

Government of the District of Columbia
Department of Housing and Community Development



Inclusionary Zoning Annual Report
March 14, 2010

About the Inclusionary Zoning

The Fiscal Year 2009 Inclusionary Zoning (IZ) Annual Report from the Department of Housing and Community Development (DHCD) marks the conclusion of the initial year of Inclusionary Zoning implementation. IZ supports the agency's mission to create and preserve affordable housing opportunities by requiring new rental or condominium buildings over 10 units, and renovations increasing the building size by over 50%, to include an assigned percentage of affordable units in exchange for a density bonus.

The program was developed pursuant to the authority set forth in § 107 of the Inclusionary Zoning Implementation Amendment Act of 2006, effective March 14, 2007 (D.C. Law 16-275; D.C. Official Code § 6-1041.07) and Mayor's Order 2008-59, dated April 2, 2008. These documents mandate the adoption of a new Chapter 22 entitled "Inclusionary Zoning Implementation" of Title 14 (Housing) of the District of Columbia Municipal Regulations. The Final Rulemaking for Inclusionary Zoning implementation was published in the D.C. Register on December 11, 2009.

The goals of the program are to:

- create mixed income neighborhoods;
- produce affordable housing for a diverse labor force;
- seek equitable growth of new residents; and
- increase homeownership opportunities for low and moderate income levels.



Legislative Reporting Requirement

DHCD is required to submit an annual report to the Council of the District of Columbia and the Zoning Commission that provides the following information:

1. Number of inclusionary units produced at each targeted income level:

No inclusionary units have been produced as of the date of this report.

2. Number of inclusionary units produced for sale:

No inclusionary for sale units have been produced as of the date of this report.

3. Number of inclusionary units produced for rent:

No inclusionary rental units have been produced as of the date of this report.

4. The median income of the households that purchased or rented inclusionary units:

No households have purchased or rented inclusionary units, so the median income has yet to be established.

5. The number of inclusionary units purchased or rented by DHCD, other District agency, and 3rd parties, for resale to low- or moderate-income households:

No inclusionary units have been purchased or rented by the stated parties for resale as of the date of this report.

6. The value of the subsidy, if any, contributed toward the rental or purchase of units by DHCD, other District agency, and 3rd party to make them affordable to low- or moderate-income households.

Until such time that inclusionary units are being rented and purchased, it is not possible to determine the value of the subsidy that made them affordable to low- or moderate-income households.

7. The average rent and sales prices for inclusionary units based on number of bedrooms:

Though no households have yet purchased or rented inclusionary units, the Maximum Rent and Purchase Price Schedule, effective August 14, 2009, outlines the maximum rents and sales prices allowed based on Washington Metropolitan Statistical Area 2009 Area Median Income of \$102,700 for a family of four (4) as published by HUD. A portion of this schedule is reproduced below.

Multi-Family Inclusionary Developments

					50% of AMI Units		80% of AMI Units	
Number of Bedrooms	Occupancy Pricing Standard	Occupancy Limits	Estimated Utility Allowance	Estimated Condo Fees	Maximum Allowable Rent	Maximum Purchase Price	Maximum Allowable Rent	Maximum Purchase Price
Studio	1	1	\$108	\$250	\$899	\$107,500	\$1,438	\$190,700
1	2	1 - 2	\$150	\$313	\$1,027	\$117,700	\$1,643	\$212,800
2	3	2 - 4	\$192	\$425	\$1,155	\$120,100	\$1,849	\$227,100
3	5	4 - 6	\$233	\$525	\$1,412	\$144,300	\$2,259	\$275,100

Single-Family Inclusionary Developments

					50% of AMI Units		80% of AMI Units	
Number of Bedrooms	Occupancy Pricing Standard	Occupancy Limits	Estimated Utility Allowance	Estimated Condo Fees	Maximum Allowable Rent	Maximum Purchase Price	Maximum Allowable Rent	Maximum Purchase Price
2	3	2 - 4	NC	\$110	\$1,155	\$160,300	\$1,849	\$267,300
3	5	4 - 6	NC	\$130	\$1,412	\$196,800	\$2,259	\$327,600
4	7	6 - 8	NC	\$150	\$1,669	\$233,400	\$2,670	\$388,000

8. The number of waivers and alternative compliance requested and granted:

Two projects have thus far requested waivers:

- a. Matthews Memorial Terrace LP and Matthews Memorial Baptist Church requested a waiver of portions of the Inclusionary Zoning Implementation Regulations (14 DCMR 2200 et seq.) for an affordable housing low-income tax credit project on November 16, 2009. This waiver was granted on December 11, 2009.
- b. Brookland Artspace Lofts, LLC requested a waiver on January 27, 2010. This waiver is still under consideration.

9. An analysis of how much bonus density was actually achieved for each development in which inclusionary units were required:

To date, mandatory IZ has only applied to projects that have chosen to enter the Planned Unit Development (PUD) process through the Zoning Commission (ZC). PUDs require a comprehensive review of projects that take into account the Comprehensive Plan Land Use designation, project design, neighborhood infrastructure and assets, and an extensive list of public benefits and amenities of which affordable housing is only one. In some cases, PUD projects received a 204% increase in density and in other cases they involved a rezoning from Manufacturing to Residential zoning which may technically have reduced the on-site density. Given the uniqueness of each site in the

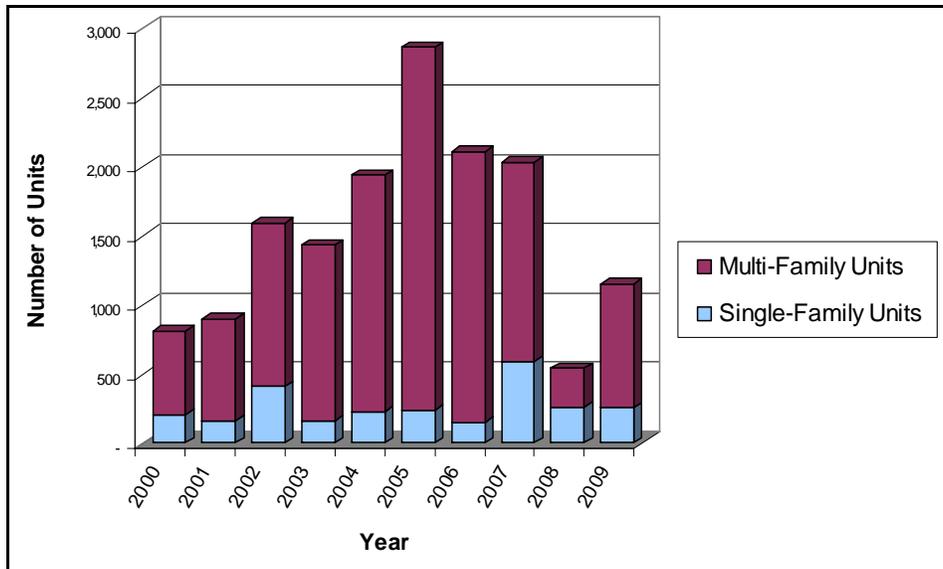
PUD process, it is not possible to determine if bonus density was 1) tied directly to the provision of affordable units and 2) was available as compensation. This will be reevaluated once ‘matter of right’ development projects begin entering the IZ review process.

10. An assessment of whether Inclusionary Zoning Program has had any adverse effect on the production of housing in the District.

At this time, given the recent implementation of the Program and the current downturn, it is not possible to determine whether the Program has had any adverse effect.

After several years of sustained construction, the District’s residential development started to slow after peaking in 2005 when it was becoming clear there was a growing surplus of vacant or unsold units. The Chart below shows the rise and decline in the number of units issued permits between 2000 and 2009.

Units Issued Permits: 2000 - 2009



Source: US Census

Changes in the capital markets in late 2007 started to make it more difficult to obtain project finance, so the number of projects filing for permits and/or breaking ground dropped off significantly in 2008. Several neighborhoods then experienced a delivery of a large number of units in a short period of time. Competition across the city, and particularly in those neighborhoods, drove down rents below developer expectations and made it difficult for other planned projects to proceed. Due to lower than expected rents and other financial problems several large projects are in foreclosure and some stand vacant. Finally, in 2009, the national recession, local high unemployment, and slow job growth added to the difficulties.

Several recent changes suggest that the District's residential development may start to improve:

- The number of unsold new condominiums is dropping below a two year supply and may be exhausted before new projects can break ground and deliver.
- Job growth in the first two months of 2010 seems to be picking up though unemployment remains high.
- Mortgage rates remain low.

Due to these improving conditions two previously permitted projects in Downtown and along upper Wisconsin Avenue have finally started construction.

However, there remains over 12,000 units of housing with predevelopment approvals such as building permits, Board of Zoning Adjustments (BZA) or Planned Unit Development (PUD) cases that exempt them from inclusionary zoning. Some of the projects are receiving development finance from the District or are PUDs that include affordable housing. Others are market rate developments with no affordability requirements. In addition to these 12,000 units, there are even more matter of right projects that could proceed directly to the building permit stage, but less is known about these projects.

There are approximately 4,800 units in various stages of the PUD process to which Mandatory Inclusionary Zoning applies. These projects could deliver an estimated 430 inclusionary units depending on the final mix of unit types and sizes.

Under optimal conditions over 16,800 units would likely represent a minimum six to eight year supply of development. Given the overall lack of debt and equity financing in the capital markets, all of these projects face stiff competition to obtain financing and could likely face delays.

Predevelopment approvals that currently exempt projects from IZ are granted for a period of two years before the pre-development approval must be renewed or building permits applied for. Due to the poor economic conditions, the BZA and the ZC have been renewing predevelopment approvals as a matter of policy. Once permits have been issued construction must start within six months or the permit must be renewed. Permits can be renewed up to three times for a period of six months each. If a project fails to renew either their pre-development approval or building permit before starting construction then IZ would likely apply to any future project on that site.

The number of projects currently exempt from IZ that have not filed for permits or broken ground suggests that the impact of the over all economy far exceeds any potential impact of IZ on development. Going forward, the simple effect of competition for limited capital dollars suggests many of these projects will not start construction right away. It is therefore not possible to determine if IZ has affected development in the District. This conclusion will be

revisited if construction activity begins to increase and IZ exempted projects consistently start construction and IZ applicable projects do not.

Conclusion

With the support of the Mayor and Council, DHCD has begun implementation of inclusionary zoning by developing forms and procedures which conform to the stated requirements. DHCD is currently working with the Office of the Chief Technology Officer to create an Internet Technology Solution to simplify and automate many of the prospective tenant and developer processes.

Based on the current economic conditions, DHCD concludes that it is too early to determine IZ related negative effects on residential development or land values in the District and therefore recommends that no actions be taken to significantly change the Inclusionary Zoning Program.



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