District of Columbia
Office of Planning

MEMORANDUM

TO: District of Columbia Zoning Commission

FROM: Arthur Rodgers
Senior Housing Planner

Jonathan Kirschenbaum, AICP
Development Review Specialist

JLS
Jennifer Steingasser, AICP
Deputy Director, Development Review & Historic Preservation

DATE: March 20, 2023

SUBJECT: ZC Case 21-23 – Set down and prehearing report for a proposal to apply the Inclusionary Zoning ("IZ") program to certain Downtown zones (D-1-R, D-3, D-4-R, D-5, D-5-R, D-6, D-6-R, and D-7).

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I. RECOMMENDATION

The Office of Planning ("OP") **does not recommend** that the Zoning Commission **set down** ZC Case 21-23 for a public hearing. The proposed text would amend Subtitle I to apply the Inclusionary Zoning ("IZ") program to the following Downtown (D) zones which are currently exempt from the IZ regulations: D-1-R, D-3, D-4-R, D-5, D-5-R, D-6, D-6-R, and D-7.

After analyzing the proposed text, OP finds that the application of IZ to the listed D zones would result in circumstances inconsistent with the Comprehensive Plan, with a potential to discourage new residential use and hampering the economic recovery of the downtown.

Because there is no bonus density available to offset a required IZ set-aside in these D zones, the cost of the IZ units would be absorbed by a reduction in land value; a reduced land value directly limits the ability to get financing; a lack of financing or an increased cost of financing is a disincentive to the private market to invest in more housing and may cause property owners to delay or drop residential development in favor of waiting for the office market to return. An increase in vacant or underutilized properties could have additional negative impacts on the value of adjacent properties and threaten the District's tax base.

Other Tools: It's important to note that although the proposed zoning amendment results in circumstances that are not consistent with the Comprehensive Plan, there are other programs and tools outside of zoning that are working to encourage affordable housing in the downtown consistent with the Comprehensive Plan's call for incentives.

The Mayor and the Council have developed new tools as a result of the Mayor's Housing Equity Report, and the adoption in the Comprehensive Plan. The adopted budget for Fiscal Year 2023 and accompanying legislation includes:

- Tax Abatements for Housing in Downtown Act of 2022 which provides tax abatements for properties that demonstrate a change in use of the real property resulting in the development of at least 10 housing units; Deputy Mayor for Planning and Economic Development ("DMPED") estimates the abatement will support 800 total units and 120 affordable units in Central Washington over the next 20 years.
- The Affordable Rental Covenants Pilot Program through which the District will award financial subsidies to housing providers in exchange for placing affordability covenants on one or more vacant rental units;
- Local Rent Supplement Program ("LRSP") which is used to achieve rents that are affordable to households earning no more than 30 percent of the median family income - $169 million per year ($126 million for tenant-based vouchers and $43 million for project-based vouchers)[1];
- District Land Disposition sites within the Central Washington Area that will require a minimum 30% affordability: and
- Increased funding for the Housing Production Trust Fund $444 million.

According to the DMPED the District has delivered 467 affordable units, or 44.9 percent of the 1,040-unit goal, through the first four of seven years (57.1 percent) and estimates that the Planning Area will reach 94.60% of the goal by 2025.[2]

Other Recent Zoning Actions: It's also important to note that over the past two years OP has brought forward, and the Zoning Commission has approved, several changes to the zoning regulations in the furtherance of the IZ program and affordable housing consistent with the Comprehensive Plan, including:

- IZ Plus in July 2021 which established a higher required IZ set-aside for changes to the zoning map (Case 20-02);
- IZ XL-Phase 1 in January 2022 which applied IZ to previously exempt zones that had the capacity for bonus density; and raised the height for non-Type I construction from 50 to 85 feet (21-02);

[1] Page B-34 & B-35 of the FY2023 Approved Budget and Financial Plan: Volume 2 Agency Budget Chapters – part 1

[2] Source: https://dmped.dc.gov/sites/default/files/dc/sites/dmped/page_content/attachments/DC%27s%20Comeback%20Plan_Full1923.pdf

- IZ XL-Phase 2 in February 2022 which applied IZ to buildings converted from non-residential to residential use in those zones where IZ applies (Case 21-05);
- Zoning text amendments that created four new housing-focused mixed-use zones based on the existing medium to high density mixed-use zones MU-6 through MU-9 (Case 21-08); and
- Zoning text amendments to allow existing non-residential buildings built prior to January 1, 2022, that do not conform to some or all of the residential development standards to convert to residential use as a matter-of-right (Case 22-01).

A. Summary Findings

OP's recommendation is based on the following conclusions.

1. Comprehensive Plan

OP has several major concerns that the proposed amendments are inconsistent with the Comprehensive Plan given the lack of balance between increased requirements and the lack of incentives. Chief among OP's concerns is the consistent language in the Housing and Central Washington elements that uses "balance," "incentives," and "encourage" to implement the policies within those elements. The proposed text does not include any zoning incentives, such as greater building area through height and density bonuses to balance the requirements of IZ (See Section V).

2. Bonus Density and Housing Credits

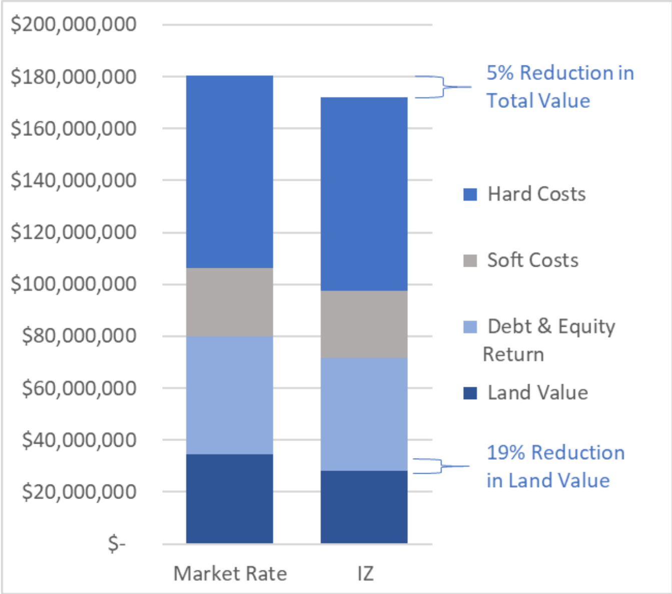
The difficulty for housing to achieve comparable revenue-generating floor-area-ratio ("FAR") compared to office puts residential development at a competitive disadvantage. The D zones have been successful in several parts of Central Washington in encouraging market rate housing by both relieving residential development of FAR restrictions and by linking housing to the strength of the office market. With no FAR limits on housing in most D zones, there is no available bonus density to balance IZ requirements.

Linkage is accomplished through the use of Combined Lot Development ("CLD"), now called Housing Credits through the 2016 Zoning Regulations ("ZR16"). This linkage means the negative impact on housing development created by applying IZ in the D zones could also increase the difficulties in developing office where housing is required. This would have implications as the District's office market and tax base recovers.

3. Economic Impact Analysis

OP estimates applying the proposed IZ amendments in the D zones without the ability to provide bonus density could reduce the value of land for residential development by approximately 19 percent to as much as 30 percent depending on where in the D zones the housing would be located. This reduced value could threaten housing from being built in much of the D zones. The figure illustrates that total value of residential projects would drop by 5 percent. Since construction costs and return to investors are relatively fixed this total impact would be felt in land prices dropping from approximately $146 per gross square foot (gsf) to $118 per gsf. If over the long-term office or hotel uses can offer a competitive price, then housing will not get built. If the developer has already paid for the land, then return to equity must absorb the impact and the project may not get built.

Figure 1. Illustration of IZ Impact on Development Costs



Source: Office of Planning, March 2023.

The Zoning Commission requested that the Petitioner provide an economic impact analysis of their proposal by March 15, 2022. To date, no impact analysis has been provided to support the amendments or document the potential impact on the feasibility of market rate housing development. The negative impact on the amount of money that residential development can pay for land in the downtown is significant.

4. Current Economic Uncertainty

Current conditions have dramatically weakened the office market in downtown and Central Washington. Many property owners have begun investigating housing as a potential alternative for the near term and the District is setting ambitious housing goals to help renew downtown's vitality. Applying IZ affordability requirements without balanced incentives may cause property owners to delay and eventually drop the residential development in favor of waiting for the office market to return. An increase in vacant or underutilized properties could have additional negative impacts on the value of adjacent properties and threaten the District's tax base. As a result of these findings, OP does not recommend that the Zoning Commission set down the proposal for a public hearing.

II. ISSUES

A. Downtown Development - Zoning and Market Relationship between Office

OP's core concern is balancing the various goals outlined in the Comprehensive Plan. In this case, the biggest tension is between supporting additional affordable housing through IZ and dampening the market in a way that would reduce housing production and hamper an already-weak commercial real estate market.

OP analyzed this tension through the impact on residential land values caused when IZ is applied to residential development without commensurate bonus density or other incentives. Past modeling efforts established that IZ affordability requirements for high-rise developments reduce land values by approximately 20 percent when there is no bonus density available to balance the impact. The reduction threatens residential development's ability to acquire land where land prices are set by a strong office market.

Over the ten years prior to COVID, development of housing has been very successful under two types of scenarios: 1) through *zoning requirements* for housing in areas where the office market is strong such as in Mount Vernon and Gallery Place; and 2) through *zoning incentives* for housing where the office market is weaker such as NoMa/Union Station and Capitol Gateway/Buzzard Point.

The success of market rate housing in these areas is due not just to the zoning, but to several other District efforts that supported the first housing projects and established the market housing including:

- A tax abatement for market rate housing development, first in downtown as part of the Housing Omnibus Act of 2002 and later the NoMa Residential Development Tax Abatement Act of 2009.
- Catalytic public/private projects that help seed the market for housing such as:
    - Mount Vernon: City Vista that brought housing and neighborhood amenities important to supporting housing such as grocery and hardware stores.
    - Gallery Place/Penn Quarter: City Center, the Mather Building, Gallery Place, the Jefferson Apartments.
    - Capitol Gateway: Nationals Ballpark and SE Federal Center/Yards Park
- Necessary infrastructure investment in utilities to serve the residential growth.

Residential development has continued since the tax abatements expired due to the zoning requirements in Mount Vernon, or the weaker office Market in NoMa, but the value was of significant help to the early developments. The downtown legislation did include an increased abatement for projects that set aside affordable units, however OP is not aware of any otherwise privately financed projects that took the additional abatement for affordable housing.

Housing has historically not been developed in the Farragut and Franklin Square areas. Only four residential projects exist within the D-6 and D-7 zones of these areas of downtown and all have special circumstances that supported their conversion from office to residential use. There are a few additional residential developments either under construction or in predevelopment stages as a result of the weakened office market.

III. BACKGROUND

A. IZ History

The District's IZ Program was created by Zoning Commission case number 04-33 in 2006 and empowered by the Council through the Inclusionary Zoning Implementation Act of 2006. There were several basic precepts to the creation of the District's IZ program, including:

- IZ is a land use tool for the creation of affordable housing that relies on the strength of market rate housing to deliver affordable units.
- IZ should maximize the production of affordable units using the land value created through bonus density.
- IZ should strike a balance between the affordability requirements and incentives in the form of bonus density to avoid harming the development of housing overall.
- The Act requires annual reporting to directly address IZ's potential impact on the District's larger housing market.
- IZ should be compatible with other affordable housing subsidies given directly to households to serve lower incomes.

Based on research and feedback, this balance was measured as any theoretical impact on residential land values more than plus or minus three percent. OP has held to this standard in all subsequent changes to the program.

As a result of these precepts, the Zoning Commission concluded that IZ should not apply to areas where there was no theoretical access to bonus density. This resulted in exempting the Downtown Development District ("DD") zones and Transferrable Rights Receiving Areas. A brief history of the Downtown Zoning is provided as Appendix II.

IV. ANALYSIS

One of OP's central concerns is striking the appropriate balance between Comprehensive Plan language that supports overall production of housing and meeting the need for affordable housing.

A. Applying IZ to the D Zones

1. Progress on Affordable Housing Goals in Central Washington

The Mayor's affordable housing goals include 1,040 affordable units in the Central Washington Planning Area by 2025 to ultimately reach the Comprehensive Plan's goal of a minimum 15 percent affordable units by 2050. According to the tracking of affordable housing development by the DMPED the District has delivered 467 affordable units, or 44.9 percent of the 1,040 unit goal, through the first four of seven years (57.1 percent). DMPED estimates that the Planning Area will reach 94.60% of the goal by 2025.[3]

OP estimates that there are approximately 18,520[4] total housing units in Central Washington and that currently 2,611 (or 14.1 percent) are dedicated affordable units. Looking forward,

[3] Source: DC's Comeback Plan, January 2023
[4] Source: US 2020 Decennial Census

based on the pipeline of proposed projects over the next five to ten years, OP estimates the total number of housing units in Central Washington could rise to 28,430 units and the number of affordable housing units will rise to 4,000, and stay at approximately 14.1 percent. This suggests the District is close to meeting the Comprehensive Plan's goal in the near term.

Table 1. Affordable Housing Production in Central Washington and Lower Anacostia Planning Areas

Planning Area	Affordable Unit Goal	% of Progress Towards Goal (January 2023)	Projected Percent of Goal by 2025
Lower Anacostia Waterfront and Near Southwest	850	51.6%	161.30 %
Central Washington	1,040	44.9%	94.60%

Source: DMPED, DC's Comeback Plan, January 2023.

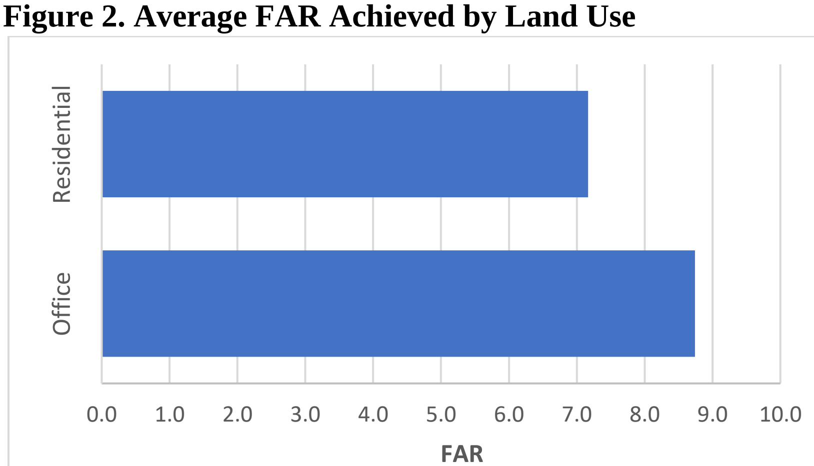
2. Envelope Analysis

Inability to achieve comparable revenue-generating floor area puts residential development at a competitive disadvantage.

OP analyzed the leasable floor area of both office and residential rental buildings in areas[5] of the D zones where both office and residential face similar regulatory constraints over the past 20 years. In these areas, the gross leasable floor area of residential buildings vary significantly from 6.0 FAR to as much as 10.7 FAR, with an average FAR of 7.2. Residential buildings are smaller in terms of leasable floor area than office buildings, which averaged 8.7 FAR in the same areas, despite the zoning regulations relieving residential development of FAR constraints.

Residential development needs light and air which are typically provided through courtyards, setbacks and other building forms. The result is the rentable space of residential developments is 22 percent less than office buildings in the same areas. Office buildings in the D-6 and D-7 cores of downtown achieve even more at an average 9.9 FAR. Inability to achieve comparable revenue generating FAR puts residential development at a competitive disadvantage.

Figure 2. Average FAR Achieved by Land Use



Source: CoStar, Office of Tax and Revenue, Office of Planning

[5] Mt Vernon, NoMa/Union Station, and Gallery Place/Judiciary Square.

3. Economic Impact Analysis

The Zoning Commission asked that the Petitioner provide an Economic Impact Analysis ("EIA") of their proposals. The Zoning Commission requested the EIA be filed in the record by March 15, 2022, so that it could be consider as part of the overall review of the proposals. To date, an EIA has not been filed.

OP approached the economic analysis in two ways, first through a comparative value per square foot of built space, and second, OP's residual land value economic impact analysis used to evaluate past changes to the IZ program.

Comparative Value Analysis

OP consistently heard testimony at OP's November 1, 2022 Roundtable on Housing and Affordable Housing and other stakeholder engagements that decreasing the value of residential developments in downtown increases the likelihood the property owner may delay or eventually drop the residential development in favor of waiting for the office market to return.

OP's analysis of sales price per square foot presented in Table 2 below illustrates that with the exception of Capitol Gateway/Buzzard Point area of the D zones, the per square foot value of residential development is less than office in the same trade areas. Since residential projects tend to be smaller than office, when the values per square foot are multiplied by the average FAR that office and residential can achieve, the differences become more pronounced. This is the case even in Capitol Gateway where the total value of a potential office building is greater than a residential building.

Table 2: Sale Price per Square Foot by Housing Credit Trade Area

	Office	Multi-Family	Difference
Mount Vernon	$ 923	$ 576	$ (347)
Gallery Place/Judciary Square	$ 743	$ 587	$ (156)
NoMa/Union Station	$ 613	$ 584	$ (29)
Capitol Gateway	$ 572	$ 678	$ 106

Source: CoStar, DC Office of Planning.

These numbers reflect a current estimate of value of buildings that were built over the last 10 years, according to CoStar. The numbers do not necessarily reflect the value of office in the near future. COVID's impact on telework and secondary impact on office values is significant and studies discussed in the press have suggested office values could be reduced as much at 28 percent.[6]

Residual Land Value Impact Analysis

OP tests the impact of IZ on the residual land value because all other inputs to development are relatively fixed by external factors. Construction costs are set by the metropolitan labor market and cost of materials, and investor return is determined by the capital markets. The remaining

[6] *Study: Remote work could slash office valuations by $500B by end of 2020s*, Fahey, Ashley, Washington Business Journal. June 9,2022.

variable is the cost of land. Testing IZ on land value is therefore the most objective approach to understanding IZ impacts on the residential development.

OP estimates that applying IZ would decrease the residential land value from approximately 19 to as much as 30 percent of the original land value. Figure 3[7] illustrates the impact on a potential site in the D-6 and D-7 zones of Franklin and Farragut Squares where developers believe market rents could reach $5.00 per net square foot. OP notes that because there is no bonus density, not only is the land value lower, but the project's minimum return is also significantly reduced making it less likely to attract investors to get the housing built. OP estimates that residential development in downtown would slow until demand raises rents by six percent in order to bring the land value of an IZ development back up to the original pre-IZ amount of $34.6 million. Applying IZ without balanced incentives would therefore lessen the value of the IZ units by sacrificing broader market rate affordability.

The negative impact could be potentially greater in terms of percentage - up to 30 percent in the D-5 zones of NoMa and Capital Gateway, where residential rents and land values are lower.

[7] Analysis included extensive research and data. Construction costs came from RS Means and additional research and stakeholder engagement. Rents, cap rates and operating expenses from CoStar and stakeholder engagement based on comparables from the Near Northwest Planning Area. The analysis tested the impact on high-rise steel and post-tension concrete structure of 287 units on a 25,000 square foot lot.

Figure 3. Economic Impact Analysis IZ in the D-6 or D-7

Residual Land Value Economic Feasibility Model					
Rental Scenario					8.33% GSF @ 60% MFI
		Base Market Rate Project			0% Bonus Density
	Factor	Per NSF	Per Unit	Market	MIZ Scenario
Monthly Rent		$ 5.01	$ 3,393	$ 973,750	$ 923,930
Parking/Other per Space/Unit	$ 200	$ 0.35	$ 237	$ 68,000	$ 68,000
Annual Income		$ 64.29	$ 43,557	$ 12,501,000	$ 11,903,163
- Vacancy/Economic Loss	5%	$ 3.21	$ 2,178	$ 625,050	$ 595,158
- Operating Expenses	30%	$ 19.29	$ 13,067	$ 3,750,300	$ 3,570,949
RE Taxes (Included in OE)		$ 7.89	$ 5,348	$ 1,534,845	$ 1,461,444
Net Operating Income		$ 41.79	$ 28,312	$ 8,125,650	$ 7,737,056
Cap Rate	4.50%				
Estimated Value		$ 928.66	$ 629,164	$ 180,570,000	$ 171,934,572
		Per GSF	Per Unit		
- Hard Costs	$ 305	$ 304.98	$ 251,982	$ 72,318,750	$ 72,318,750
- Parking		$ 8.92	$ 7,368	$ 2,114,700	$ 2,114,700
- Soft Costs	30%	$ 94.17	$ 77,805	$ 22,330,035	$ 22,330,035
- Contingency	5%	$ 15.69	$ 12,968	$ 3,721,673	$ 3,721,673
Residual Land Value		$ 146.06	$ 120,678	$ 34,634,481	$ 28,172,633
- Hurdle Rate	33.6%	$ 191.67	$ 158,364	$ 45,450,362	$ 43,276,782
Total Costs		$ 761.50	$ 629,164	$ 180,570,000	$ 171,934,572
Return		33.6%	33.6%	33.6%	33.6%
					Market to MIZ Scenario
				Change in Residual Land Value	$ (6,461,848)
				Minimum Return Difference	$ (2,173,580)
				Surplus/(Shortage)	$ (8,635,428)
				Surplus/(Shortage) per Affordable Unit	$ (375,453)
				Percent Change in Land Value	-18.7%

Source: DC Office of Planning, March 2023.

4. Impact on Housing Development and IZ Production

OP's analysis discussed above suggests that a residential project that could currently out compete an office project by paying, for example more than $146 per gsf for the land, would now only be able to pay $116 per gsf. While there is effectively no current demand for new office construction in Central Washington, this impact on residential land values may cause property owners to delay conversion to housing for several years to see if the office market returns. Similar impacts in the D-5 zones could be felt where the value difference between housing and office is narrower, but the percent impact on land from IZ is even greater. Less housing would be built in both locations of Central Washington.

V. PLANNING CONTEXT

Comprehensive Plan Analysis Through a Racial Equity Lens

The direction to consider equity "as part of its Comprehensive Plan consistency analysis" indicates that the equity analysis is intended to be based on the policies of the Comprehensive

Plan and part of the Zoning Commission's consideration of whether a proposed zoning action is "not inconsistent" with the Comprehensive Plan.

The proposed text amendment would apply to exempt D zones, which are primarily located in the Central Washington Planning Area, as well as portion of the Lower Anacostia Waterfront/Near Southwest Planning Area.

Demographics: OP was able to aggregate certain demographic data, such as total population and housing units, to match the geography of the downtown zones using census blocks. However, other demographic data, such as housing tenure and median household income, could not be aggregated by the geography of the downtown zones because the American Community Survey ("ACS") is only based on the census tracts. OP included all census tracts that contain downtown zones to analyze this data, but it should be noted that the area of census tracts is comprised of a much larger area, with downtown zones only accounting for approximately one-third of the total area analyzed.

Population and Housing Units in D Zones

The following section provides disaggregated demographic data comparing the geography of the D zones to the District as a whole.

Table 3: Population by Race and Ethnicity[8]

Population Race and Ethnicity	D Zones			District		
	2010	2020	% Change	2010	2020	% Change
White alone	11,027	20,366	85%	231,471	273,194	18%
Black or African American alone	3,089	4,372	42%	305,125	285,810	-6%
American Indian and Alaska Native alone	50	116	132%	2,079	3,193	54%
Asian alone	2,313	3,708	60%	21,056	33,545	59%
Native Hawaiian and Other Pacific Islander alone	16	22	38%	302	432	43%
Some Other Race alone	791	983	24%	24,374	37,294	53%
Two or more races	547	2,931	436%	17,316	56,077	224%
Total Population	**17,833**	**32,498**	**82%**	**601,723**	**689,545**	**15%**
Hispanic or Latino	1,820	3,264	79%	54,749	77,652	42%

Table 3 shows that the geographic area of the D zones had a total population of 20,366 residents in 2020 representing an 82% increase from 2010, which was a significantly larger increase compared to the District. The D zones also saw large population increases for all race and ethnicity groups between 2010 and 2020 compared to the District. In particular, the Black or African American population increased 42% in the D zones while the population decreased by 6% Districtwide. Residents identifying as white, two or more races, or Hispanic or Latino also saw larger increases in the D zones than compared to the District.

[8] Source: 2010 and 2020 Decennial Census.

Table 4: Housing Units[9]

Housing Units	D Zones			District		
	2010	**2020**	**% Change**	**2010**	**2020**	**% Change**
Occupied	11,133	20,627	85%	266,707	312,448	17%
Vacant	2,058	3,189	55%	30,012	37,916	26%
Total	**13,191**	**23,816**	**81%**	**296,719**	**350,364**	**18%**

Table 4 shows that the total number of housing units in D zones was 20,627 units in 2020, representing an 85% increase from 2010. In comparison, the District only saw a 17% increase between 2010 and 2020.

Population, Income, and Tenure in Census Tracts Containing D Zones

The following section provides disaggregated demographic data based on census tracts containing D zones. As discussed above, data and analysis provided in this section is provided for illustrative purposes only because it includes residents from a significantly larger area outside of the D zones and is not a precise representation of trends occurring only within the D zones.

Table 5: Population by Race and Ethnicity [10]

Population by Race and Ethnicity	Census Tracts Containing D Zones		
	2012-2016 Estimate	**2017-2021 Estimate**	**% Change**
White alone	34,154	43,039	26%
Black or African American alone	15,459	14,940	-3%
American Indian and Alaska Native alone	206	462	124%
Asian alone	5,348	5,921	11%
Native Hawaiian and Other Pacific Islander alone	68	76	12%
Some other race alone	2,660	2,002	-25%
Two or more races	2,250	4,323	92%
Total	**60,145**	**70,763**	**18%**
Hispanic or Latino	6,217	7,630	23%

Table 5 shows that the geographic area of census tracts containing D zones had an estimated total population of 70,763 in 2021, representing an 18% increase. While the Black or African American population decreased by 3%, the Black or African American population increased when using the geography of just the D zones between the 2010 and 2020 decennial censuses (Table 3).

[9] Source: 2010 and 2020 Decennial Census.
[10] Source: 2012-2016 ACS and 2017-2021 ACS.

Table 6: Median Household Income by Race and Ethnicity [11]

Median Household Income by Race and Ethnicity	Census Tracts Containing D Zones			District		
	2012-2016	2017-2021	% Change	2012-2016	2017-2021	% Change
White alone householder	$110,625	$142,944	29%	$119,564	$150,563	26%
Black or African American alone householder	$43,476	$58,473	34%	$40,560	$51,562	27%
American Indian and Alaska Native alone householder	Not provided			$51,306	$58,164	13%
Asian alone householder	$96,142	$102,216	6%	$91,453	$112,776	23%
Native Hawaiian and Other Pacific Islander alone householder	Not provided				$132,054	N/A
Some Other Race alone householder	$68,603	$48,323	-30%	$48,047	$65,202	36%
Two or More Races householder	$116,307	$110,788	-5%	$83,243	$96,003	15%
All Householder	**$86,472**	**$113,648**	**31%**	**$72,935**	**$93,547**	**28%**
Hispanic or Latino householder	$75,805	$93,996	24%	$60,848	$89,480	47%

Table 6 shows the median household income by race and ethnicity in the geographic area of census tracts containing D zones. For certain race and ethnicity categories, the census tract data did not report on household median income because the margin of error was likely too high. OP's analysis is based only on the census tracts that reported income by race and ethnicity using a weighted average and the data is only a general representation.

Generally, white and Black or African American household median income rose slightly higher than the District over a five year period, as well as all households when compared to the District. The Hispanic or Latino household median income also increased over a five-year period though not as high when compared to the District. Given the lower sample size of households for some other race and two or more races, it is difficult to accurately analyze trends over a five-year period.

[11] Source: 2012-2016 ACS and 2017-2021 ACS.

Table 7: Housing Tenure by Race and Ethnicity[12]

Housing Tenure by Race and Ethnicity		Census Tracts Containing D Zones			District		
		2012-2016	2017-2021	% Change	2012-2016	2017-2021	% Change
White alone householder	Total	18,336	24,943	36%	125,101	138,443	11%
	Owner occupied	5,259	6,527	24%	59,819	66,450	11%
	Renter occupied	13,077	18,416	41%	65,282	71,993	10%
Black or African American alone householder	Total	7,629	8,136	7%	124,542	132,384	6%
	Owner occupied	1,009	1,240	23%	44,762	47,665	6%
	Renter occupied	6,620	6,896	4%	79,780	84,719	6%
American Indian and Alaska Native alone householder	Total	94	348	270%	889	1,198	35%
	Owner occupied	25	0		292	356	22%
	Renter occupied	69	348	404%	597	842	41%
Asian alone householder	Total	2,527	3,266	29%	10,428	13,048	25%
	Owner occupied	746	866	16%	4,110	5,373	31%
	Renter occupied	1,781	2,400	35%	6,318	7,675	21%
Native Hawaiian and Other Pacific Islander alone householder	Total	49	14	-71%	99	33	-67%
	Owner occupied	0	14	#DIV/0!	9	32	256%
	Renter occupied	49	0	-100%	90	1	-99%
Some Other Race alone householder	Total	963	1,019	6%	9,095	9,978	10%
	Owner occupied	110	207	88%	1,589	2,416	52%
	Renter occupied	853	812	-5%	7,506	7,562	1%
Two or More Races householder	Total	1,060	2,460	132%	6,392	15,020	135%
	Owner occupied	155	485	213%	2,091	6,428	207%
	Renter occupied	905	1,975	118%	4,301	8,592	100%
All Householder	**Total**	**30,658**	**40,186**	**31%**	**276,546**	**310,104**	**12%**
	Owner occupied	**7,304**	**9,339**	**28%**	**112,672**	**128,720**	**14%**
	Renter occupied	**23,354**	**30,847**	**32%**	**163,874**	**181,384**	**11%**

[12] Source: 2012-2016 ACS and 2017-2021 ACS.

Hispanic or Latino householder	Total	2,861	4,410	54%	23,885	27,098	13%
	Owner occupied	429	777	81%	7,381	9,440	28%
	Renter occupied	2,432	3,633	49%	16,504	17,658	7%

Table 7 shows that the geographic area of census tracts containing D zones contains households that are predominantly renter occupied, which is generally reflective of the District overall, where more households are renter occupied. In these census tracts, the number of households in total and by race and ethnicity both saw generally larger increases than the District overall.

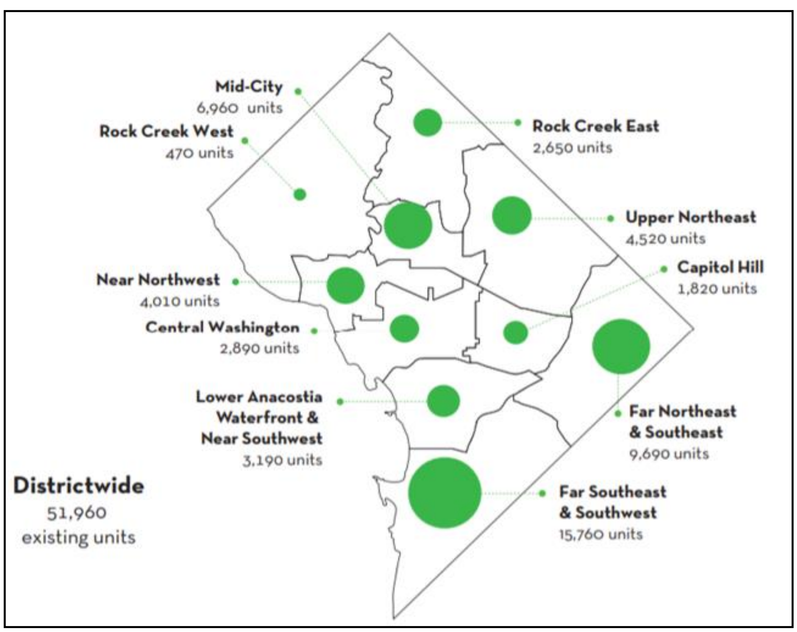
In particular, though the overall Black or African American population decreased (Table 5) in the geographic area of census tracts containing D zones, the overall number of households increased by 7%, which is slightly higher when compared to the District.

<u>Housing:</u>

The rising cost of housing in the District limits the ability to provide housing for a variety of household types, including family and senior housing, rental and ownership housing, and housing for all income levels. Given the land use characteristics of the District, only a small amount of the total land area (28.1 percent) is dedicated to residential use (Framework Element § 205.3). The scarcity of land increases the cost of building new housing, limits the availably of housing, and intensifies housing cost burdens, particularly for lower- and middle-income households.

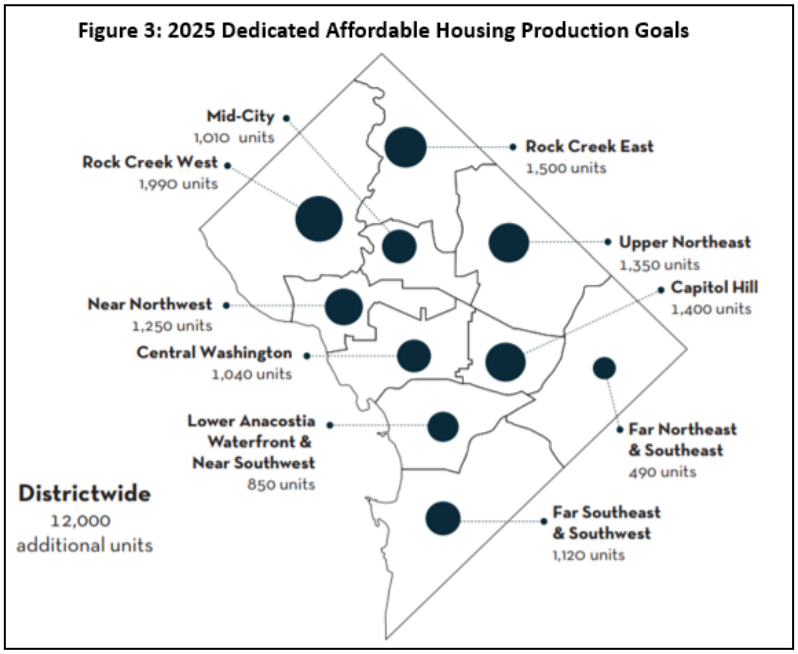
The Comprehensive Plan states that residents of color are a majority of lower-income households in the District and, therefore, face a disproportionate share of the problems caused by housing insecurity and displacement" (Framework Element § 206.4).

Figure 4. 2018 Estimated Distribution of Dedicated Affordable Units



The 2019 Housing Equity Report identified the Central Washington planning area (where most D zones are located) as containing 2,890 dedicated affordable units and the Lower Anacostia Waterfront/Near Southwest planning area (where a D-5 zone is located), containing 3,190 dedicated affordable units (Figure 4).

Figure 5. 2025 Dedicated Affordable Housing Production Goals



The report also identified the Central Washington planning area as having an affordable housing production goal of 1,040 units by 2025 and being short 290 units from reaching this goal. The report set a total housing production goal (market and affordable) of 3,940 units by 2025. The Lower Anacostia Waterfront/Near Southwest planning area has an affordable housing production goal of 850 units and is on track to meeting this goal. The report set a total housing production goal (market and affordable) of 7,960 units by 2025 (Figures 5 and 6).

Figure 6. Current Affordable Housing Pipeline & 2025 Production Goals

Planning Area	Affordable Housing Production Goals	Affordable Housing Pipeline	Shortage of Affordable Housing	2025 Total Housing Production Goals*
Rock Creek West	1,990	80	1,910	1,260
Capitol Hill	1,400	280	1,120	3,270
Near Northwest	1,250	270	980	1,850
Mid-City	1,010	620	390	4,210
Rock Creek East	1,500	1,160	340	1,580
Central Washington	1,040	750	290	3,940
Upper Northeast	1,350	1,160	190	6,900
Lower Anacostia Waterfront & Near Southwest	850	910	on track	7,960
Far Southeast & Southwest	1,120	1,450	on track	2,040
Far Northeast & Southeast	490	1,290	on track	2,990
Total	12,000	7,970	5,220	36,000

As of September 2022, the Central Washington planning area had produced 4,822 total housing units since 2019, exceeding its goal of 3,940[13]. However, as part of the District's January 2023 Comeback Plan, a new goal of adding 15,000 new residents to downtown by 2028 was proposed[14]. **OP estimates that approximately 9,000 new housing units will be needed to achieve this goal.**

The Comeback Plan's goal to increase residents in downtown was established because the COVID-19 pandemic severely impacted the economic vitality of the office market because many workers have not returned to the office on a full-time basis. The Comeback Plan envisions a more

[13] Source: http://open.dc.gov/36000by2025/
[14] Source: DC's Comeback Plan, January 2023

vibrant residential downtown with the goal of creating a better mix of residents and jobs to help both make downtown a more attractive place to live and work.

As of January 2023, the Central Washington planning area has achieved 44.9% of its affordable housing production goal and is estimated to reach 94.60% of the goal by 2025[15]. This is relatively close to the overall goal first established in the 2019 Housing Equity Report.

As of September 2022, the Lower Anacostia Waterfront/Near Southwest planning area had produced 7,708 total housing units since 2019, close to meeting its 2025 goal of 7,960 units[16]. As of January 2023, the planning area has achieved 51.6% of its affordable housing production goal and is estimated to reach 161.30% of the goal by 2025[17]. This is well over the overall goal first established in the 2019 Housing Equity Report.

As discussed earlier in this report, OP estimates applying the proposed IZ amendments to the D zones without the ability to provide bonus density could reduce the value of land for residential development upwards of 19 percent to as much as 30 percent. The analysis suggests that within the D zones there may be no new housing units produced, affordable or otherwise, as the office market recovers from the long-term economic effects created by COVID and increased telework. This could also significantly impact the District's ability to increase the residential population of downtown by 9,000 residents.

Between the 2010 and 2020 decennial census, the Black or African American, two or more races and Hispanic or Latino populations saw much larger increases within the area of the D zones compared to the Districtwide increases (Table 3). Significant negative impacts on the housing market in downtown could occur because the proposal could limit the ability to produce new housing. This in turn could increase housing costs for existing housing units due to a lack of supply of new housing. Of particular concern is that residents of color who are the majority of lower-income households in the District could be disproportionally impacted by the proposed text amendment. The lack of new housing could increase housing cost burdens for these residents and making housing in the D zones less attainable.

Displacement: The proposed text amendment would not result in direct displacement of any tenants or residents because the proposal does not apply to a specific property and would not impact existing residential uses.

While on its face, it seems that the requirement for IZ would produce affordable housing, the lack of bonus density would restrict overall development thus increasing the risk that no units, market rate or IZ, would be built.

The Comprehensive Plan recognizes that without increased housing, the imbalance between supply and demand will drive up housing prices in a way that creates challenges for many residents, particularly low-income residents. The proposed text amendment has the potential to worsen this imbalance by restricting the creation of new housing which would intensify housing cost burdens, particularly for lower- and middle-income households.

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[15] Source: DC's Comeback Plan, January 2023
[16] Source: http://open.dc.gov/36000by2025/
[17] Source: DC's Comeback Plan, January 2023

The District's Local Rent Supplement Program is another tool that could be used in conjunction with new market-rate housing units to provide rents that are affordable to households earning no more than 30 percent of the median family income. This provides a way for the District to increase its total housing supply and increase the market-rate units available that could be used in conjunction with the LRSP while limiting indirect displacement of existing low-income residents. The proposal threatens to both restrict total housing production and limit the number of housing units that may be available for participants of the LRSP.

Physical and Access to Opportunity: As discussed earlier, the proposal could limit new housing production in the D zones. This could negatively impact the physical environment of downtown and access to opportunities because the downtown needs new residents to help it economically revitalize from the negative impacts of the COVID-19 pandemic. Without new residents and housing, the downtown will not be able to achieve an appropriate mix of uses to support an adequate residents-to-jobs ratio. New residents are needed to support uses, such as supermarkets and restaurants, and are also needed to help revitalize the office market by bringing residents closer to jobs.

Citywide and Area Elements

OP has several major concerns that the proposed amendments are inconsistent with the Comprehensive Plan given the lack of balance between increased requirements and incentives. There is not full consideration or sufficient analysis to support their amendments. Emphasis provided in **bold,** and the full text of these policies is provided in the Appendix I.

Housing

- Policy H-1.1.2: Production Incentives states "**Provide suitable regulatory…incentives** to meet housing production goals, prioritizing affordable housing production…These incentives should continue to **include zoning regulations that permit greater building area** for commercial projects that include housing than for those that do not, and **relaxation of height and density limits** near transit…" The petitioner's submission does not include any zoning incentives, such as greater building area through height and density bonuses for the provision of IZ.
- Policy H-1.1.3: Balanced Growth calls to "**Strongly encourage** the development of new housing…" The petitioner's proposed amendments are not balanced between requirements and incentives and that they may delay housing development due to the potential negative impact on land values and result in fewer overall units over time.
- Policy H-1.1.6 Housing in Central Washington states "Through **regulation and incentives, encourage** affordable housing production…" The petitioner's submission requires affordable housing and has not offered any incentives that would encourage housing development especially in light of the competition from alternative land uses such as office and hotel.
- Policy H-1.1.8: Production of Housing in High-Cost Areas states "**Encourage development of both market rate and affordable housing** in high-cost areas of the District, making these areas more inclusive. **Develop new, innovative tools and techniques that support affordable housing** in these areas…" The petitioner's proposal

would not encourage development of any type of housing. The proposal does not include any new or innovative tools and techniques to support providing affordable housing when there is no bonus density to provide.

- Policy H-1.2.1: Low- and Moderate-Income Housing Production as a Civic Priority states "**The production** and preservation **of affordable housing for low- and moderate-income households** is a major civic priority, **to be supported through public programs that stimulate affordable housing production** and rehabilitation throughout all District neighborhoods." IZ is designed to permit additional market-rate units achieved through bonus density to "cross subsidize" IZ unit rents without providing federal or local funding subsidies. The petitioner has not proposed any public programs or funding to subsidize IZ units in the absence of bonus density.

- Policy H-1.2.2: Production Targets states "…work toward a goal that **one-third of the new housing built in Washington, DC** from 2018 to 2030, or approximately 20,000 units, **should be affordable to persons earning 80 percent or less of the area-wide MFI**…These targets shall acknowledge and address racial income disparities, including racially adjusted MFIs, in the District, **use racially disaggregated data, and evaluate actual production of market rate and affordable housing at moderate, low, very-low, and extremely-low income levels.**" The petitioner has not provided an analysis of the proposal through a racial equity lens. OP's racial equity analysis has indicated that the proposal would limit new housing production, which could have significant negative impacts on low-income residents and residents of color.

- Policy H-1.2.3: Affordable and Mixed-Income Housing states "Focus investment strategies and affordable housing programs to distribute mixed-income housing more equitably across the entire District…**and establishing a minimum percent affordable by Planning Area to create housing options in high-cost areas**..." The petitioner does not provide any mechanism for overcoming the fact that the proposal would reduce land values by 19 to 30 percent due to a lack of IZ bonus density and would limit new residential development. Thus, the petition would not provide strategies to distribute mixed-income housing more equitably.

- Action H-1.2.E Leveraging Inclusionary Zoning states "Examine and propose greater IZ requirements **when zoning actions permit greater density or change in use**." The petitioner's submission does not identify any zoning actions that permit greater density or other incentives.

- Policy H-1.3.2: Tenure Diversity states "**Encourage the production of both renter- and owner-occupied housing**, including housing that is affordable at low-income levels, throughout the District." The proposal would not encourage the production of both renter- and owner-occupied. Data from OP's racial equity analysis suggests that in the census tracts that include D zones, Black or African American households increased over a five-year period likely due to an increase in available housing.

- Policy H-1.5.1: Land and Building Regulations states "Ensure the District's land regulations, including its housing and building codes, zoning regulations, construction standards, and permitting fees, enable the production of housing for all income groups. **Avoid regulations that make it prohibitively expensive or difficult to construct housing.**" The D zones generally have the most permissive zoning regulations for residential uses to promote housing production. The petition would create new regulations that would make it prohibitively expensive to construct housing.

Central Washington

- Policy CW-1.1.5: Central Washington Housing Diversity states that "The District should continue to expand the number of affordable units through land disposition with affordability requirements and through the use of **zoning and other regulatory incentives**." The petitioner's submission does not identify any zoning actions that permit greater density or other incentives.
- Action CW-1.1.E: Residential Development Incentives states "**Continue developing financial and non-financial incentives** for the conversion of lower-performing retail/office buildings into new housing or mixed-use development throughout Central Washington." Again, the Comprehensive Plan emphasizes incentives, which the Petitioner has not proposed.

Summary of Planning Context Analysis

The proposal would significantly reduce land values and does not provide for bonus density to balance the requirements of IZ. There are no proposed alternative ways to compensate for requiring affordable housing when there is no available bonus density nor are there any incentives that would encourage housing development especially in light of the competition from alternative land uses such as office and hotel.

Significant negative impacts on the housing market in downtown could occur because the proposal could limit the production of new housing. This in turn could increase housing costs for existing housing units due to a lack of supply of new housing. The proposal would likely not encourage the production of either renter- or owner-occupied housing. Of particular concern is that residents of color who are the majority of lower-income households in the District could be disproportionally impacted by the text amendment because the lack of new housing could increase housing cost burdens for these residents making housing in the D zones less attainable.

The Comprehensive Plan analysis through a racial equity lens indicates that the proposed text amendment, on balance, **would be inconsistent** with many of the Comprehensive Plan's policies. The analysis of demographic data and policies of the Comprehensive Plan work together to demonstrate that the proposal would not permit more affordable housing but instead severely limit housing production.

VI. APPENDICES

Appendix I

Comprehensive Plan Citywide and Area Elements

Chapter 5 Housing

The Housing Element of the Comprehensive Plan describes the importance of housing to neighborhood quality in Washington, DC and the importance of providing housing opportunities for all segments of the population throughout Washington, DC.

Policy H-1.1.2: Production Incentives

Provide suitable regulatory, tax, and financing incentives to meet housing production goals, prioritizing affordable housing production in support of the targets in Policy H-1.2.2. These incentives should continue to include zoning regulations that permit greater building area for commercial projects that include housing than for those that do not, and relaxation of height and density limits near transit. Strongly encourage incentives and strategies that result in the production of more deeply affordable housing, such as the use of income averaging across a range of affordable housing income levels. 503.4

Policy H-1.1.3: Balanced Growth

Strongly encourage the development of new housing, including affordable housing, on surplus, vacant, and underused land in all parts of Washington, DC. Ensure that a sufficient supply of land is planned and zoned to enable the District to meet its long-term housing needs, including the need for low- and moderate- density single-family homes, as well as the need for higher-density housing. 503.5

Policy H-1.1.6: Housing in Central Washington

Absorb a substantial component of the demand for new high-density housing in the Central Washington Planning Area and along the Anacostia River. Through regulation and incentives, encourage affordable housing production. Absorbing the demand for higher-density housing within these areas is an effective way to meet housing demands, maximize infrastructure and proximity to jobs, create mixed-use areas, and minimize the cost pressure on existing residential neighborhoods throughout the District. Market rate and affordable mixed-income, higher-density downtown housing also provides the opportunity to create vibrant street life and to support the restaurants, retail, entertainment, and other amenities in the heart of Washington, DC. 503.8

Policy H-1.1.8: Production of Housing in High-Cost Areas

Encourage development of both market rate and affordable housing in high-cost areas of the District, making these areas more inclusive. Develop new, innovative tools and techniques that support affordable housing in these areas. Doing so increases costs per unit but provides greater benefits in terms of access to opportunity and outcomes. 503.10

Policy H-1.2.1: Low- and Moderate-Income Housing Production as a Civic Priority

The production and preservation of affordable housing for low- and moderate-income households is a major civic priority, to be supported through public programs that stimulate affordable housing production and rehabilitation throughout all District neighborhoods. 504.8

Policy H-1.2.2: Production Targets

Consistent with the Comprehensive Housing Strategy, work toward a goal that one-third of the new housing built in Washington, DC from 2018 to 2030, or approximately 20,000 units, should be affordable to persons earning 80 percent or less of the area-wide MFI. In aggregate, the supply of affordable units shall serve low-income households in proportions roughly equivalent to the proportions shown in Figure 5.8: 30 percent at 60 to 80 percent MFI, 30 percent at 30 to 60 percent MFI, and 40 percent at below 30 percent MFI. Set future housing production targets for market rate and affordable housing based on where gaps in supply by income occur and to reflect District goals. These targets shall acknowledge and address racial income disparities, including racially adjusted MFIs, in the District, use racially disaggregated data, and evaluate actual production of market rate and affordable housing at moderate, low, very-low, and extremely-low income levels. 504.9

Policy H-1.2.3: Affordable and Mixed-Income Housing

Focus investment strategies and affordable housing programs to distribute mixed-income housing more equitably across the entire District by developing goals and tools for affordable housing and establishing a minimum percent affordable by Planning Area to create housing options in high-cost areas, avoid further concentrations of affordable housing, and meet fair housing requirements. 504.10

Action H-1.2.E: Leveraging Inclusionary Zoning

Review and consider expansion of the Inclusionary Zoning program as needed to encourage additional affordable housing production throughout the District. Examine and propose greater IZ requirements when zoning actions permit greater density or change in use. Factors supporting a greater requirement may include high-cost areas, proximity to transit stations or high-capacity surface transit corridors, and when increases in density or use changes from production, distribution, and repair (PDR) to residential or mixed-use. Consider requirements that potentially leverage financial subsidies, such as tax-exempt bonds. 504.26

Policy H-1.3.2: Tenure Diversity

Encourage the production of both renter- and owner-occupied housing, including housing that is affordable at low-income levels, throughout the District. 505.9

Policy H-1.5.1: Land and Building Regulations

Ensure the District's land regulations, including its housing and building codes, zoning regulations, construction standards, and permitting fees, enable the production of housing for all income groups. Avoid regulations that make it prohibitively expensive or difficult to construct housing. 507.2

Chapter 16 Central Washington

Policy CW-1.1.5: Central Washington Housing Diversity

It is important to keep Central Washington a mixed-income community and avoid the displacement of lower-income residents. Preserve Central Washington's existing low- to moderate-income housing, including public housing, housing (both contracts and vouchers), and *other subsidized units. The District has taken a proactive approach to preserving affordable units at the Museum Square, Golden Rule, and other Central Washington Area redevelopment sites. The District should continue to expand the number of affordable units through land disposition with affordability requirements and through the use of zoning and other regulatory incentives. 1608.6*

Action CW-1.1.E: Residential Development Incentives

Continue developing financial and non-financial incentives for the conversion of lower-performing retail/office buildings into new housing or mixed-use development throughout Central Washington. 1608.32

APPENDIX II

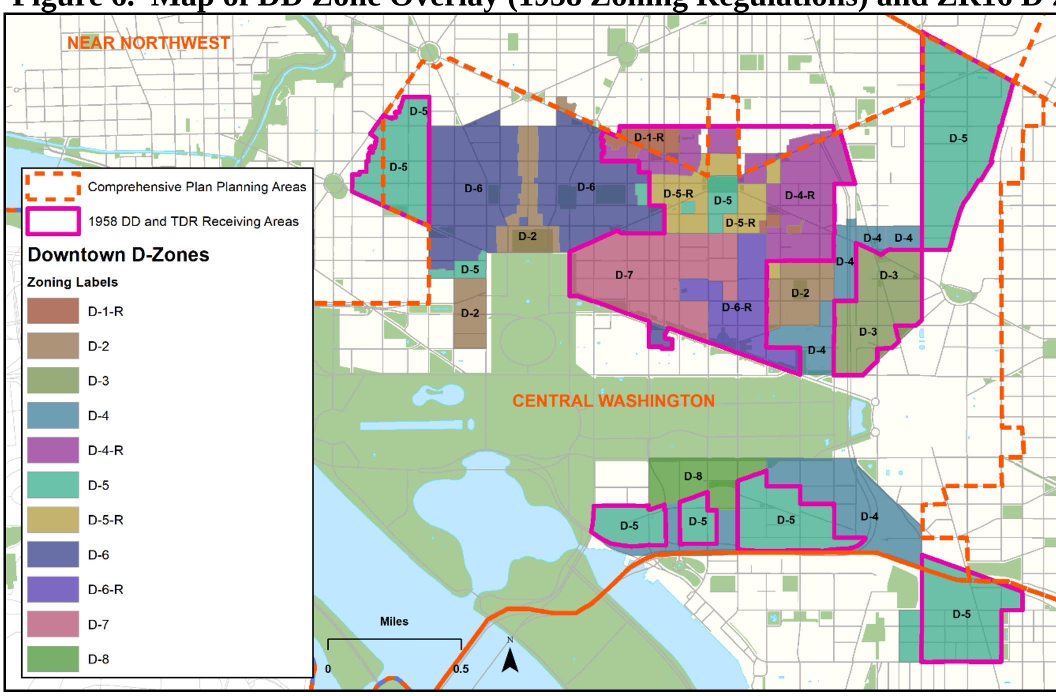
Downtown Zoning History

Central Washington and the corresponding D zones (See Figure 6) have been the principal office market for the District of Columbia. Historically this has resulted in land values driven by office development that made it difficult for residential development to be economically feasible.

The 1981 *Living Downtown Plan* recognized the value of residential use to add vibrancy and activity after normal business hours. The *Living Downtown Plan* was a thorough analysis of where and how much housing was needed to achieve goals. The plan proposed supporting housing between Mt. Vernon Triangle and Penn Quarter, which led to the creation of the downtown Development District ("DD") overlay zone. The original DD took the following several steps to support residential development in downtown:

- Imposed housing requirements on properties ranging from 2.0 to 4.5 FAR;
- Provided additional density for all uses to compensate for the residential requirements;
- Created a tool called Combined Lot Development ("CLD") to transfer and aggregate the housing requirement, in order to assemble and free entire sites for office development;
- Gave residential developments marketable Transferrable Density Rights ("TDR") to help support housing development in the competition for land with office development; and
- Established three Housing Priority Areas for CLDs and TDR receiving areas where each could be traded.

Figure 6. Map of DD Zone Overlay (1958 Zoning Regulations) and ZR16 D Zones



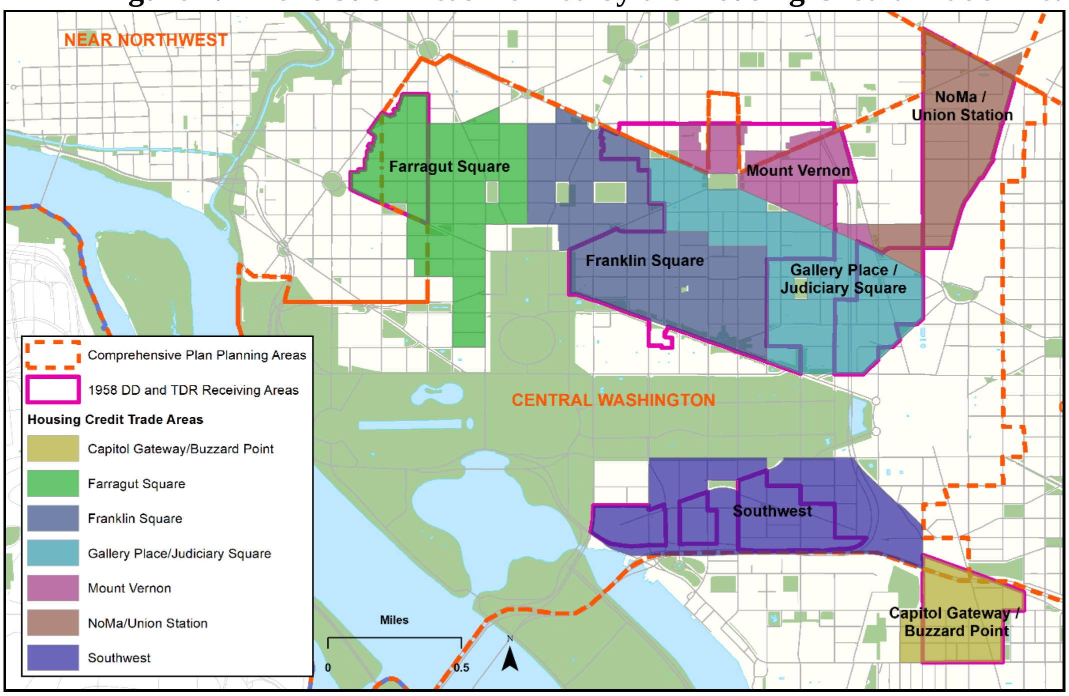
Source: DC Office of Planning

In 2001, Zoning Commission under case number 00-30 improved the CLD process, but more importantly relieved FAR restrictions for residential use up to the height permitted under the Height Act within the DD.

In 2006, OP determined that an eight percent (8%) IZ affordability requirement applied to dense high-rise steel and concrete residential buildings reduced residential land values by 20 percent when no bonus density is provided. The Zoning Commission decided that due to this reduction in residential land values IZ should not be applied in areas where the bonus density is not available. The 2001 decision of case 00-30 to exempt housing from FAR restriction within most of the D zones resulted in exempting most of the D zones from IZ. IZ does apply in the D-2, D-4, and the D-8 zones.

ZR16 expanded where residential use was exempt from FAR restrictions in the DD to the TDR receiving areas and other D zones. It also expanded the TDR tool (renamed Credits) but did not expand the DD housing requirements. Finally, ZR16 created the established new Trade Area (see Figure 7) where the credits generated could be sold and transferred. Trade areas were created to ensure housing would be developed in all areas of downtown and keep economic forces from concentrating office and housing to entirely separate areas of Central Washington.

Figure 7. D zone Sub-Areas Defined by the Housing Credit Trade Areas



Source: DC Office of Planning