

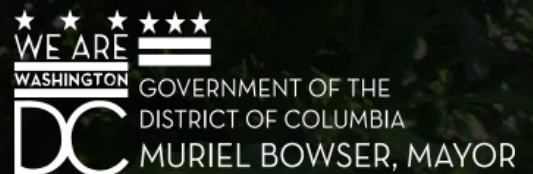
GOVERNMENT OF THE DISTRICT OF COLUMBIA



Department of Housing and Community Development
FY2014 Inclusionary Zoning Annual Report

December 2016

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Aria on L, 300 L Street NE | Cover photo: 77H, 77H Street NW

FY2014 Inclusionary Zoning Annual Report

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Executive Summary

The end of fiscal year 2014 (FY2014)¹ marked the conclusion of the fifth complete fiscal year of the Inclusionary Zoning (IZ) Program since it was implemented in August 2009. This report, drafted in coordination with the Office of Planning, analyzes the IZ program during FY2014, and additional data from previous years for comparison, including:

- a summary and analysis of IZ units and developments produced;²
- a summary and analysis of upcoming units and developments; and
- an analysis of the households registered to participate in IZ.

The numbers in this report reflect a period in which there was significant construction in the District's housing market. In the 2014 calendar year, 4,189 new units of housing were issued building permits—a 28-percent increase from the 2013 calendar year.

The number of IZ units completed in FY2013 and FY2014 were similar (37 and 34, respectively).³ The vast majority of completed IZ units are rentals reserved for households earning between 51 percent and 80 percent of the Area Median Income (AMI) for the Washington Metropolitan Statistical Area as published by the U.S.

Department of Housing and Urban Development (80 percent AMI households). Households registered for the IZ program, however, tend to have a household income less than or equal to 50 percent of AMI (50 percent AMI households). The household sizes and unit sizes, however, are more closely aligned, with 67 percent of households consisting of one or two people and 79 percent of units being studios or one bedrooms.

A higher share of 50 percent AMI households is interested in only renting, while 80 percent AMI households are evenly split between an interest in renting or buying. A large percentage of both 50 percent AMI and 80 percent AMI households are interested in both renting and buying.

About Inclusionary Zoning

The IZ program supports the Department of Housing and Community Development (DHCD)'s mission to produce and preserve affordable housing opportunities. It does so by requiring that in most zoning districts⁴ new rental or condominium buildings with 10 or more units include a percentage of affordable units. In exchange, the developer receives a density bonus, an increase in the number of units allowed in the development higher than could otherwise be produced under current zoning rules. Along with new construction,

¹ Fiscal Year 2014 is October 1, 2013 through September 30, 2014.

² "Produced" developments and units are those for which the Department of Housing and Community Development received a Notice of Availability, reflecting that units are available for rental or sale.

³ While the number of building permits issued in the 2014 calendar year was higher than in the 2013 calendar year, the number of units completed was similar, since most construction takes about a year to complete, from the time the building permit is issued.

⁴ DC's zoning districts are summarized at <http://dcoz.dc.gov/resources/districtsummary.shtm>.

IZ also applies to existing buildings of 10 or more units when new investment in the property increases the building's gross floor area by over 50 percent.⁵

The goals of the IZ program are to:

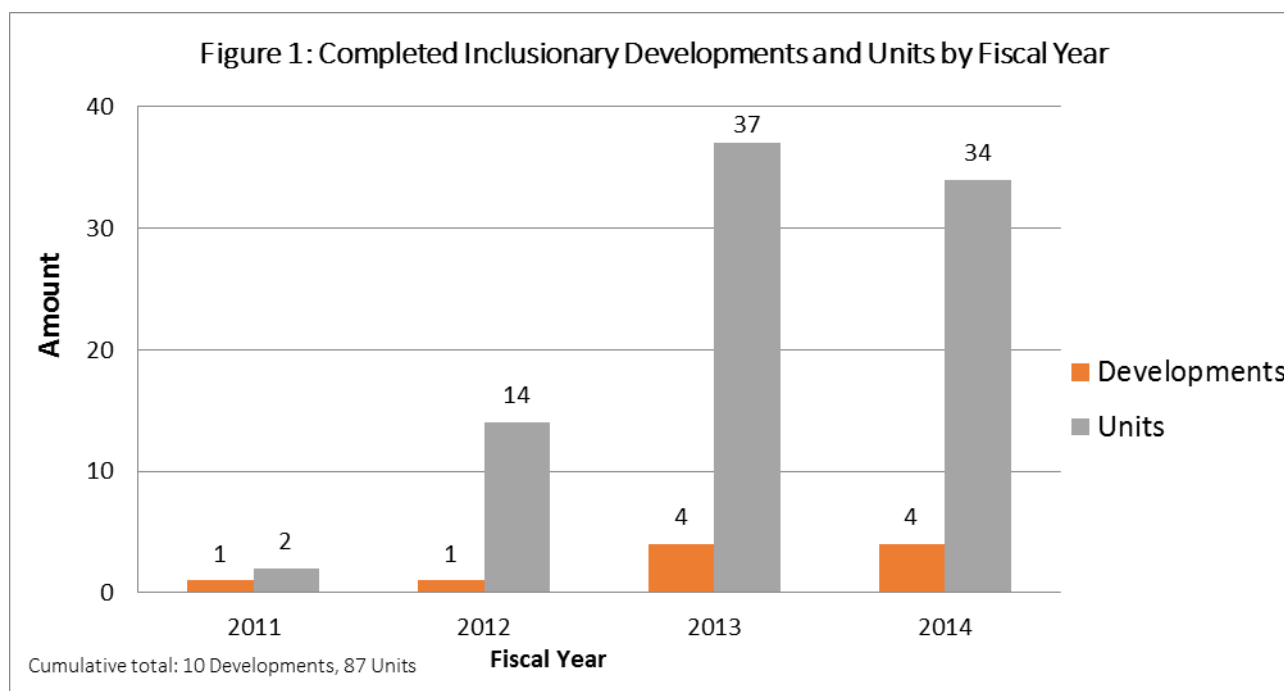
- create mixed income neighborhoods;
- produce affordable housing for a diverse labor force;
- seek equitable growth of new residents; and
- increase homeownership opportunities for 50 percent AMI and 80 percent AMI income households.

The District's 2006–2011 Fair Housing Analysis of Impediments noted that the IZ program is

not only a means to provide affordable units but a “powerful array of tools that can affirmatively further fair housing through racial and economic integration by preserving and building housing affordable to households with modest incomes throughout the city.”⁶

Completed Inclusionary Zoning Developments and Units

Development activity has increased among properties subject to IZ since FY2011. As a result, the number of IZ units has also increased. As shown in Figure 1, 87 IZ units had been produced as of September 30, 2014. A full list of produced IZ developments and units is in Appendix 1.



Source: DHCD

⁵The program was developed based on the authority in §107 of the Inclusionary Zoning Implementation Amendment Act of 2006 (D.C. Law 16-275 (effective March 14, 2007), D.C. Official Code §6-1041.07) and Mayor's Order 2008-59, dated April 2, 2008. These documents mandated 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 implementation was published in the *D.C. Register* on December 11, 2009.

⁶Planning/Communications, District of Columbia Analysis of Impediments to Fair Housing Choice 2006–2011 (River Forest, IL: April 2012), at 158.

Most Completed IZ Units Reserved for 80 Percent AMI Households

Of the units completed by the end of FY2014, the vast majority are reserved for 80 percent AMI households, as shown in Table 1. This uneven distribution is almost entirely attributed to the zoning requirements and the location of IZ developments.

Most completed IZ developments are located in zoning districts (higher density, mixed-use commercial) that require 80 percent AMI household units only. (See Table 2 for specific zoning districts and affordability requirements.) Moreover, these projects tend to be larger, thereby increasing the relative number of units for 80 percent AMI households.

Table 1: Inclusionary Units Produced as of September 30, 2014	
Tenure	
Rental	76
For-Sale	11
Unit Affordability Level	
50% AMI	3
80% AMI	84
Unit Bedrooms	
Studios	21
One Bedrooms	46
Two Bedrooms	20
Unit Status	
Rented	33
Sold	4
In selection process	47
For-sale units under contract	3

Source: DHCD

Table 2: Zoning District and Affordability Levels			
Zoning Districts	District Characteristics	Typical Construction Type	Target Households
R-2 to R-5-B, C-2-A, W-1	Low-density, primarily residential, some light commercial	Primarily stick-built, some concrete "podium" (first-floor)	Units split evenly between 50% AMI and 80% AMI
R-5-C & D, C-2-B to C-3-C, W-2 & 3, CR & SP	Higher density, greater mix of uses, higher commercial activity	Primarily steel and concrete	Units entirely for 80% AMI

Majority of Units Are One Bedroom

The share of units by bedroom size is relatively more evenly distributed but still concentrated in a particular category:

- One bedroom units account for 46 percent of the total
- Studios account for 32 percent
- The remaining 22 percent are two bedroom units

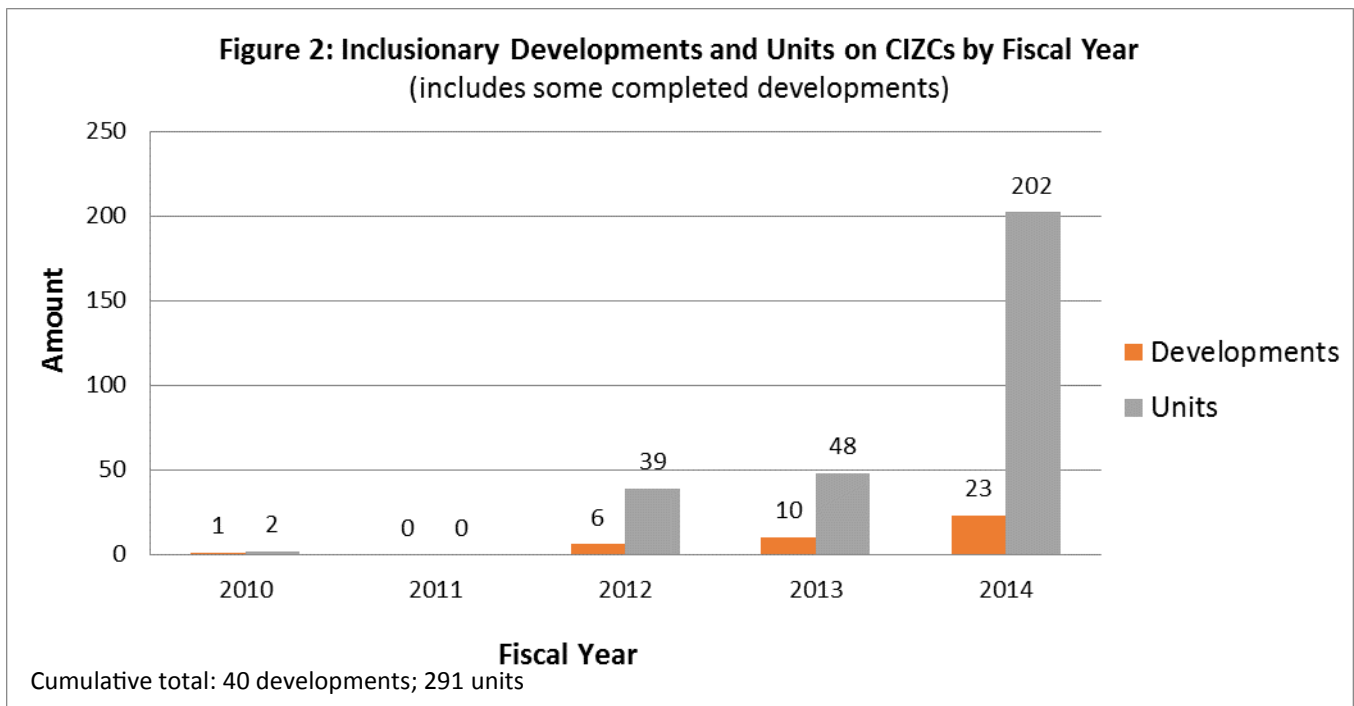
Concentration also exists in unit tenure (that is, for-sale or rental) of IZ units: 87 percent of the units are rentals. On the whole, 37 percent of the produced IZ units are rental one-bedroom units reserved for 80 percent AMI households with one or two people.

Inclusionary Zoning Developments and Units in Planning and Construction Phases

As previously stated, the IZ program's production of affordable homes increases

and decreases in line with housing production.

The Department of Consumer and Regulatory Affairs (DCRA) collects Certificates of Inclusionary Zoning Compliance (CIZC) for each planned IZ development, which list the number of units that each project will produce. Figure 1 on page 5 indicated that the number of completed units was relatively unchanged from FY2013 to FY2014. However, Figure 2, which shows the IZ developments and units listed on CIZCs by Fiscal Year, shows a different picture. The District received more than twice the number of CIZCs in FY2014 as in FY2013, resulting in four times more planned IZ units than the previous year.⁷



Source: DHCD

⁷A CIZC is a strong indicator of IZ unit construction activity, as an approved CIZC is required to obtain a building permit.

Taking this a step further, the entire IZ pipeline, which includes developments that are conceptual, more formally planned and under construction, indicates that over 3,000 unsubsidized IZ units may be coming online in the near future (Table 3). This further suggests that the number of IZ units completed will skyrocket in the coming years if construction of residential units continues to be strong in the District of Columbia.

Table 3: Summary of Inclusionary Zoning Pipeline

<i>Status</i>	<i>Unsubsidized Inclusionary Developments</i>				<i>Subsidized Inclusionary Developments</i>			
	<i>Developments</i>	<i>IZ Units</i>	<i>Market Units</i>	<i>Total</i>	<i>Developments</i>	<i>IZ Units</i>	<i>Market Units</i>	<i>Total</i>
Under Construction	54	531	4,646	5,177	15	1,317	239	1,556
Planned	54	1,091	7,647	8,738	9	784	1,071	1,855
Conceptual	73	1,776	12,790	14,566	15	1,962	1,349	3,311
Total	181	3,398	25,083	28,481	39	4,063	2,659	6,722

Source: DC Office of Planning

Projects Exempt from IZ

Table 3 also includes the pipeline for “subsidized IZ developments.” These projects otherwise would be subject to IZ but because they receive District or federal government financial subsidies they are exempt from IZ administrative and reporting requirements, such as using a DHCD-run lottery to rent or sell the units. However these exempted affordable developments will become subject to all IZ rules and regulations once their subsidized affordability requirements expire (typically 10 to 40 years, depending on the subsidy source). At that time, 8 percent to 10 percent of units in these buildings must remain affordable for the life of the development, as required for all IZ projects.

In addition to the aforementioned administrative exemption, certain projects are exempt from IZ entirely. These “categorical” exemptions are for the following reasons:

1. **Timing:** A development that had pre-development approvals, such as building permits, Board of Zoning Adjustments (BZA) approvals or Planned Unit Development (PUD) approvals from the Zoning Commission (Commission) before the effective date of IZ (August 2009).
2. **Geographic:** A development located in an area in which IZ-related bonus density is not theoretically available (for example, the Downtown Development overlay area of downtown) or where it is not consistent with sensitive neighborhood

character (for example, Historic Anacostia). Moreover, an exempt development might be located in a very low-density zoning district, namely the R-1 district.

3. **Size and use:** A residential development with fewer than 10 units or with special residential uses such as dormitories or foreign mission housing.

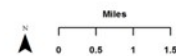
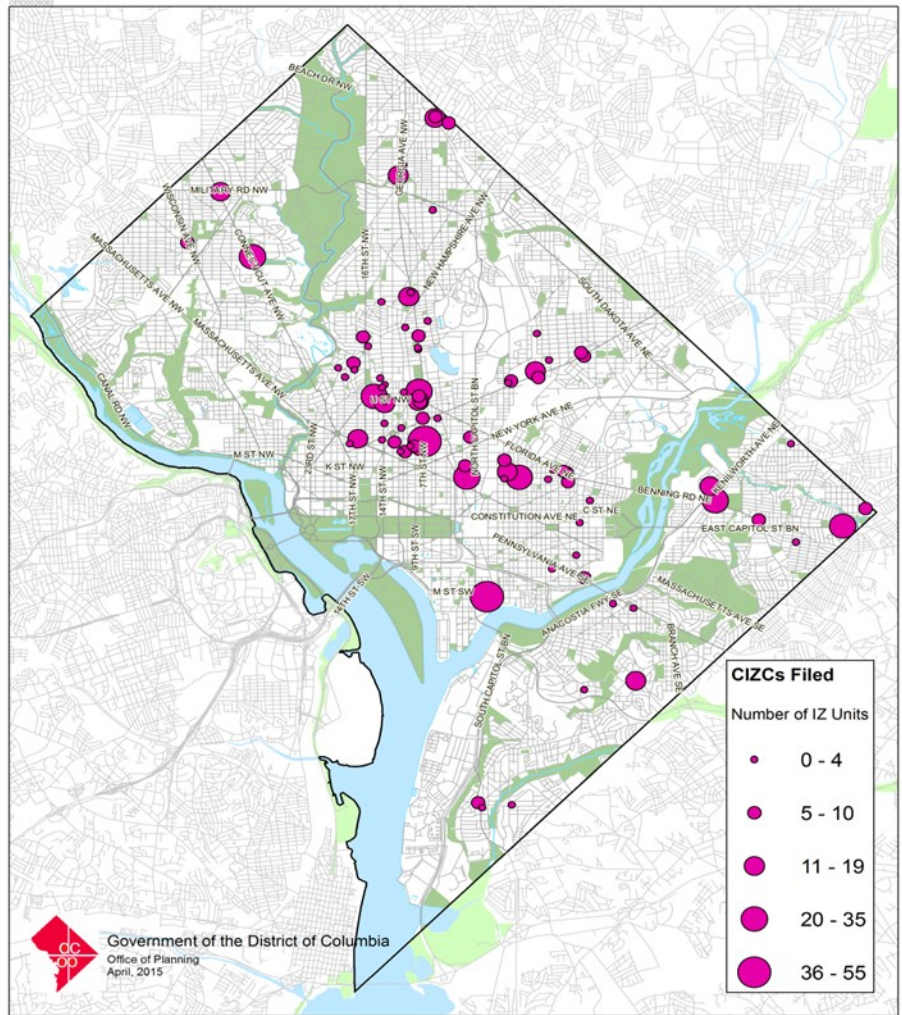
Geographic Distribution

While completed IZ developments and units were concentrated in Wards 1 and 6, including the planned developments and units, the program is expected to produce units that are more evenly distributed across the city. The expected geographic distribution of IZ units is demonstrated in Figure 3, which shows projects subsidized with local or federal affordable housing funds as well as those that are unsubsidized, matter-of-right developments.

Distribution by Income

The planned IZ units continue to be heavily concentrated in the 80 percent AMI household category, with approximately three in four IZ units to be reserved for 80 percent AMI households, with the share of one bedroom units in upcoming developments decreasing slightly to approximately 42 percent.

Figure 3: Map of Filed Certificates of Inclusionary Zoning Compliance



This map was created for planning purposes from a variety of sources. It is neither a survey nor a legal document. Information provided by other agencies should be verified with them where appropriate.

District of Columbia

Tenure

Of the upcoming IZ developments that have submitted CIZCs, 33 have specified the anticipated tenure with 14 being for-sale developments and 19 rental developments.

Registered Inclusionary Zoning Households

Households participating in the IZ program must register with the District. Through registration, they indicate their household size, income, interest in either renting or buying, and other details. The discussion below analyzes this information to describe the pool of registrants.

- Over 700 households registered for IZ during FY2014, more than doubling the existing number and bringing the total number of registered households to over 1,500.
- Of all registered households, 56 percent are 50 percent AMI households and 44 percent are 80 percent AMI households.
- While the percentage of 50 percent AMI households registered for the IZ program is slightly higher than that for 80 percent AMI households (56 percent compared to 44 percent), this is in sharp contrast to the vast majority of units being produced for 80 percent AMI households.

Household Size

While the average household size is 2.14 people, the largest share of households, approximately 40 percent, consists of one person. Note that 28 percent of households are eligible for three bedroom units, but only 3 percent of planned IZ units have three bedrooms. There are no produced three bedroom IZ units as of the end of FY2014.

When considering household size and percent of AMI, one person households have the highest average income as measured by percent of AMI:

- one person households average 49 percent of AMI;
- two person households average 44 percent;
- three person households average 40 percent; and
- households with four or more persons average 39 percent.

Preferred Housing Tenure

IZ-registered households must specify the housing tenure type (rent, buy, or no preference) in which they are interested. Among all households:

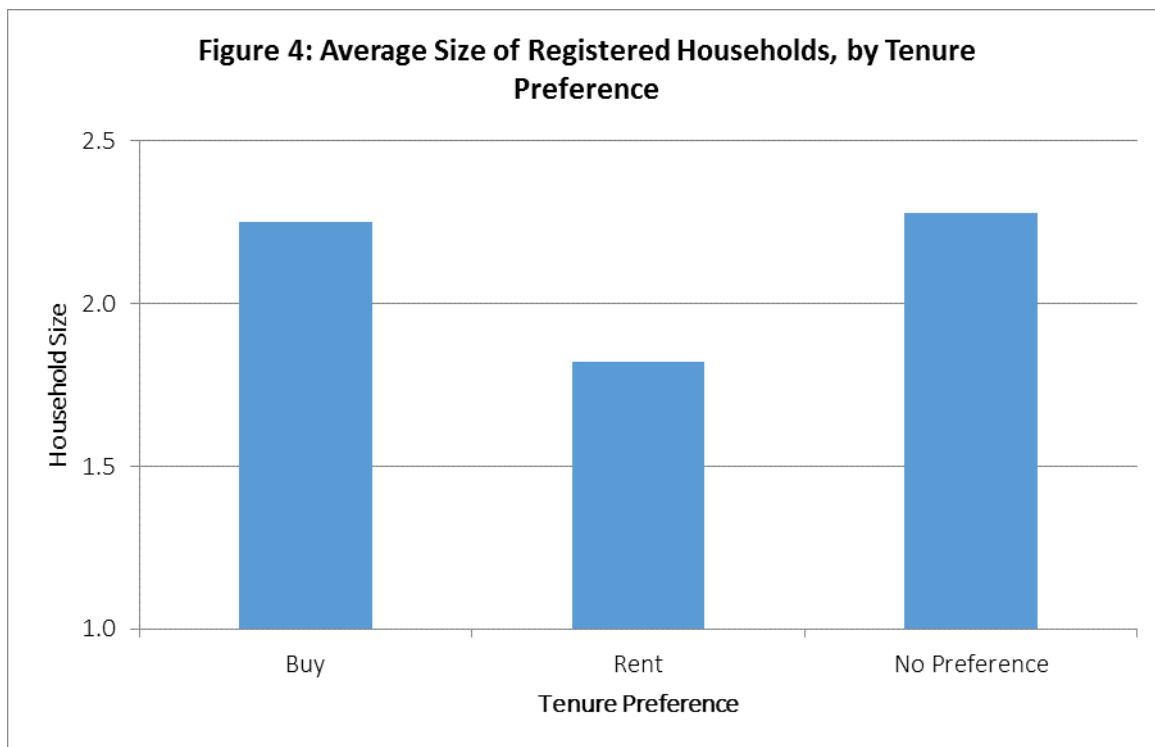
- 42 percent are interested in renting only;
- 22 percent are interested in buying only; and
- 36 percent have no preference.

Table 4 shows that almost half of the registered 50 percent AMI households are interested in renting while interest among 80 percent AMI households is more evenly dispersed.

Tenure	50% AMI	80% AMI	All Households
Buy only	16%	30%	22%
Rent only	46%	38%	42%
No preference	38%	32%	36%
Total	100%	100%	100%

Source: DHCD

Figure 4 illustrates the average household size per tenure preference. Households preferring to only rent tend to have fewer than two people, while households interested in buying or with no preference tend to have more than two people, and are likely families with children.



Source: DHCD

Conclusion

In sum, in FY2014 the IZ program appears to be leaving its infancy and becoming an important affordable housing program serving the residents of the District of Columbia. This conclusion is supported by the following findings from the reporting above.

1. **The number of IZ units is expected to grow rapidly:** Early concerns about limited IZ production are being resolved simply through the on-going strength in the District's private-market development as the program has been implemented, which has greatly increased expectations for the program.
2. **The long-term IZ pipeline will produce many long-term affordable homes:** The anticipated long-term pipeline of over 3,000 IZ units is nearly equal to all housing units produced in the District in FY2014. Given concerns about affordable housing preservation, the perpetual affordability of IZ units presents a steady future supply of affordable housing.
3. **IZ production is not entirely meeting demand:** The profile of IZ-registered households (for example, household size, income, and tenure preference) can be a proxy for overall demand. Given this, only the unit sizes of produced and upcoming IZ units are meeting demand, as the percent of IZ units that are studios and one bedrooms relatively matches the percent of households that have one or two people. Over one-half of the households wish to buy their IZ home, yet only 16 percent and 31 percent of produced and upcoming IZ units, respectively, are for-sale units. Moreover, the majority of households are 50 percent AMI households, yet only a small minority of produced and upcoming units is reserved for that income level.

FY2014 Annual Report (Legislative Reporting Requirement)

DHCD is required to submit an annual report to the Council of the District of Columbia and the Commission that provides basic IZ program productivity. While previous annual reports presented IZ information for a calendar year, this annual report presents IZ information for FY2014. This shift aligns this report with other DHCD reports. Readers should note the three-month overlap between calendar year 2013 and FY2014 means that some information may be found in both the FY2013 and FY2014 reports.

The production numbers provided in questions 1 through 5 and 7 do not include financially subsidized affordable housing projects that are exempt from IZ administrative rules.⁸

Questions 6, 8 and 9 do include information on the subsidized affordable housing projects as it pertains to IZ.

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

Thirty-four IZ units were produced in FY2014. Thirty-three IZ units were for 80 percent AMI households and one was produced for a 50 percent AMI household.

The addition of units produced in FY2014 brings the IZ program totals to 87 units. Eighty-four of these units were 80 percent AMI household units and three were 50 percent AMI household units.

2. Number of IZ units produced for sale:

Five IZ units were produced for sale in FY2014 for a program total of 11 as of November 30, 2014. Of the 11 units, the first two remain under litigation, one was sold in FY2013, three were sold FY2014 and the remaining five were either under contract or are in the selection process as of November 30, 2014.

3. Number of IZ units produced for rent:

Twenty-nine IZ units were produced for rent in FY2014 for a program total of 76 as of November 30, 2014. Sixteen were rented in FY2014 for a program total of 33.

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

The median income of households that started renting units in FY2014 was \$55,000. Due to the small number of IZ for-sale units sold in FY2014, DHCD is not reporting the median income of the purchasers to avoid disclosing personal information.

5. The number of IZ units purchased or rented by DHCD, other District agency, and third parties, for resale to low- (50 percent AMI) or moderate-income (80 percent AMI) households:

No IZ units have been purchased or rented by the stated parties for resale in FY2014.

6. The value of the subsidy, if any, contributed toward the rental or purchase of units by DHCD, other District agency, or third party to make them affordable to low- (50 percent AMI) or moderate-income (80 percent AMI) households.

Among the three units sold in FY2014, buyer subsidies totaled \$130,253 for an average per unit of \$43,418. Based on the pipeline expected in FY2015, DHCD expects to be able to report greater detail on the nature of buyer subsidies in next year's annual report.

⁸Section 2602.3(f) of the zoning code exempts from the IZ administrative process—to include IZ administrative and reporting requirements—projects receiving subsidized financing through: (1) DHCD; (2) the District of Columbia Housing Finance Agency; or (3) the District of Columbia Housing Authority. This is provided that such projects still set aside the IZ equivalent number of units that would stay affordable after the subsidy controls expire. These projects are eligible to receive bonus density from the IZ program enabling them to build more affordable units.

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

Average Rent Price in FY2014:

Studio: \$1,401
 One Bedroom: \$1,560
 Two Bedrooms: \$1,800

Average For-Sale Price in FY2014:

Studio: \$116,600
 One Bedroom: \$195,320⁹
 Two Bedrooms: \$247,000

8. The number of waivers or alternative compliance requested and granted in FY2014:

Four projects were granted waivers in FY2014.

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

Of the 29 projects that began construction in FY2014, 23 used bonus density:

- Nineteen of these 23 were matter-of-right projects with an average bonus density of 25 percent. This share includes bonus density from any zoning overlay in which these buildings are located.
- Two of the 23 were PUDs and averaged a 22 percent density bonus above the new zoning for the development area.
- Among these projects, the range of bonus density achieved is 9 percent to as high as 50 percent, the latter due to overlays and BZA variances.

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

IZ does not appear to have affected broader housing production or specific developments in the District. The housing market continues to produce many new units: in the 2014 calendar year, 4,189 new units of housing were issued building permits, a 28 percent increase from the 2013 calendar year. Specific to IZ developments, only two of 60 developments with CIZCs have not gone forward with obtaining building permits. ■■■

⁹Note that three one-bedroom units were sold in FY2014 that were produced in FY2013. The sales prices for these three units are also included in the average one-bedroom price.

Appendix 1: Completed IZ Developments and Units, as of September 30, 2014

Development	Address	Ward	Neighborhood	Tenure	Total Units	Affordability Requirement	IZ Units			IZ Units		
							50% AMI			80% AMI		
							Studios	1-BR	2-BR	Studios	1-BR	2-BR
1700 Euclid St. NW	1700 Euclid St. NW	1	Adams Morgan	For-sale	19	50% and 80% AMI		1			2	
2910 Georgia Ave. NW	2910 Georgia Ave. NW	1	Park View	For-sale	22	50% and 80% AMI			1			1
The Harper	1919 14th St. NW	1	Logan Circle	Rental	144	80% AMI				10	1	
The Lima	2101 11th St. NW	1	U Street (Cardozo)	For-sale	31	80% AMI					2	1
The Standard Eleven	1109 M St. NW	2	Logan Circle	For-sale	11	80% AMI				1		
Swift at Petworth	3828 Georgia Ave. NW	4	Petworth	Rental	218	80% AMI				3	11	4
Aria on L	300 L St. NE	6	NoMA	Rental	60	80% AMI					5	2
AVA H St.	318 I St. NE	6	NoMA	Rental	143	80% AMI				3	5	6
The Centrie	435 R St. NW	6	Shaw	For-sale	22	50% and 80% AMI	1				1	
77H	77 H St. NW	6	NoMA	Rental	277	80% AMI				3	18	5
Total Units (per type)							1	1	1	20	45	19
Total units (per affordability level)							3			84		



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