

Testimony before the District of Columbia Zoning Commission

Testimony on Coalition for Smarter Growth's Proposal to Change Inclusionary Zoning
Case Number 04-33G

By Leslie Steen, former Housing Chief for the District of Columbia and long term resident of DC.

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Good evening Chairman Hood and Commissioners. My name is Leslie Steen. I live the Van Ness neighborhood (Ward 3) of the District of Columbia. I have lived in the District of Columbia since 1975. I am the former Housing Chief under Mayor Fenty and have been a developer for the better part of 40 years.

I am here tonight because Inclusionary Zoning (IZ) is an extremely cost effective means of producing affordable housing and the one tool the District has to enable low income families to live in neighborhoods of high opportunity. All of our other affordable housing programs have issues that stand in the way of creating affordable housing in high cost, amenity rich neighborhoods. This is a very important consideration. As policymakers have come to understand the fact that our other housing programs geographically concentrate low income households and economically segregate the city, it has become clear that other solutions must be found. Recently, HUD has issued the *Furthering Fair Housing* rule that will require that governments address this issue. DC will be subject to it in the near future. We need to utilize IZ to its fullest extent as quickly as possible.

I commend the DC Zoning Commission for creating Inclusionary Zoning (IZ) and the Office of Planning (OP) and Department of Housing and Community Development (DHCD) for administering it. The Office of Planning's analysis of the program's administration and economics has been thoughtful and thorough. Their work has identified many administrative improvements.

Now that we have several years of experience with IZ, as housing prices rise, it is critical that we fully utilize Inclusionary Zoning to do everything it can to address the critical need for affordable housing in the District. In my testimony I would like to address two factors:

- the economics of IZ to pay for changes in targeting of incomes and
- where the need for affordable housing is most severe.

OP's original proposal Option 1B would require all IZ rental units to serve 60% of MFI. I support this option as a reasonable compromise. As proposed by OP under Option 1A, 62% of the IZ units would serve 80% of MFI and 38% would serve 50% of MFI. This needs to be and can be improved.

<u>% of HH Severely Housing Cost Burdened</u>	<u>% of MFI</u>	<u>% of Rental Units Created</u>		
		<u>Current</u>	<u>Option 1A</u>	<u>Option 1B</u>
5.2%	70-80%	88%	62%	
11.2%	60-70%			
16.3%	50-60%	0%		100%
30.0%	40-50%	12%	38%	
57.9%	0-40%			

OP's proposal to ease the housing cost burden by administratively reducing rents to 29% and 28% of the applicable MFI is a good concept, but it takes too long to achieve the goal of lower income targeting. OP's economic analysis shows that the program can afford to serve incomes of 60% of MFI. Administratively phasing in rent reductions to achieve 60% MFI targeting would take 15 or more years, if it were ever to happen. A great deal of housing will be built in the neighborhoods of highest opportunity during that 15 years. We cannot lose 15 years of value created by bonus density. We cannot wait that long to produce more affordable units.

The Economics of IZ

OP's economic analysis revealed that in some zones our 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 now. Based on bonus density levels under the current rules, the analysis shows:

- A reduction of the requirement to serve 80% of AMI to 60% of AMI in the high density zones does not overly burden the land value.
- In low density zones, if the set aside is reduced from 10% to 8%, the burden is actually lessened as compared to the current program.

In reviewing OP's economic analysis, it is important to note that it embodies many assumptions. Based on my knowledge of the multi-family industry, many of these assumptions are overly conservative, which if revised to more realistic market assumptions would further lessen 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.

Beyond the additional room possible with further discussion of the underlying assumptions to the analysis, there is considerable room to decrease the income targeting if the Proposal 1B is further analyzed. The OP proposal as presented in the Technical Appendices (pages 19-20) does not present an apples to apples analysis of Options 1A and 1B. 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.

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%	

Income Targeting

The unfortunate fact is that 88% of IZ units produced to date serve households of 80% of median family income (MFI) while only 12% serve households of 50% of MFI. This does not match the needs of the citizens of the District. If one looks at the percentage of households severely housing cost burdened. 5.2% of DC families with incomes of 70-80% of MFI are severely housing cost burdened (pay more than 50% of their income in rent) while 16.3% of DC Families with income of 50-60% of MFI are severely housing cost burdened. Households at 80% of MFI can find housing in the market with rents at 80% of MFI being close to market rents in many neighborhoods and with Class B apartments. The bulk of the households on the IZ waiting list have incomes at 50% of MFI, moreover, 70% are one and two person

households, and yet only 18% are in line for the 80% MFI units. Many of these renters are unaccustomed to and are not interested in going through the rigors of income certifying to be allowed to rent an IZ unit. This is reflected in the fact that the days on the market of the 80% MFI units are the greatest.

As stated in OP's July 3, 2015 memo on page 15:

"A gap analysis between the cost of both rental and ownership market rate housing and District households' ability to pay, provided below suggest the gap starts to grow significantly below 60 percent of MFI for rental (see Table 7)." and

"The vast majority of IZ production has been at the 80 percent of MFI level, which is not serving lower income households and is very close to available rental market supply especially for small units.

OP's February 25, 2016 Recommendations Summary memo to the Zoning Commission recommends Option 1A combined with an easing of income targeting achieved by slowly reducing the percentage of income spent on housing costs. The memo discusses the need for affordable housing setting forth DHCD's Affordable Housing Tracker as evidence that we need to target 80% of MFI because other programs do not. It should be noted that the Housing Tracker combines preservation and new construction, which doesn't reveal the fact that the vast majority of the units being produced are preservation units. While preservation is critical so that we do not increase our affordable housing shortage, unfortunately it does not produce units. IZ is new construction, the tool we have to help address the existing shortage. While the new production is increasing our housing supply in neighborhoods of high opportunity, we should be endeavoring to make that housing available to those who have no other means of accessing those neighborhoods.

Further Notes

It should be noted that housing that operates under other affordable housing programs addresses the problem of marketing to a set income band as IZ does by allowing households to pay more than 30% of their income as rent. Page 17 of OP's July 3, 2015 memo provides Table 7 setting forth the percentage on income spent on housing costs by percent of MFI. An industry norm is to allow households to pay up to 40% of their income when the rent does not include utilities. While not optimal, this solution does work for low income families due to the shortage of affordable housing, although it does not work as well for higher income households. Over time we can also moderate rents, especially as IZ starts to produce units in neighborhoods that are more affordable. This approach is just too incremental today when we can afford to do otherwise.

Other aspects of the IZ have proven to be sound and should be preserved.

Further, as we improve the program I urge:

- Enable the Mayor, or by assignment qualified non-profits, to purchase and hold IZ units and then rent units to people at lower incomes. As currently written the program does not allow the Mayor, or her designee, to hold and rent the unit.
- Be very careful with flexibility in allowing off-site development so as not to diminish the principal of access to high opportunity neighborhoods of this unique program.

- Update the Comprehensive Plan to increase density (allow additional housing units to be built) in order to use it to require more IZ units built at lower income levels.

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 equitable housing.