ENHANCED IZ

Comments from the DC Building Industry Association

November 16, 2020

DC BIA
DISTRICT OF COLUMBIA
BUILDING INDUSTRY ASSOCIATION

OVERVIEW

- DCBIA is committed to creating more affordable housing in the District of Columbia.
- We are focused on ensuring that the Enhanced IZ program will encourage, rather than inhibit, the production of additional affordable housing units.
- We greatly appreciate OP's time and creative evolution of the Enhanced IZ proposal.

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PRIMARY RECOMMENDATION

Allow for further study of:

- Updates to the model
- Alignment of the setaside requirements with market realities and costs
- Geographical variability of rent

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PRELIMINARY RECOMMENDED CHANGES

Adjust set-aside formula:

a. Apples to apples calculation of the increase in density

b. Apply based on achievable bonus density

PRELIMINARY RECOMMENDED CHANGES

1. Calculate the Increase in Density on an "Apples to Apples" Basis.

- Current IZ imposes a fixed setaside requirement offset by the 20% increase in bonus density. ***This setaside is based on a careful calibration of the ability of the bonus density to offset the initial IZ requirement***.
- Enhanced IZ imposes a greater setaside requirement for rezoned properties. As currently drafted, this increased setaside requirement would apply even to IZ bonus density in the current zone. ***Put another way, it increases the setaside requirement on that initial tranche of bonus density and upsets that careful calibration.***
- **The sliding scale should be measured based on increase in FAR from current zoning with IZ bonus to proposed zoning with IZ bonus**.

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PRELIMINARY RECOMMENDED CHANGES

2. Achievable Bonus Density.

- Current IZ setaside applies to 50%/75% of achievable bonus density. It recognizes that not all sites can achieve full bonus due to site constraints, limitations, and concessions.
- Similarly, rezoned properties often do not construct maximum achievable density. (For example, many PUDs do not maximize the potential density in the new zone.)
- Enhanced IZ applies based on theoretical maximum density, regardless of whether that density is actually utilized. ***It fails to acknowledge the meaningful constraints that can limit the ability to maximize the permitted density.***
- **The sliding scale should be measured based on achievable bonus density.**

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CONCLUSION

- Housing and affordable housing production will only happen when there are sufficient market incentives to redevelop property.
- The Comp Plan amendment process is still underway – we have time to get it right.
- We urge the Commission to give DCBIA, OP, and other stakeholders time to further study the financial model, set-aside percentages and propose adjustments to the regulations.
- DCBIA and its members are committed to working with OP and the Commission to develop Enhanced IZ into a tool that can ensure housing production, housing affordability, and equity throughout the District of Columbia.

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APPENDIX

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FINANCIAL MODEL

- DCBIA members carefully evaluated OP's financial model and identified the following areas of concern:
  - **Construction Costs**: The model underestimated construction costs and did not evaluate change in construction type / increased costs of steel & concrete
  - **Impact of Time**: The model did not account for time associated with securing map amendment approval or for additional lease-up for larger building.
  - **Achievable Bonus Density**: The model overestimated ability to use all available bonus density
  - **Geographic Variability**: The model did not consider rent variability in different submarkets in the District
  - **Return on Equity Too Low**: The model underestimated the return on equity based on PWC's Q2 Real Estate Report

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