizens.

In the context of IZ XL Phase 2, the goal is the creation of affordable housing in non-residential to residential conversions. This is a goal the members of the DC BID Council support.

Before discussing Phase 2 directly, I would like to take a step back and briefly mention the reasoning behind the creation of an Inclusionary Zoning framework. To put it simply, the cost of building multiple unit residential housing is very expensive, can take a very long time, and can be very risky. Consequently, the large banks and equity firms that finance these projects look to mitigate risk and maximize return on their investment. In some cases, without tax credits or other incentives, there may be no ROI on an affordable housing project. Hence, there are significant market incentives to invest in market rate housing. The IZ framework was created to incentivize the private sector to invest in affordable housing units in their projects in return for additional bonus density. The idea being that the return on investment from the additional density would subsidize the cost of the affordable units.

We all know this, but I think it is important when looking at the trees, to remember the forest.

Even more importantly, we must acknowledge that in the past 15 years, the numbers have not changed. If anything, the creation of multi-unit housing is more expensive, time consuming and, post Covid-19, riskier.

The goal has not changed either, more affordable housing. And if anything, the need is even greater.

This brings us to IZ XL Phase 2 and non-residential conversions.

Non-residential conversions are even more complex financially, and more difficult to engineer than new construction. These are the fundamental reasons why large commercial property owners and developers aren't beating down the City's door with conversion projects, despite the fact that we are seeing millions of square feet of empty office space in our City. Currently, owners believe they can receive an appreciably higher ROI on a commercial office renovation, even in poor market conditions, than with a conversion.

That being said, just because they are extremely difficult to do doesn't mean they aren't good for the City and can't help the City meet its goals.

Unfortunately, IZ XL Phase 2 as currently constituted will act as a disincentive for these types of projects. As the other panelist have testified today, it makes non-residential to residential conversions impossible to get underwritten.

This may not be in the purvey of the ZC, but we have been living in extraordinary times. If we have learned anything over the past 18 months, when our office workers disappeared, our citizens hunkered down in their homes (those lucky enough to have them), tens of thousands lost their employment, and our schools went virtual, is that no aspect of our civic lives resides in a vacuum. Everything is connected.

Right now, everyone in the private sector and the public sector is focused on recovery. In other words, the forest has gotten considerably larger. Can the District develop an IZ framework the incentivizes creative conversions? Not just non-residential to residential but other conversions that increase our resiliency and diversifies the District's tax base. Can a flexible IZ framework help offset lost tax revenue from stagnant or declining assessed values in the commercial office sector? Can a robust IZ incentive structure for conversion spur more investment in affordable housing?

With respect to how IZ XL Phase 2 is currently written, it seems the answer is no.

It comes down to the fundamental question, will IZ XL Phase 2 meet the goal of creating more affordable housing or not? If the answer is no, then the Commission should re-evaluate the structure and find out what will work.

There is opportunity to develop more market rate and affordable housing through conversions if there is a robust and flexible incentive structure put in place. We would encourage the Commission to work with the private sector to determine what will work and develop a program that will meet the District's goals.

Thank you again for your time and consideration.

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DC BID Council