

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

January 28, 2016

Chairman Anthony Hood
DC Zoning Commission
441 4th Street, NW, Suite 210
Washington, DC 20001

RE: Support for Zoning Case No. 04-33G: Make Inclusionary Zoning more affordable

Dear Chairman Anthony Hood & members of the Zoning Commission:

My name is Leslie Steen. I live in the Van Ness neighborhood (Ward 3) of the District of Columbia. I have lived in DC since 1975. I am the former Housing Chief under Mayor Fenty, founder and have been a developer for the better part of 40 years. I am here to support Inclusionary Zoning because it is a means to give families who cannot afford market prices the opportunity to live in amenity rich neighborhoods, as I do.

I commend the DC Zoning Commission for creating Inclusionary Zoning (IZ). It has proven that it is a key tool as part of the city's broader affordable housing strategy. Now that we have several years of experience with it and as housing prices rise, it is critical that we enable Inclusionary Zoning to do everything it can to serve people with as low incomes as possible. Significantly, today IZ is creating mostly units affordable at the 80% Area Median Income (AMI) level, and very few at the 50% AMI level. We need to do better.

The proposal made by the Coalition for Smarter Growth (CSG) endeavors to enact good policy, setting the stage for many changes that are needed, but after the Office of Planning's (OP) financial analysis it is clear that the proposal is too aggressive and cannot be implemented as is.

The Office of Planning's analysis and response to the CSG proposal has been thoughtful and thorough. Its work has identified many improvements. In reviewing the financial analysis, it is important to note that there are many assumptions. The OP stakeholder working group reviewed OP's assumptions and generally agreed with them. On the whole I believe all of the stakeholders can say that OP has done a first rate job of modeling the impacts of Inclusionary Zoning.

While I was not aware of the original financial analysis on which our current requirements are based, OP's recent financial analysis revealed that in some zones our current bonus densities increase the benefits to developers beyond their costs associated with the incomes served – it leaves value on the table -- which in turn could have the impact of increasing land costs. 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.

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There are two areas of OP's financial analysis that I feel have some additional room.

- 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. The margin of error, which a developer considers to be a contingency, is typically no less than 10% at the early stages of developing a project proforma and presentation of the concept to lenders. Much about the project is still to be established. When the project is ready for construction start, a lender might allow the contingency to be reduced to 5%. The 4% standard in OP's analysis sets the stage to result in an overly large impact to the land value.
- The other assumption that I question is the assumed operating expenses. They are too high, above those normally seen in high-end market rate buildings. This also effectively reduces land values.

With all of this analysis we can see that there is room for improvement in the incomes served by IZ.

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

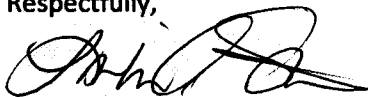
Further, as we improve the program I urge:

- 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.
- Enable the city or qualified non-profits to purchase IZ units and then rent units to people at lower incomes.
- 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.

Respectfully,



Leslie Steen

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