



DISTRICT OF COLUMBIA BUILDING INDUSTRY ASSOCIATION

**Testimony of
Bill Alsup
Senior Managing Director
Hines**

**Before the District of Columbia Zoning Commission
Honorable Anthony Hood, Chair
Public Hearing**

on

**CASE NO. 04-33G (Amendments to Chapter 26, Inclusionary Zoning)
Jerrily R. Kress Memorial Hearing Room
441 4th Street, N.W., Suite 220-South
Wednesday, July 13, 2016
6:30 p.m.**

Good evening Chairperson Hood, members of the Zoning Commission, and staff.

I am Bill Alsup, Senior Managing Director of Hines. I am also Past President of the District of Columbia Building Industry Association (DCBIA) and currently serve on its Board of Directors as well as Co-Chair the Inclusionary Zoning Subcommittee.

I am joined by Bryan Moll of The JBG Companies and Buwa Binitie of Dantes Partners, also DCBIA Board members, who will provide specific feedback to each of the five decision points we have been requested to discuss at this hearing.

As you know and some of the Commissioners stated at the June 13 hearing, the importance of understanding and taking into account the impact to land value for Inclusionary Zoning projects cannot be overemphasized. A developer who is building a residential project must ensure the project is financially viable for both the equity investment and debt financing. Considerations include land costs, construction risks, hard and soft costs including labor and materials, market conditions, etc. Land value is the primary development cost variable and if a project is not financially viable because of land cost, the developer will not proceed with acquisition of a site and development of the site.

Since IZ remains in its infancy, any changes to the program at this stage need to be carefully vetted to avoid decreasing the District's development of affordable housing and market rate housing supply.

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DCBIA does now believe that the Office of Planning's (OP) Option 1A recommendations, as outlined in their June 10, 2016 report, will not have a material adverse impact on the production of either new affordable or market rate housing. Tonight, I would like to present to you our developer analysis which supports why we believe this.

Highlights of the Developer Analysis of OP June 10 Report

Please turn your attention to the Table attached to my testimony. In our analysis, we used the Office of Planning's 100-unit housing model, except that we added 0.33 parking ratio across all zones because we believe this is a minimum standard for a viable project in any DC submarket. We made this change to standardize the discussion across all zones.

I want to highlight two major observations in our analysis of OP's June 10 report.

First, in the Option 1A recommendation, we see a range of land value impact from neutral to negative in most zones. Option 1B, however, has the most negative impact to land value, especially in zones CR, C3C, W3, and W2, with the percentage of negative impact ranging from 17.5% to 20.14%. By contrast, our analysis reveals Option 1A achieves the goal to deepen affordability levels for IZ projects in the near term while having the least negative impact to land value.

The second thing I'd like to point out is that in our analysis the impact to Zone C2B (zones we believe that currently have the most potential for affordable housing – such as neighborhoods near [Rhode Island Avenue, NE, South Dakota Avenue, NE, and Alabama Avenue, SE, for example]), the impact to land value is significantly less severe under Option 1A. Our analysis indicates that Option 1A has the most potential to produce more affordable housing in the near future in these zones compared to Option 1B.

Conclusion

DCBIA continues to be a staunch advocate for creating more affordable housing. As noted in the testimony we have provided to date, the deeper affordability levels proposed by Option 1B without the possibility of additional height and density or other subsidies, will result in the material reduction of both new affordable and market rate housing created.

I will close by saying that DCBIA and its members are eager to participate in the Office of Planning Comprehensive Plan Amendment process which is expected to begin soon. The City has a supply-side housing problem. The Comp Plan process is a key opportunity to allow for increased high-density and height in the right zones to support the creation and preservation of more affordable housing and market rate housing.

Our recommendation is that the Zoning Commission adopt the Office of Planning's Option 1A, as outlined in its June 10, 2016 report.

We thank you for convening today's hearing and the opportunity to present our analysis of Options 1A and 1B. Bryan and Buwa will now provide testimony specific to the five decision points we have been requested to discuss tonight.

I am available to answer any questions you might have following the conclusion of this round of testimonies.

Thank you.





DISTRICT OF COLUMBIA BUILDING INDUSTRY ASSOCIATION

Testimony of
Bryan Moll
Principal
The JBG Companies

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Good evening Chairperson Hood, members of the Zoning Commission, and staff.

As mentioned, I am Bryan Moll, Principal of The JBG Companies. I am also an active Board member of DCBIA and Co-Chair DCBIA's Inclusionary Zoning Subcommittee.

I would like to note from the outset that JBG has followed the current Inclusionary Zoning requirements at several of our DC projects. In our experience, the relationship between bonus density and affordable housing in the current IZ regulations has worked effectively to deliver units for moderate-income families throughout the District.

The scope of tonight's additional public hearing is limited to the first five decision points described in the Office of Planning's (OP) report dated June 10, 2016. I will cover the first three decision points and my colleague Buwa Binitie will cover the last two.

As Bill mentioned, we appreciate this additional opportunity to provide feedback to you. DCBIA received active feedback that has led to the analysis and conclusions we are articulating at this hearing.

1a. Shift Targeted Median Family Income: OP Final Recommendation 1A (amended §2603.3): Expand the requirement to split IZ units between 50% and 80% MFI to C-2-B, C-2-B-1, C-3-A, W-2, SP-1 zone districts.

On recommendation 1, DCBIA supports the recommendation 1A - to split IZ units between 50% and 80% MFI in the zones described. DCBIA considers a negative 2.5% impact to land value to

be manageable and anything more significant to have a negative impact to the financial viability of projects. We believe Option 1A is the best of the options that are currently being considered because although our analysis and member feedback suggests that, as a result of 1A, some projects will have an impact to land value greater than 2.5%, 1A deepens affordability in the near term with the least amount of negative consequence to the financial viability of projects. A larger loss of land value would result in the diminished creation of affordable and market rate housing in the near term.

2a. Change Percent IZ Square Footage Requirement: OP Final Recommendation (§ TBD): In expanded zones of OP's recommendation 1.a. listed above, keep the 8% of residential square footage requirement, but eliminate the IZ requirement connected to 50% of the bonus density achieved;

On recommendation 2, DCBIA supports Option 2A. The change to eliminate the IZ requirement connected to 50% of the bonus density achieved has very little to no impact on land value.

3a. Expand IZ Requirements to Currently Exempted Zone Districts: Options: a. OP Final Recommendation: Retain current exempt zone districts, except for Hill East. OP notes that the HE set-aside and MFI recommendations did not make it into the final report or public hearing advertisement and OP submitted new text (04-33H) to exempt sites, such as portions of Hill East, from the IZ requirements when they are subject to greater affordability requirements as a result of District law.

For the third recommendation, DCBIA supports Option 3A. Based on our analysis and general feedback from members, the impact to land value with this change is low. It is, however, important to note that there will be some cases in which the impact could be extensive. In one instance a DCBIA member reports expecting a negative 14% impact to land value to the project. With this level of impact, it is easy to see why developers, even those who work hard to ensure affordable housing is provided as part of our projects as Bill, Buwa, and I do, are concerned that changing the IZ program, without further action taken to provide density through the Comp Plan or other abatements, will hurt the financial viability of projects, and the creation of affordable and market rate housing.

Again, we thank you for convening today's hearing. Buwa will provide testimony on the final two recommendations that are the subject of this hearing.

We encourage the Zoning Commission to adopt OP's Option 1A to achieve the goal of deeper affordability without negatively impacting land value and the financial viability of projects, and as a result the production of more affordable and market rate units in the near term.

I am available to answer any questions you might have following the conclusion of this round of testimonies.

Thank you.



DISTRICT OF COLUMBIA BUILDING INDUSTRY ASSOCIATION

**Testimony of
Buwa Binitie
Managing Principal
Dantes Partners**

**Before the District of Columbia Zoning Commission
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Good evening Chairperson Hood, members of the Zoning Commission, and staff.

As mentioned, I am Buwa Binitie, Managing Principal of Dantes Partners and one of a very few handful for-profit firms dedicated to producing and preserving affordable housing – over 1,000 units to date. I am an active Board member of the District of Columbia Building Industry Association (DCBIA) and I serve as the Co-Chair of its Affordable Housing Subcommittee.

My testimony centers on the final two recommendations outlined in the Office of Planning's (OP) report dated June 10, 2016.

As my colleague Bryan Moll mentioned, DCBIA has received active feedback that has led to the analysis and conclusions we are articulating at this hearing.

4a. Increase Bonus Density: OP Final Recommendation §2604: Retain current percent of bonus density permitted;

On recommendation 4, DCBIA supports the recommendation 4a – to retain the current percentage of bonus density permitted. Maintaining 20% bonus density has little to no impact to land value.

However, it is important to note, that of the 118 projects under the current IZ program, a vast majority of them have received some type of other subsidy tool, such as Low Income Housing Tax Credit, Housing Production Trust Fund resources or rental income subsidy also known as project-based vouchers. As I mentioned at the April 14 hearing, IZ is designed to offer bonus density and/or height to off-set the cost of producing affordable housing. Many projects are not able to secure financing to see affordable housing construction reach its completion without significant financial subsidy. We believe OP's Option 1A recommendation is the best option available before us.

5a. Change Flexibility in Permitted Building Envelope Options: OP Final Recommendation (amended §2604.2): Increase the permitted height by 10 feet in the C-2-C and C-3-C zone districts and reduce permitted lot occupancy in the C-2-C to 80%;

For Recommendation 5, DCBIA supports the Office of Planning's 5A recommendation: to increase height by 10 feet in the Zones outlined and reduce permitted lot occupancy in the C-2-C to 80%. Most of the feedback we received from members shows that there is no impact to land value with this recommendation. The caution, however, is that some properties may not be able to take advantage of height increases because of the Height of Buildings Act of 1910 that limits the height based on the width of the street.

Finally, I want to mention that as the Commission considers making changes to IZ, it is critically important to ensure that an adequate grandfathering period is allowed to ensure that active projects are able to be completed under one set of IZ rules. As mentioned throughout our testimony tonight, there are many economic and financial factors that impact affordable housing construction and any new rules implemented while in process will negatively impact the financial viability of those projects.

This concludes my remarks. I will echo our appreciation for the additional opportunity you are providing here tonight to provide our testimony. Again, we encourage the Zoning Commission to adopt Option 1A to achieve the goal of deeper affordability in the near term without negatively impacting land value, the financial viability of projects, and as a result the production of more affordable and market rate units.

We are available to answer any questions you might have.

Thank you.

