

# Saving DC's Rental Housing Market Strike Force

*February 26th, 2021*







## Today's Agenda

- Call to Order
- Welcome
- Open Meeting Process Review
- Feb. 19th Meeting Summary
- Overview of TOPA & DOPA
- Housing Stabilization Grants: Housing Provider Needs & Lessons Learned
- Commercial Conversions to Residential
- Meeting Schedule Update
- Discussion
- Public Comment
- Closing Comments and Adjourn

# Ground Rules

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- Respect the Process
- Be Present and Engaged
- Follow the Facilitators' Directions
- Allow Every Voice to be Heard
- Speak Courteously and Respectfully to Others
- Maintain Zero Tolerance for Any Comment (Verbal or Written) that is Meant to Attack or Intimidate Another Person, or is Obscene

# Process Review: Public Meeting Regulations

- Notice shall be provided when meetings are scheduled and when the schedule is changed.
- Except for emergency meetings, a public body shall provide notice as early as possible, but not less than 48 hours or 2 business days, whichever is greater, before a meeting
- This meeting will be recorded for public record
- A copy of the meeting summary will be made available for public inspection as soon as practicable, but no later than 3 business days after the meeting





# Public Comment Period

- Public observers will have 15 minutes set aside at the end of every meeting for verbal comments. If you would like to make a verbal comment please make your request known using the Question and Answer function.
- The facilitator will call on each name as it appears and the attendee will be invited directly into the Zoom room. Please note your video will remain disabled.
- We ask all commenters to be respectful of time and reserve space for additional voices.
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# February 19th Meeting Summary



# District Opportunity to Purchase Act (DOPA)

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February 26, 2021



The District Opportunity to Purchase Act (DOPA) promotes affordable rental housing by maintaining existing affordable rental units as well as increasing the total number of affordable rental units within the District.



Under DOPA, rental property owners are required to provide the District an opportunity to purchase housing accommodations with five or more rental units, provided that 25 percent or more of the rental units are deemed as “affordable.”

The District's right to purchase is subordinate to a tenant's right to purchase under the Tenant Opportunity to Purchase Act (TOPA). The property owner must submit an Offer of Sale to tenants for the sale of a five unit or more housing accommodation.



# KEY PROPERTY CRITERIA FOR DOPA

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- 1. High Municipal Debt impacting Cost per Unit**
- 2. Geographic Priority:**
  - a. Buildings in a “Mayor’s Target Area”*
  - b. Building in an area that would benefit from residential or income diversity*
- 3. Neglected Building Maintenance / Excessive Code Violations**
- 4. High Vacancy Rates**
  - a. Vacancy Rates of 15% or greater*
  - b. Buildings may reduce homelessness*
- 5. Expiring Housing Assistance Program (HAP) Contract**
- 6. Expiring Low Income Housing Tax Credits**
- 7. Expiring Ground Lease - within 20 years of expiration**
- 8. Smaller Buildings - five to 20-unit buildings**
- 9. Purchase price of \$2 million or less**
- 10. Non-Compliance with Regulatory Requirements**
  - a. Violations of HOME, LIHTC, or other programs/covenants requirements*
- 11. Senior Citizen/Disabled Tenants in Building**
  - a. 25% or more are senior citizens or disabled*

# DEVELOPER CRITERIA FOR DOPA

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As DHCD announces DOPA purchase opportunities, developers who meet the District's criteria will be invited to respond to those requests. The developers will have to comply with DOPA's requirements by maintaining, and increasing the number of, affordable units in the property.



Prequalified developers must demonstrate their financial capacity to acquire the building by submitting the following documentation:

- ***Affordability Plan***
- ***Project Budget***
- ***Letters of Interest from Financial Institutions***
- ***Property Management Plan***

# AFFORDABILITY CRITERIA FOR DOPA

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Prequalified developers must submit an affordability plan that takes the following into account:

The monthly rent charged to an existing household shall not exceed the lesser of:

- a. the existing household's current monthly rent on the date of the Offer of Sale; or
- b. thirty percent (30%) of the existing household's monthly income, on the date of the Offer of Sale.

In each case, the monthly rent shall be subject to allowable annual increases.

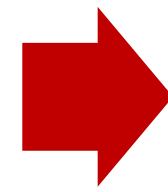


# DOPA & TOPA TIMELINES



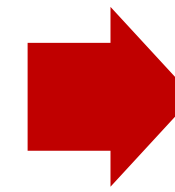
## TOPA Notice

- *Property owner issues an offer of sale to tenants.*



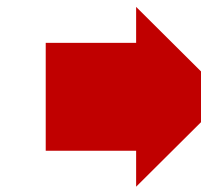
## Offer Period

- *Tenants have 30-45 days to decide to register tenant organization with owner and CASD*



## Negotiation Period

- *Tenants have up to 120 days to ratify a contract*



## Settlement Period

- *Tenants have an additional 120 days to finance and close on the property.*

Day 30

Day 45

Day 120

Day 150

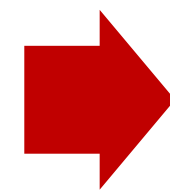
Day 210

Day 225 or 240

Day 270 or 285

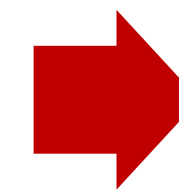
## DOPA Notice

- *DHCD reviews DOPA notice to ensure it qualifies.*



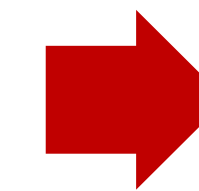
## Offer Period

- *DHCD has 30 days to submit a statement of interest to the owner and tenants.*



## Negotiation Period

- *DHCD issues RFP to developers; assigns rights after 120 days if tenants do not evoke their rights.*



## Settlement Period

- *Assigned developer has 60 additional days to finance and close the transaction.*



# QUESTIONS

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Contact:

**Ana van Balen, Housing Preservation Officer**

[DOPA.DHCD@dc.gov](mailto:DOPA.DHCD@dc.gov)





# Wayat Brown



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## Housing Stabilization Grant Program Application Data Analysis

*February 2020*



# Housing Stability Grant Program

- Available to a universe of almost 300 assets comprising approximately 30,000 units.
- Designated for the District's portfolio of affordable housing projects financed by the Housing Production Trust Fund, Low Income Housing Tax Credits, or other local and federal affordable housing funds.
- \$10M from the CARES Act to provide COVID-19 related relief to DC housing Providers\*
- Delinquency from April 1, 2020, through November 30, 2020 on units not receiving other forms of rental assistance was eligible to be paid with grant funding.
- Applicants were required to agree to an 80:20 split with the District contributing 80% of delinquent rent, up to \$2,000 per unit per month, and the housing provider forgiving the remaining 20%, up to \$500 per unit per month.
- **Eligible delinquency** is defined as delinquency that meets the criteria above and an **applicant** is defined as a single project (1 or more buildings).

\*The Department of Housing and Community Development oversaw \$1 million set aside for small housing providers.



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# Implications of Data Analysis

- **DCHFA processed 204 applications from 56 project owners representing 21,012 units.**
- 6,161 (29.3%) of the units in the dataset were reported as delinquent with an average delinquency of ~\$3K per unit for a total of \$17.9M.
- Of the \$17.9M of reported delinquency, ~\$11.83M in eligible delinquent rent was addressed through \$9.46M of housing stability grant funding and \$2.37M of landlord forgiveness. This applied to 4,410 of the reported delinquent units.
- The remaining \$6.1M of ineligible delinquency, associated with 1,751 units, represents a delinquency rate of 6% for the complete **30K unit portfolio, more than twice the pre-COVID rate.**
  - \$6.1MM of this ineligible delinquency was for subsidized units.
  - These residents have/had access rental assistance through the ERAP program or the Housing Authority to recalculate their rent.

# Implications

	Total Units	Delinquency	Delinquent Units	Average Delinquency/Unit	Projected/Potential Need
<b>HSG Funding (Actual)</b>	<b>21,012</b>	<b>~30%</b>	<b>6,161</b>	<b>3,000</b>	<b>\$18MM</b>
DHCD/DCHFA Portfolio	30,000	30%	9,000	3,000	\$27MM
Rental Units (District)*	177,711	30%	53,313	3,000	\$160MM

\* Includes Apartments, SFH and Condos.

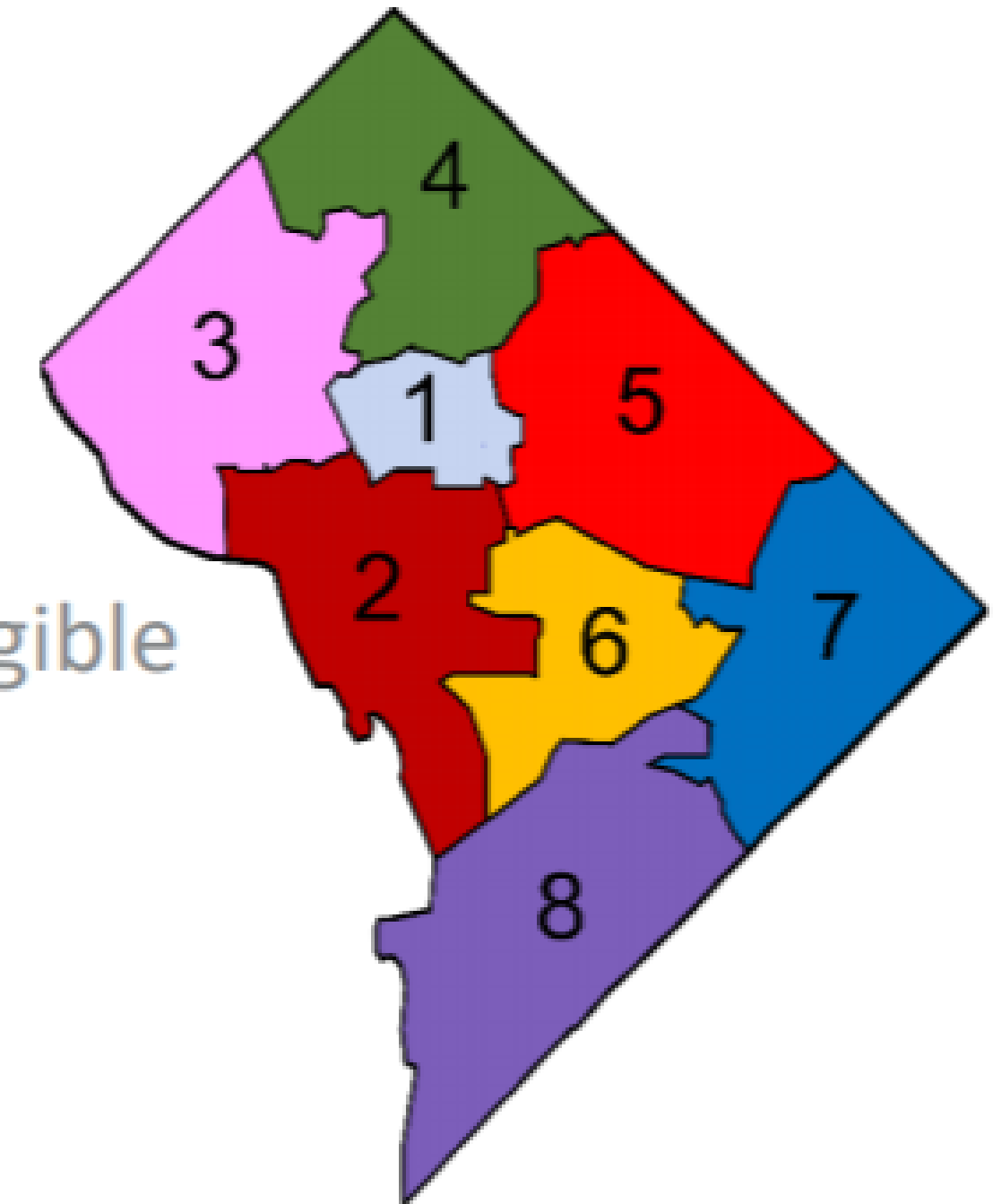
## Key questions:

- How do we identify and expediently deliver to the residents in need?
- Can we extrapolate the initial delinquency trends across the larger rental housing market?
- What percentage of residents living in naturally occurring affordable housing and market rate housing will income qualify?



# Key Application & Delinquency Statistics

- Grant Applications
  - DCHFA received 204 applications during the application period 12/1–12/11
  - 56 project owners and 21,012 units across all wards in the District were represented
- Overview of delinquency
  - Total reported delinquency was \$17.9M with \$11.83M considered grant eligible
  - Average delinquency per application: ~\$88K
  - Average delinquency per delinquent unit: ~\$3K
  - 6,161 (29.3%) of the total units were reported as delinquent
  - Over a quarter of the applicants have delinquencies in 40%+ of their units



Delinquency is widespread both geographically and in magnitude across affordable housing projects in the District.



# Question and Answer







# Key Factors for Commercial to Residential Conversions



# DC Has Location Specific Opportunities For Conversions

In 2020, OP evaluated the likelihood of commercial to residential conversions and found:

- Ward 3 has the greatest opportunity for both office and hotel conversions
- There may be targeted opportunities between Dupont Circle and Georgetown
- Opportunities in Central Washington are limited and most likely to occur in the West End and near Massachusetts Ave
- Some light industrial serving office buildings near the New York Avenue corridor may convert to residential in alignment with larger projects
- Hotel to residential conversions are most likely in the short-term for aging properties, such as the former Marriott Wardman Park Hotel



# Prior Work: Office to Affordable Housing Task

## Force

Between October 2018 and January 2019, DMPED convened the *Office to Affordable Housing Task Force*

The Task Force's final report found that:

- Office to residential conversions are uncommon in the District because most office buildings are only partially vacant, reducing the owner's incentive to convert.
- Conversions are most likely to occur outside of the central employment areas due to higher potential revenue for office uses in established submarkets.
- The commercial real estate industry's lack of familiarity with the residential conversion development model and its costs added uncertainty, reducing the likelihood of conversions.

# Commercial to Residential Conversions Describe a Range of Project Types That Offer Different

Type	Construction Cost Savings	Time Savings	Site Optimization	IZ Currently Applies
Office Adaptive Reuse				
Office Redevelopment				
Hotel Adaptive Redevelopment				
Hotel Redevelopment				
Retail Redevelopment				

Source: OP Analysis

# Macroeconomic Factors

Indicate When Conversions Occur

## Opportunity

Vacancy is high for commercial space and likely to remain high for the foreseeable future.

## Demand

Vacancy rates are low for multifamily housing and likely to remain low.

## Growth

Rents are increasing for multifamily housing, which justifies new supply.



# Microeconomic Factors

Indicate locations Where Conversions Occur

Commercial properties in an area have lost significant value

Residential rents are higher than commercial rents

Sites where land use regulations permit a larger building

Buildings with structure that are aligned with residential standards

Buildings with high vacancy rates or expiring lease for an anchor tenant

New value overcoming construction costs

Risks associated with changing use

# Case Study of a Failed Conversion

- Property 1: Older office building in Central Washington
  - **Reason to Consider Conversion:** The building's single tenant occupant vacated the building and high office vacancy diminished the desirability of modernizing the building.
  - **Factors in the Failure to Convert:** The building's floor plate was too deep for enough daylight to reach apartments and nearby office buildings of similar height were too close to afford open views needed to secure high enough rents to justify conversion.

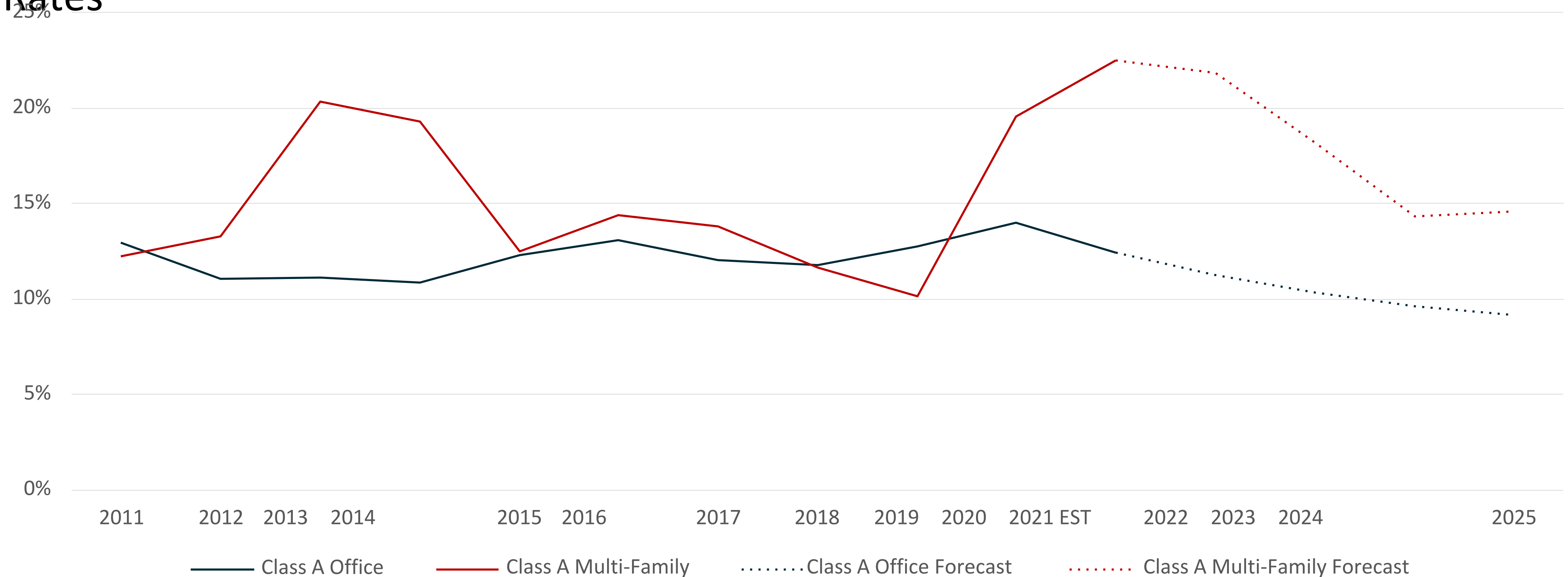
# Case Study of a Failed Conversion

- Property 2: A hotel in the Near Northwest Planning Area
  - **Reason to Consider Conversion:** The property was not meeting the owner's revenue expectations after a series of improvements designed to increase the property's value.
  - **Factors in the Failure to Convert:** Recent capital improvements had not amortized sufficiently to support a use change. A contributing factor was the property's lack of expansion options under the District's land use regulations.

# Low Short-Term Demand for Office Space and Apartments

Annualized Class A DC Office and Multi-family Housing Vacancy

Rates





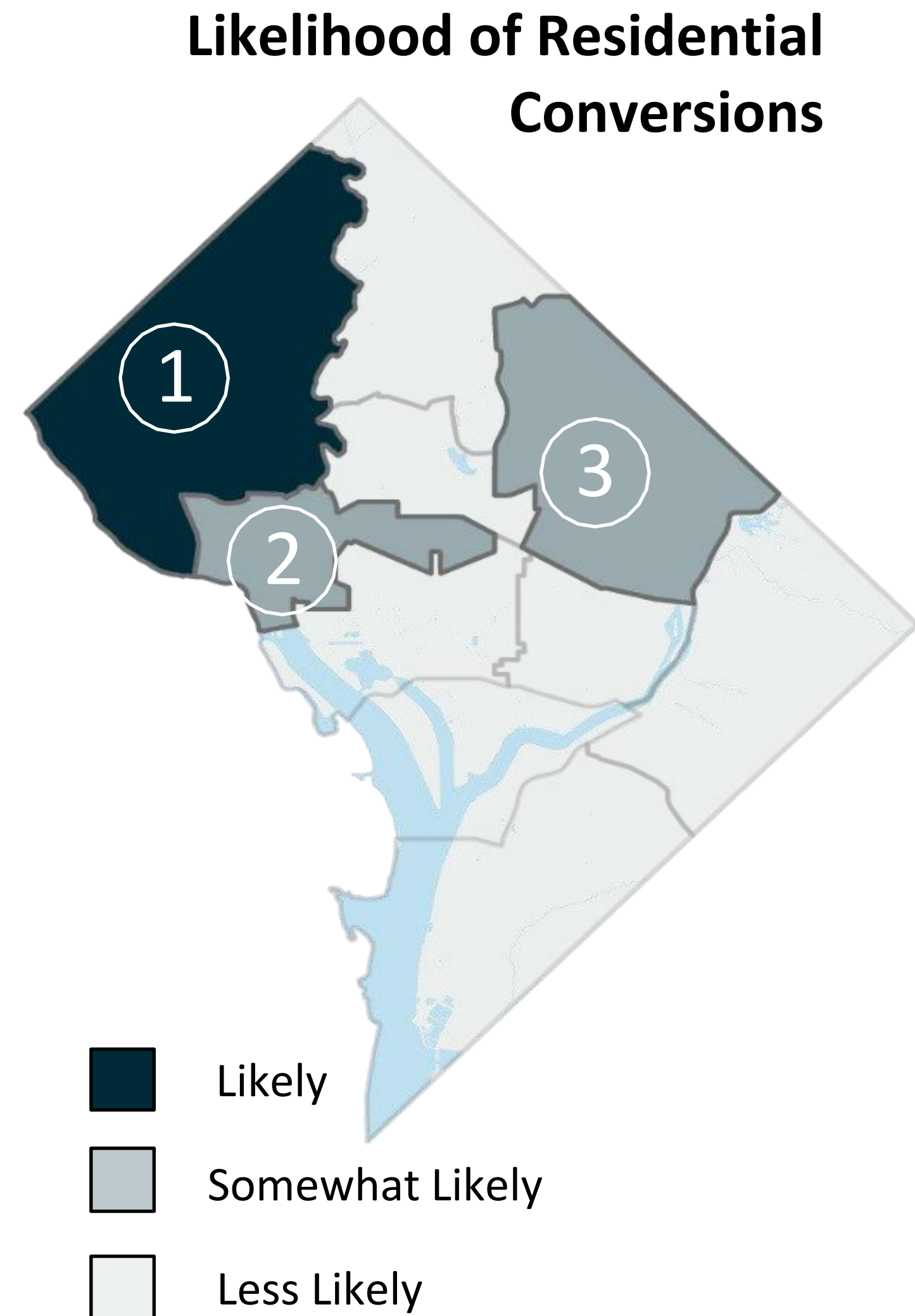
# Market Feasibility for Conversions by Planning Area

## Area

**1 ) Rock Creek West:** The spread between commercial and residential rents is most favorable for conversion in the Rock Creek West Planning Area, which also has a declining office market.

**2) Near Northwest:** has a slight residential price advantage and an office market experiencing strong competition to fill vacant space. Expansion capacity is often limited in the planning area reducing the likelihood of conversions.

**3) Upper Northeast:** Over time, office buildings serving light industrial uses are likely to convert to residential as part of larger projects.

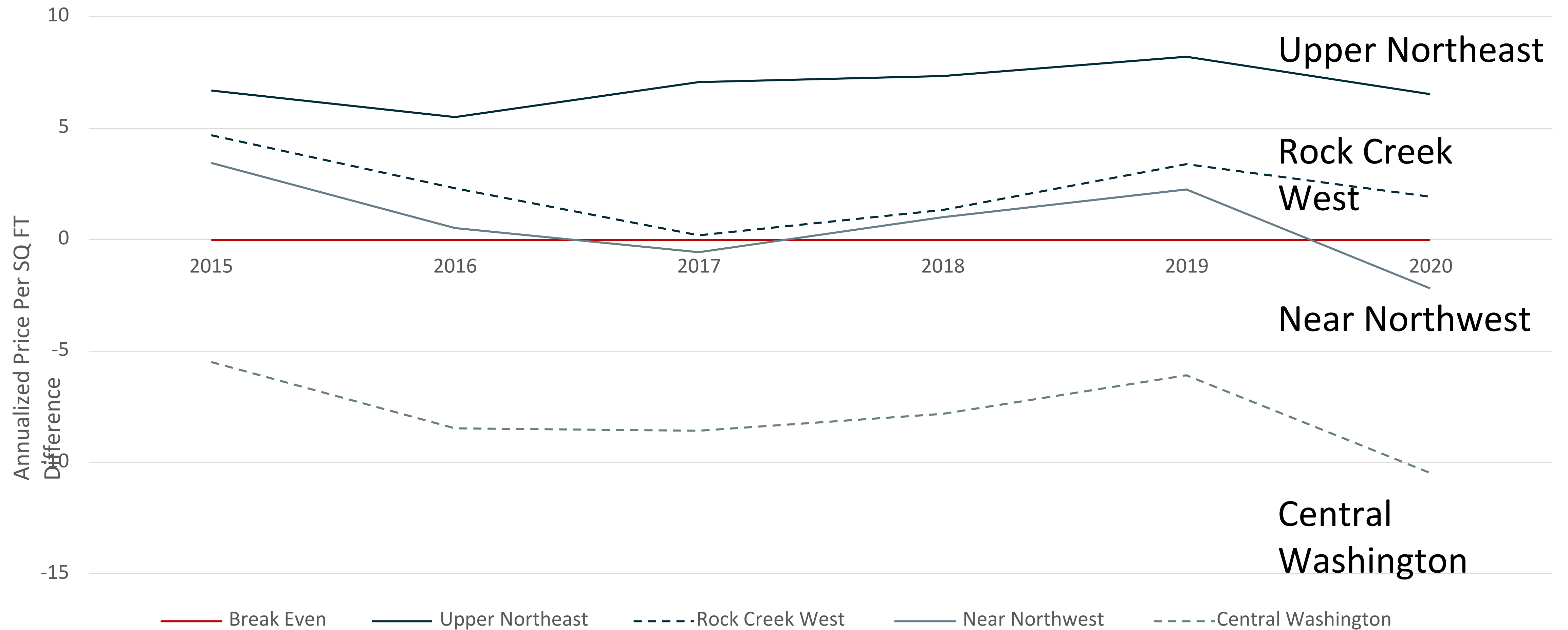


# Comparison of Multi-Family and Office Rents by Planning

Planning Area	Rock Creek West	Near Northwest	Central Washington	Upper Northeast
Class A Multi-Family to Class A Office	(\$4.56)	(\$13.01)	(\$23.46)	N/A
Class A Multi-Family to Class C Office	\$1.95	(\$2.19)	(\$10.44)	\$6.55

Source: OP Analysis of CoStar Q4, 2020

# Class A Multi-Family and Class C Office Break Even Analysis of Rent by Planning Area





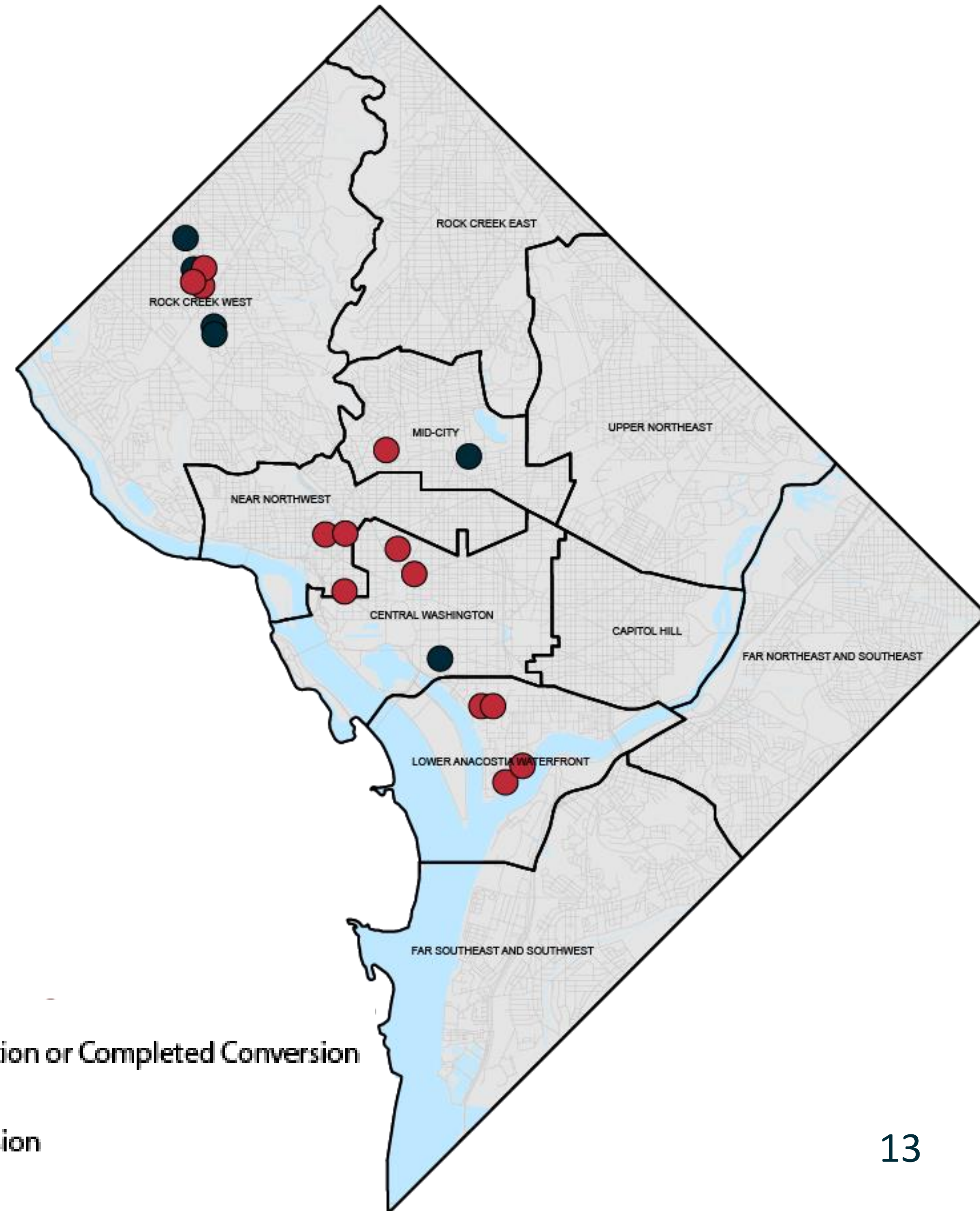
# Planned and Complete Conversions

Most planned commercial to residential conversions are in **Rock Creek West**

The 2 conversions in **Central Washington** were of historic buildings originally designed with narrow floor plates for light and air access.

The 3 conversions in the **Lower Anacostia** were of dated federal office buildings located beyond established office markets.

- Under Construction or Completed Conversion
- Planned Conversion



# Taking Action

The District is building a series of tools informed by ongoing research to maximize opportunities for affordable housing when conversions do happen.

These tools include:

- **IZ Plus** – Generates affordable housing when zoning changes
- **IZ XL** – *Pending Zoning Commission Review*. Includes affordable housing for conversions outside of downtown.
- **Tax Abatements for Affordable Housing in High-Need Areas** – Encourages affordable housing production in amenity-rich neighborhoods
- **Continued Monitoring** – To identify emerging opportunities for affordable

# Appendix

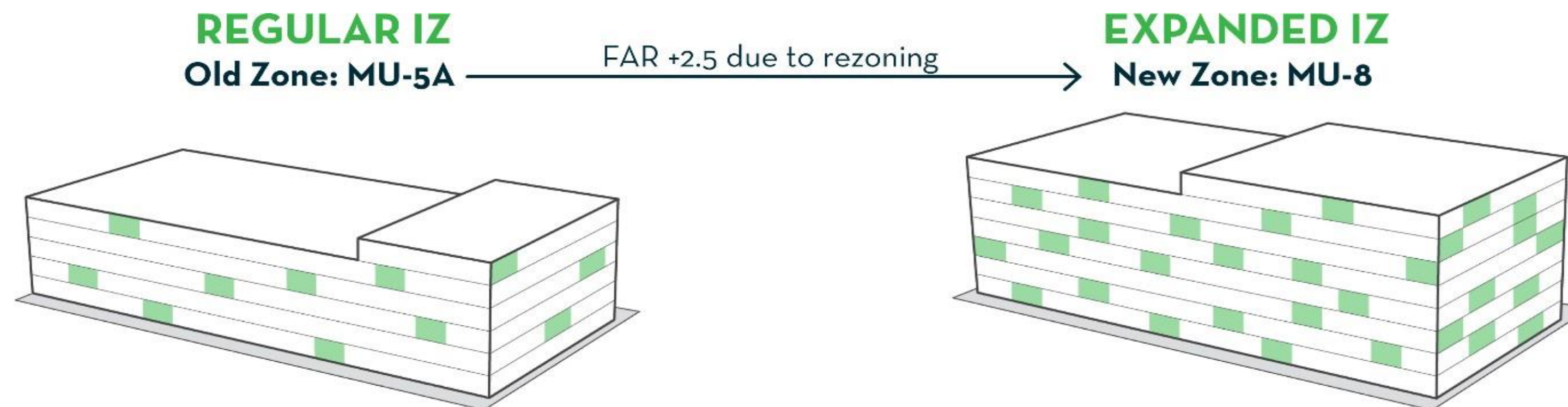
- IZ Plus
- IZ XL
- Downtown Residential Zoning
- List of Commercial to Residential Conversions
- Comparison of Rents by Planning Area



# How IZ Plus Works

**Increasing percent affordability required based on density gained through rezoning**

<u>Type of Map Amendment</u>		<u>Set-Aside Req't</u>
<u>PDR zone or unzoned to an ARTS, CG, D, MU, R, RA or RF zone</u>		<u>20%</u>
<u>Any zone other than PDR to a D zone without a prescribed residential FAR</u>		<u>20%</u>
<u>All Other Map Amendments - Percent Increase in Total FAR Utilized as defined in Subtitle C § 1003.5(b)</u>	<u>More than 20% up to 40%</u>	<u>14%</u>
	<u>More than 40% up to 60%</u>	<u>16%</u>
	<u>More than 60% up to 80%</u>	<u>18%</u>
	<u>More than 80%</u>	<u>20%</u>



# Revisiting Inclusionary Zoning: IZ XL

## Apply IZ to previously exempt zones and buildings

### **Previously Exempt Zones** – due historic character, height, or federal interest

- Set Down: January 28, 2021
- Public Hearing: April 26, 2021

### **Conversions Outside Downtown** – Non-Residential to residential

- Set Down: Expected March 11, 2021
- Public Hearing: TBD

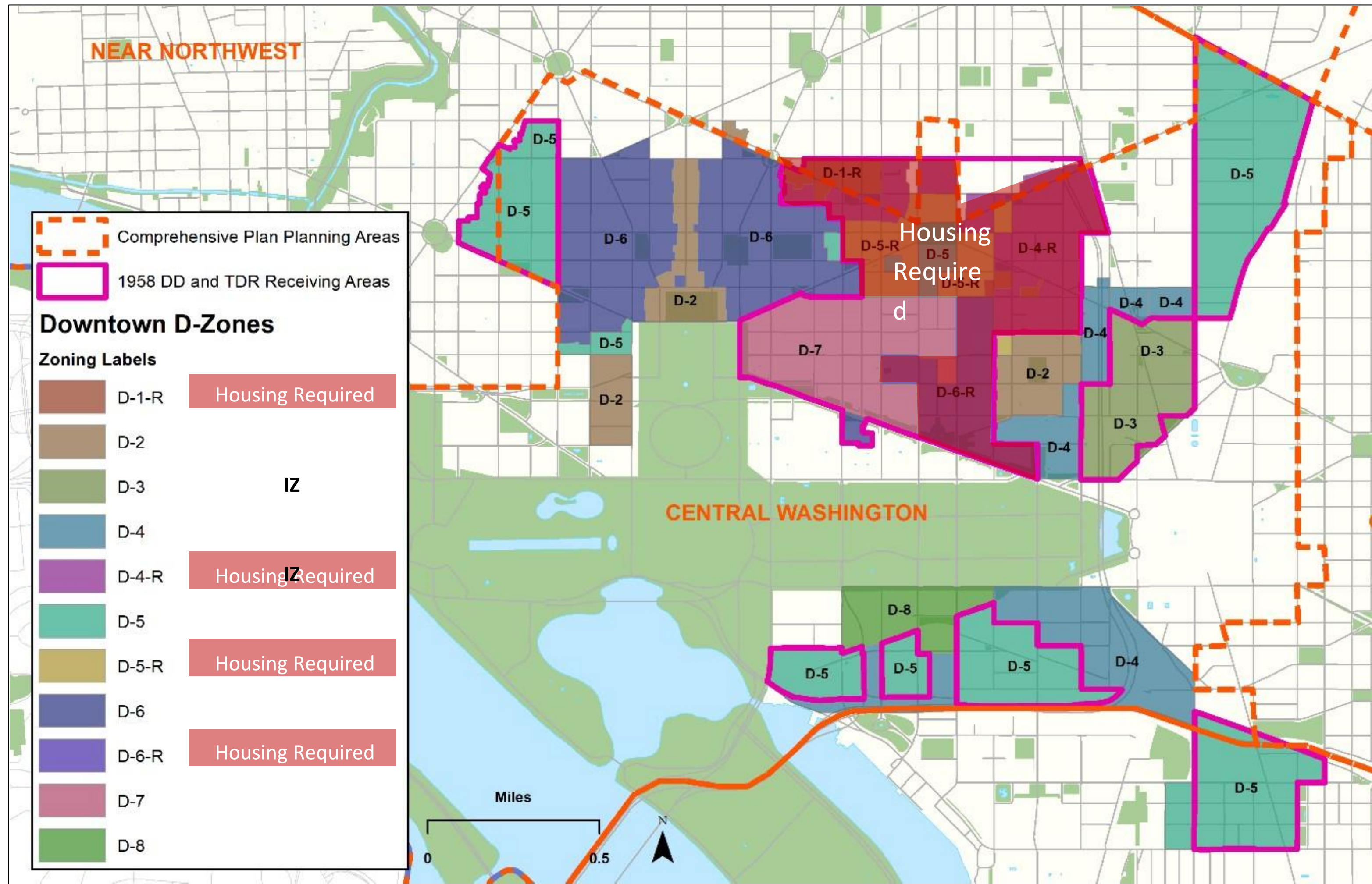
### **Downtown:** – Complex zoning and Height Act limitations

- Set Down: Expected Late Spring/Early Summer
- Public Hearing: TBD



# Downtown Housing Zoning Incentives

## Central Washington D-Zone Areas



- D-Zones permit more housing than commercial
- Housing minimums required in core of Old Downtown
- Housing permitted saleable 'Credits' to permit more office density
- 2x credits for affordable projects

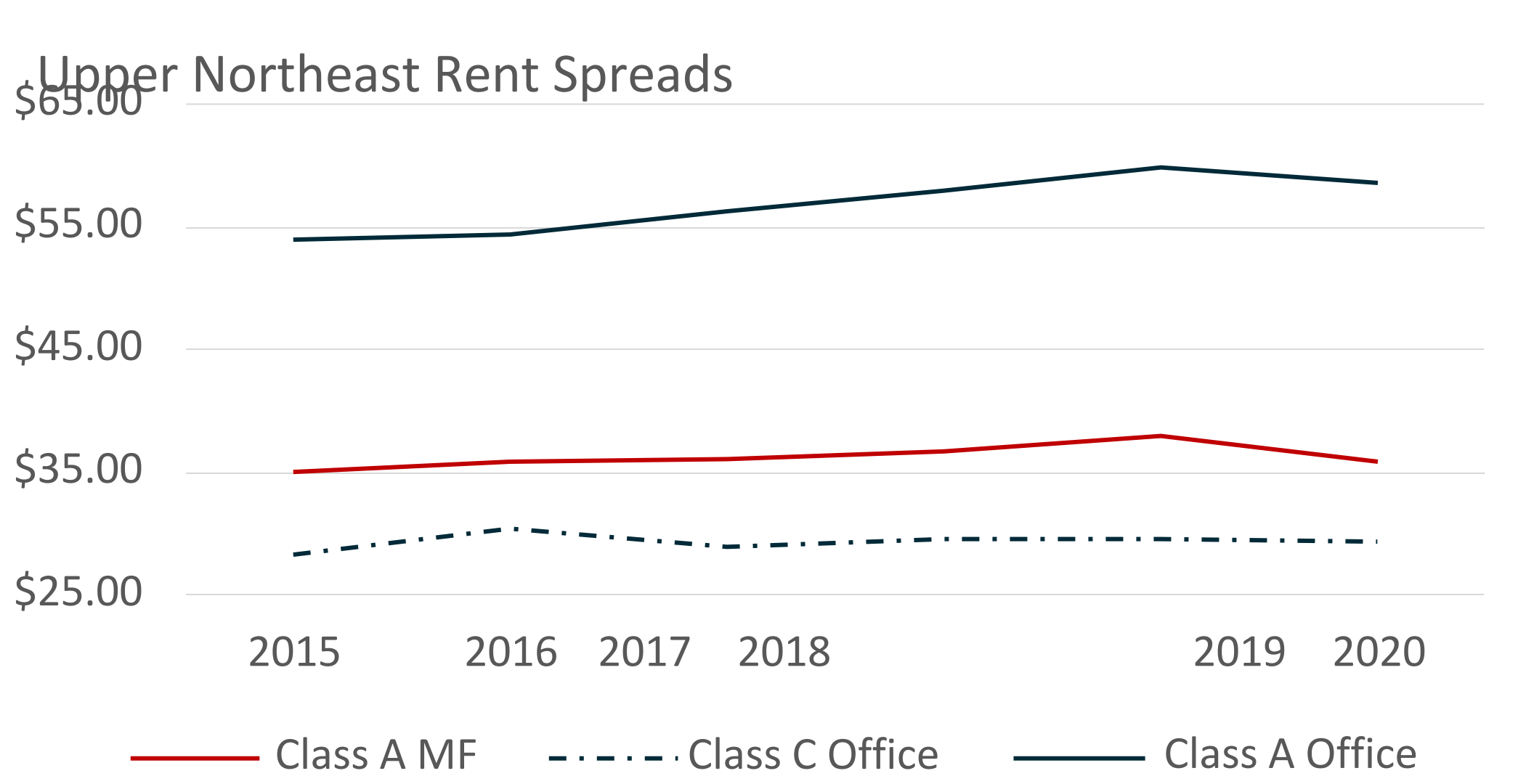
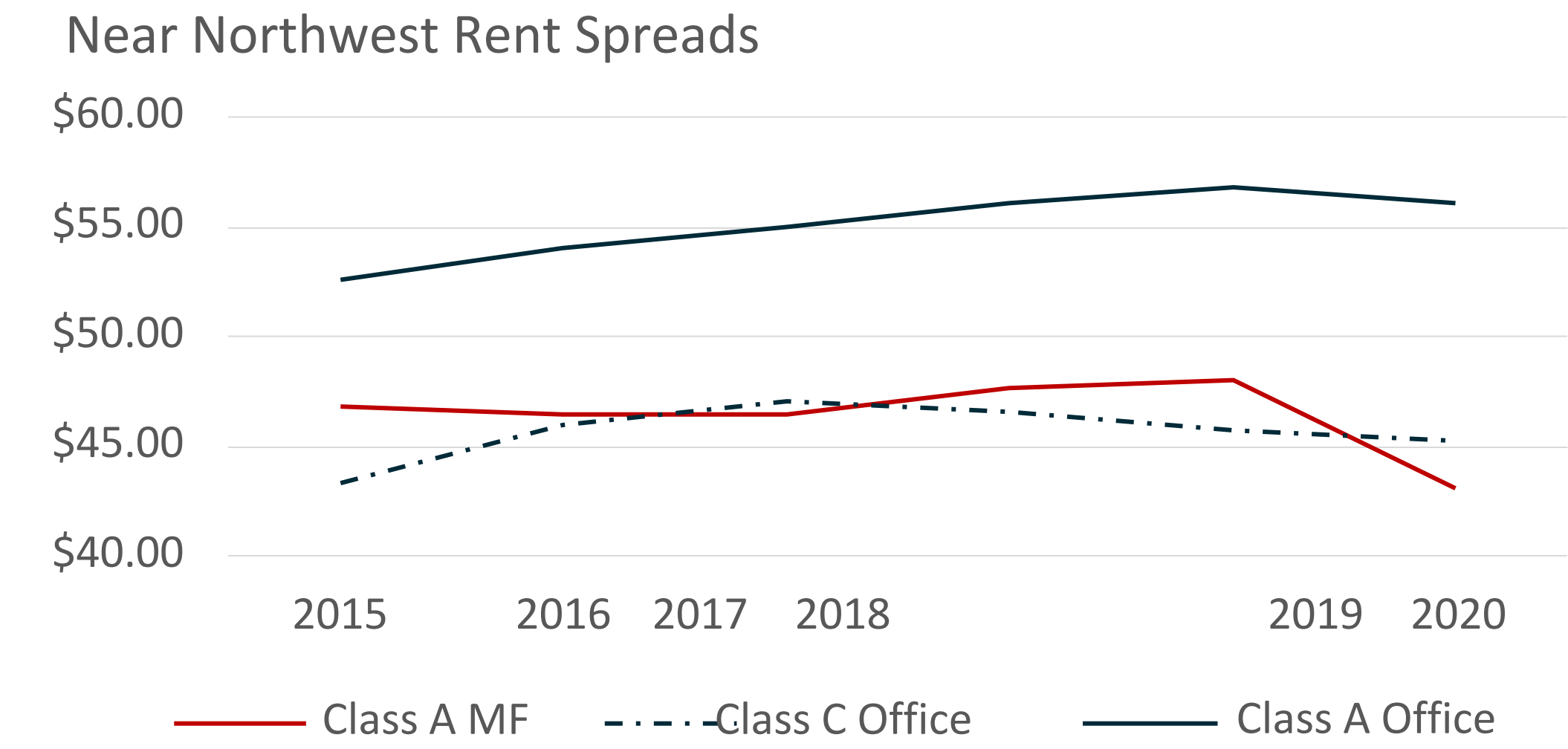
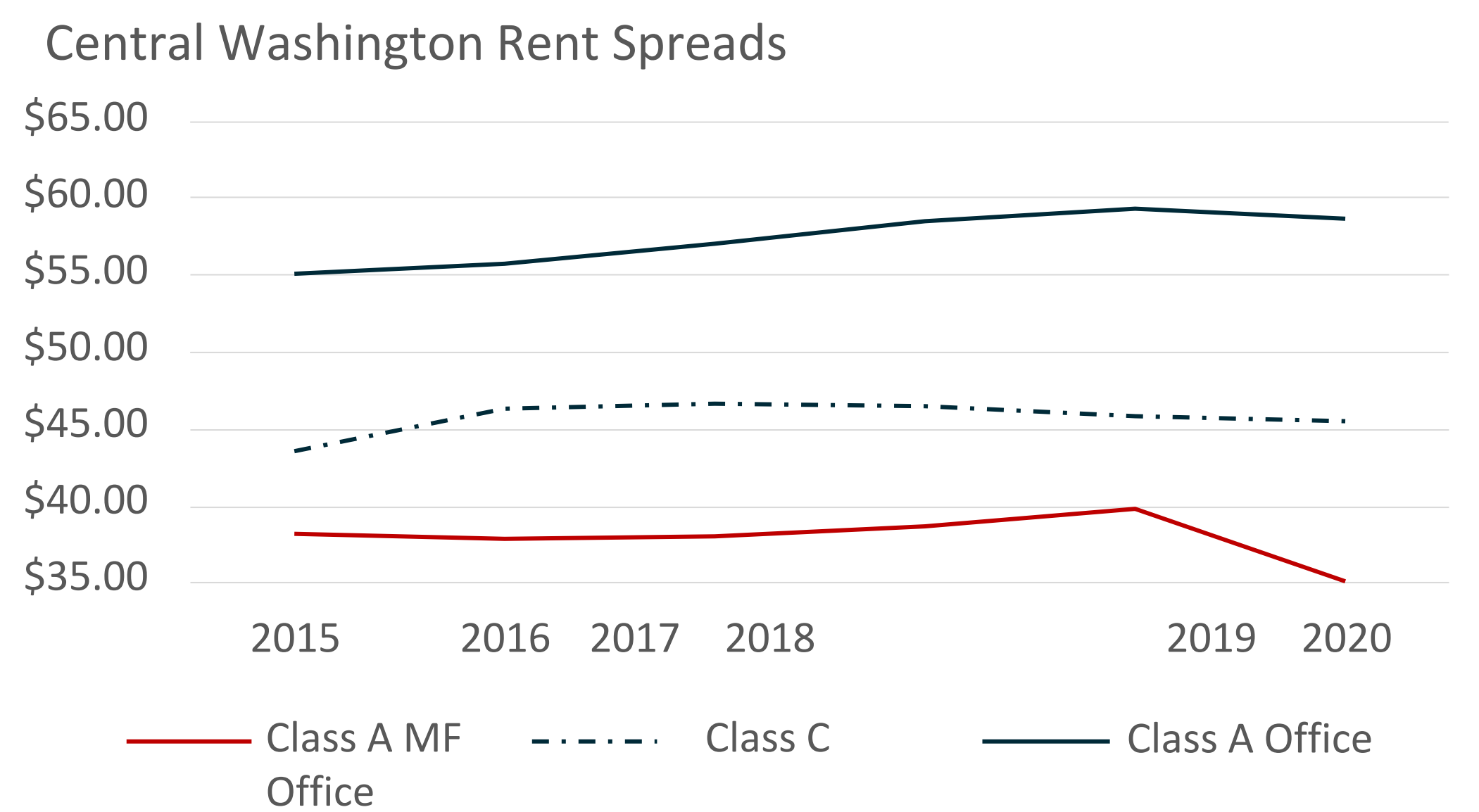
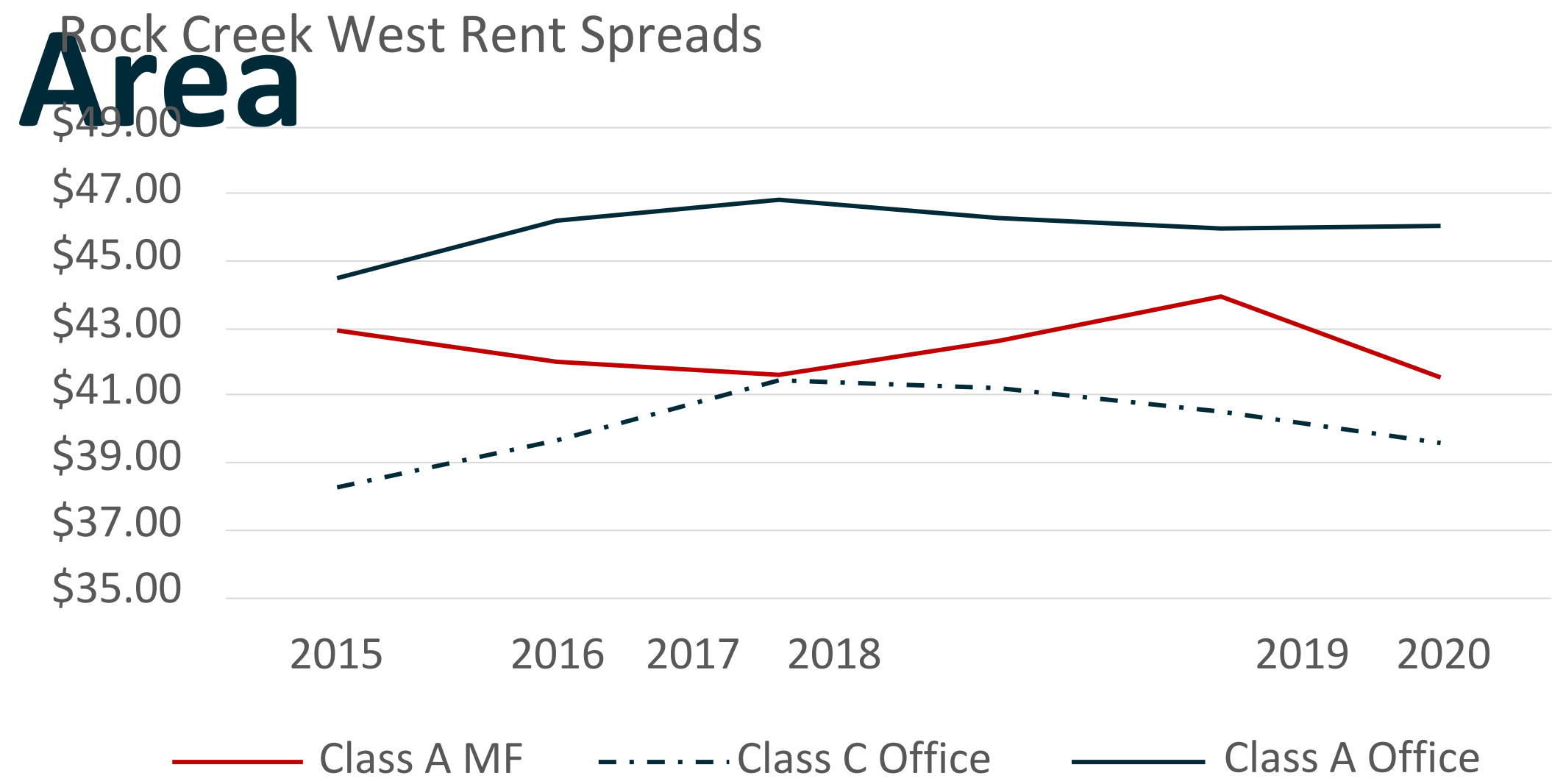


# List of Commercial to Residential Conversions

Year	Address	Name	Status
2006	4101 Albemarle St NW	Cityline	Complete
2008	733 15th St NW	The Woodward Building Apartments	Complete
2009	1255 25th St NW	West End 25	Complete
2013	1151 Fourth St SW	Lex at the Waterfront	Complete
2014	1150 Fourth St SW	Leo at the Waterfront	Complete
2017	2501 M St NW	2501 M	Complete
2018	1255 22nd St NW	Legacy West End	Complete
2018	4000 Brandywine St NW	Frequency	Complete
2018	1108 16 St NW	Adele	Complete
2021	2100 2nd St SW	River Point	Complete
2021	1900 Half St SW	Watermark at Buzzard Point	Complete
2021	3900 Wisconsin Ave NW	City Ridge	Under Construction
2022	4620 Wisconsin Ave NW	Broadcast	Under Construction
2021	515 22nd St NW	The Wray	Under Construction
TBD	4000 Wisconsin Ave, DC		Planned
TBD	5151 Wisconsin Ave, DC		Planned
TBD	1724 Kolorama Rd NW, DC		Planned
TBD	300 12th ST SW, DC		Planned
TBD	2225 Georgia Ave NW		Planned



# Commercial Rents by Planning Area



Source: OP Analysis of CoStar data



# Question and Answer





# Meeting Schedule Update

- Working groups will use their final meeting to confirm draft recommendations to submit to the Strike Force
- Draft recommendations will be consolidated into a single document
- Document will be circulated via email to Strike Force on **Friday, March 5th**
  - Meeting is canceled due to a conflict with the Performance Oversight Hearing
- Strike Force members are expected to provide comment on the draft recommendations by **Monday, March 8th 5:00pm**
- Feedback will be incorporated for continued deliberation at the **Friday, March 12th meeting**
- Consensus-based recommendations will be affirmed at the **Friday, March 19th meeting**



# Discussion





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# Closing Comments & Adjourn

