DISTRICT OF COLUMBIA BUILDING INDUSTRY ASSOCIATION

April 28, 2016

Honorable Anthony Hood
Chairman, Zoning Commission
441 4th Street NW Suite 200S
Washington, DC 20001

RE: ZC 04-33G Inclusionary Zoning Amendments

Dear Chairperson Hood,

Thank you for the opportunity to testify on Case Number 04-33G regarding the Applicant's Text Amendment to Chapter 26, Inclusionary Zoning ("IZ"), on April 14, 2016.

As highlighted during the hearing, the development community overwhelmingly supports Office of Planning's ("OP") February 2016 report "Option 1A" over "Option 1B." IZ. Members of the District of Columbia Building Industry Association ("DCBIA") worked for nearly one year with OP through a working group with the Applicant to identify recommendations that could improve the District's IZ program. Such recommendations, which are more closely reflected in Option 1A, increase affordability without negatively impacting the market and with recognition of the basic principles of real estate financing. Option 1A would ensure that IZ projects can be economically viable without the unintended consequences of deterring development. As we testified, while 1A is not perfect, it is the one that is more pragmatic and more likely to meet the goals of deeper affordability.

In response to the Commission's request, DCBIA is submitting for the record our deeper analysis of OP's model - a generic pro forma which best captures typical features of 100-unit building and applied Option 1B IZ requirements - to understand the actual impact Option 1B will have on development. The enclosed analysis is based on OP's model used throughout the working group process and is summarized as follows:

- Table 1: The model changes reflecting Option 1B IZ demonstrates that high density areas will have significant negative land value impact. The cost of land in high density areas, including many parts of Ward 2 and in Ward 3, is significantly more expensive. The goal of mix-income housing in high density areas would be increasingly unachievable, if not entirely inhibited, if the land value is reduced in some high density zones up to 60%.

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- Table 2: The model changes reflecting Option 1B IZ in the C2B Zone. This zone has the most affordable housing potential due to the Zone's high density. It shows a $1.9 million negative impact to land value in developed neighborhoods and an even deeper negative impact in emerging neighborhoods.
- Table 3: The model changes reflecting Option 1B IZ shows that there is no accounting that although cost for new construction for emerging neighborhoods is the same as new construction in developed neighborhoods, both projects command drastically different rent. The financial gap of providing deeper level of affordability further exacerbates the financing issue in smaller projects and projects in emerging neighborhoods.

Thank you again for the opportunity to provide our analysis of OP's model of Option 1B. If you have any questions related to our submission, or are interested in scheduling the walk-through of this submission as was articulated by the Zoning Commission at the April 14 hearing, please do not hesitate to contact me at (202) 966-8665 or lmallory@dcbia.org to schedule.

Sincerely,

Lisa Maria Mallory, CEO

cc: Members of the Zoning Commission:
Marcie Cohen, Vice Chairman
Robert Miller, District Resident
Michael G. Turnbull, Architect of the Capitol Designee
Peter G. May, National Park Service Designee

DCBIA:
Lynn Hackney, President, Allyson Capital and President District of Columbia Building Industry Association (DCBIA)
Brad Fennell, WC Smith, Co-Chair DCBIA Public Policy & Regulation Committee
Paul Tummonds, Goulston & Storrs, Co-Chair DCBIA Public Policy & Regulation Committee
Pam Askew, WC Smith, Co-Chair, DCBIA Housing Committee
Anitra Androh, Miles & Stockbridge, DCBIA Housing Committee
Bill Alsup, Hines, Co-Chair DCBIA Inclusionary Zoning Subcommittee
Bryan Moll, The JBG Companies, Co-Chair DCBIA Inclusionary Zoning Subcommittee

Enclosures: Table 1: Developer Analysis of Option 1B IZ Compared to Current IZ
Table 2: Developer Analysis of Option 1B IZ on C2B Rental Scenario
Table 3: Developer Analysis of Option 1B IZ on Emerging and Developed Neighborhoods

TABLE 1 - DEVELOPER ANALYSIS OF OPTION 1B IZ COMPARED TO CURRENT IZ

TABLE 1	Zone	Current IZ	OP 1B	DCBIA Observations
NOTE 1: This analysis includes **all assumptions** from OP Model (ZRR Parking + Rent premiums)				
Land Value per OP Model	C2A	6,911,954	6,895,224	
% Change in Land Value			-0.24%	Low density zone with stick-built construction and lower affordability target
Absolute dollar change in land value			-16,730	under current IZ (65% blend)
Land Value per OP Model	CR	2,923,955	1,978,506	
% Change in Land Value			-32.33%	Significant timing impact on acquiring sites/starting construction as land owners
Absolute dollar change in land value			-945,449	adjust to new land value
Land Value per OP Model	C3A	7,574,964	7,196,926	
% Change in Land Value			-4.99%	
Absolute dollar change in land value			-378,038	
Land Value per OP Model	R5A	3,061,410	3,044,680	
% Change in Land Value			-0.55%	Low density zone with stick-built construction and lower affordability target
Absolute dollar change in land value			-16,730	under current IZ (65% blend)
Land Value per OP Model	R5D	2,670,847	1,598,133	
% Change in Land Value			-40.16%	Significant timing impact on acquiring sites/starting construction as land owners
Absolute dollar change in land value			-1,072,714	adjust to new land value
Land Value per OP Model	C2B	9,862,637	7,996,738	Significant timing impact on acquiring sites/starting construction as land owners
% Change in Land Value			-18.92%	adjust to new land value. **This is the zone with most potential affordable**
Absolute dollar change in land value			-1,865,899	**housing.**
Land Value per OP Model	R5B	6,136,278	6,119,548	
% Change in Land Value			-0.27%	Low density zone with stick-built construction and lower affordability target
Absolute dollar change in land value			-16,730	under current IZ (65% blend)
Land Value per OP Model	C3C	3,096,742	2,083,002	
% Change in Land Value			-32.74%	Significant timing impact on acquiring sites/starting construction as land owners
Absolute dollar change in land value			-1,013,740	adjust to new land value
Land Value per OP Model	C2C	3,560,587	2,615,137	
% Change in Land Value			-26.55%	Significant timing impact on acquiring sites/starting construction as land owners
Absolute dollar change in land value			-945,450	adjust to new land value
Land Value per OP Model	W3	2,923,955	990,664	
% Change in Land Value			-66.12%	Significant timing impact on acquiring sites/starting construction as land owners
Absolute dollar change in land value			-1,933,291	adjust to new land value
Other Observations:	It is unlikely (and contrary to current public policy) that the District will offer all developers subsidies to offset a higher land cost than can be supported in order to keep construction/ development active. The land values in this chart will be further negavtively impacted by properties that will be parked at a higher rate than the 0.17 - 0.33 minimum ZRR requirement (0.50 is a generally accepted minimum) consistent with actual projeccted parking demand. A multi-year phase in would help market to adjust to new land values			

TABLE 2 - DEVELOPER ANALYSIS OF OPTION 1B IZ ON C2B RENTAL SCENARIO

Scenarios Models **Excerpt from OP Model in C2B Zone**

C2B Rental Scenario

	Factor	Per NSF	Base IZ	Scenario IZ
Monthly Rent		$ 3.34	$ 249,952	$ 240,551
Parking Revenue	$ 200	$ 0.15	$ 9,200	$ 9,200
Annual Income		$ 41.84	$ 3,109,828	$ 2,997,010
Vacancy/Economic Loss	5%	$ 2.09	$ 155,491	$ 149,851
Operating Expenses	35%	$ 14.64	$ 1,109,195	$ 1,109,195
RE Taxes (Included in OE)		$ 4.49	$ 330,183	$ 311,004
Net Operating Income		$ 25.10	$ 1,845,141	$ 1,737,964
Cap Rate	4.75%			
Estimated Value		$ 528.46	$ 38,845,078	$ 36,588,719
Hard Costs	$ 158	$ 192.68	$ 14,595,732	$ 14,595,732
Parking	0.33	$ 25.96	$ 1,638,750	$ 1,638,750
Soft Costs	23%	$ 50.29	$ 3,733,931	$ 3,733,931
Contingency	5%	$ 10.93	$ 811,724	$ 811,724
Land Costs		$ 137.01	$ 9,862,637	$ 7,996,738
Hurdle Rate/Minimum Return		$ 111.59	$ 8,202,305	$ 7,811,844
Total Costs		$ 528.46	$ 38,845,078	$ 36,588,719
Impact to Land				-18.92%

Notes:
Base IZ = 50% of Bonus @ 80% AMI @ 30% of Income with 20% Bonus Density
Scenario = 75% of Bonus @ 60% AMI @ 30% of Income with 20% Bonus Density and 5' Height Bonus

Land Cost in Gross Square Feet	$ 107	$ 91
Land Cost per unit	$ 82,189	$ 70,033

TABLE 3 - DEVELOPER ANALYSIS OF OPTION 1B ON DEVELOPED & EMERGING NEIGHBORHOODS

OP 1B Developed Neighborhood Scenario

C2A Rental

	Factor	Base Market Rate Project Per NSF	Per Unit	Project	Base IZ	Scenario IZ
Monthly Rent		$ 3.29	$ 2,077	$ 207,724	$ 238,719	$ 236,766
Parking Revenue	$ 200	$ 0.21	$ 130	$ 13,000	$ 13,000	$ 13,000
Annual Income		$ 41.96	$ 26,487	$ 2,648,684	$ 3,020,632	$ 2,997,187
Vacancy/Economic Loss	5%	$ 2.10	$ 1,324	$ 132,434	$ 151,032	$ 149,859
Operating Expenses	35%	$ 14.69	$ 9,270	$ 927,039	$ 1,112,447	$ 1,112,447
RE Taxes (Included in OE)		$ 4.51	$ 2,844	$ 284,385	$ 314,438	$ 310,452
Net Operating Income		$ 25.18	$ 15,892	$ 1,589,210	$ 1,757,154	$ 1,734,881
Cap Rate	4.75%					
Estimated Value		$ 530.01	$ 334,571	$ 33,457,057	$ 36,992,709	$ 36,523,804
Hard Costs	$ 158	$ 192.68	$ 121,631	$ 12,163,110	$ 14,595,732	$ 14,595,732
Parking	0.50	$ 36.68	$ 23,156	$ 2,315,625	$ 2,315,625	$ 2,315,625
Soft Costs	23%	$ 52.75	$ 33,301	$ 3,330,109	$ 3,889,612	$ 3,889,612
Contingency	5%	$ 11.47	$ 7,239	$ 723,937	$ 845,568	$ 845,568
Land Costs/Gap		$ 124.51	$ 78,597	$ 7,859,676	$ 7,535,003	$ 7,165,110
Hurdle Rate/Minimum Return	26.8%	$ 111.91	$ 70,646	$ 7,064,601	$ 7,811,169	$ 7,712,157
Total Costs		$ 530.01	$ 334,571	$ 33,457,057	$ 36,992,709	$ 36,523,804
Return		26.8%	26.8%	26.8%	26.8%	26.8%
Impact to Land					-4.1%	-4.9%

Notes:
Base IZ = 75% of Bonus @ 65% AMI @ 30% of Income with 20% Bonus Density
Scenario = 75% of Bonus @ 60% AMI @ 27% of Income with 20% Bonus Density and 5' Height Bonus
Scenario TC Not Applicable

Land Cost in Gross Square Feet	$ 102	$ 82	$ 78

OP 1B Emerging Neighborhood Scenario

C2A Rental Scenario

	Factor	Base Market Rate Project Per NSF	Per Unit	Project	Base IZ	Scenario IZ
Monthly Rent		$ 1.63	$ 1,029	$ 102,879	$ 128,514	$ 125,662
Parking Revenue	$ 200	$ 0.21	$ 130	$ 13,000	$ 13,000	$ 13,000
Annual Income		$ 22.03	$ 13,905	$ 1,390,547	$ 1,698,163	$ 1,663,944
Vacancy/Economic Lo	5%	$ 1.10	$ 695	$ 69,527	$ 84,908	$ 83,197
Operating Expenses	35%	$ 7.71	$ 4,867	$ 486,691	$ 584,030	$ 584,030
RE Taxes (Included in OE)		$ 2.37	$ 1,493	$ 149,301	$ 184,177	$ 178,360
Net Operating Income		$ 13.22	$ 8,343	$ 834,328	$ 1,029,225	$ 996,717
Cap Rate	4.75%					
Estimated Value		$ 278.25	$ 175,648	$ 17,564,802	$ 21,667,901	$ 20,983,519
Hard Costs	$ 158	$ 192.68	$ 121,631	$ 12,163,110	$ 14,595,732	$ 14,595,732
Parking	0.50	$ 36.68	$ 23,156	$ 2,315,625	$ 2,315,625	$ 2,315,625
Soft Costs	23%	$ 52.75	$ 33,301	$ 3,330,109	$ 3,889,612	$ 3,889,612
Contingency	5%	$ 11.47	$ 7,239	$ 723,937	$ 845,568	$ 845,568
Land Costs/Gap		$ (74.09)	$ (46,769)	$ (4,676,862)	$ (4,553,906)	$ (5,093,778)
Hurdle Rate/Minimun	26.8%	$ 58.75	$ 37,089	$ 3,708,883	$ 4,575,270	$ 4,430,760
Total Costs		$ 278.25	$ 175,648	$ 17,564,802	$ 21,667,900	$ 20,983,519
Return		26.8%	26.8%	26.8%	26.8%	26.8%
Impact to Land					-2.6%	11.9%

Notes:
Base IZ = 75% of Bonus @ 65% AMI @ 30% of Income with 20% Bonus Density
Scenario = 75% of Bonus @ 60% AMI @ 27% of Income with 20% Bonus Density and 5' Height Bonus
Scenario TC Not Applicable

Land Cost in Gross Square Feet	$ (61)	$ (49)	$ (55)