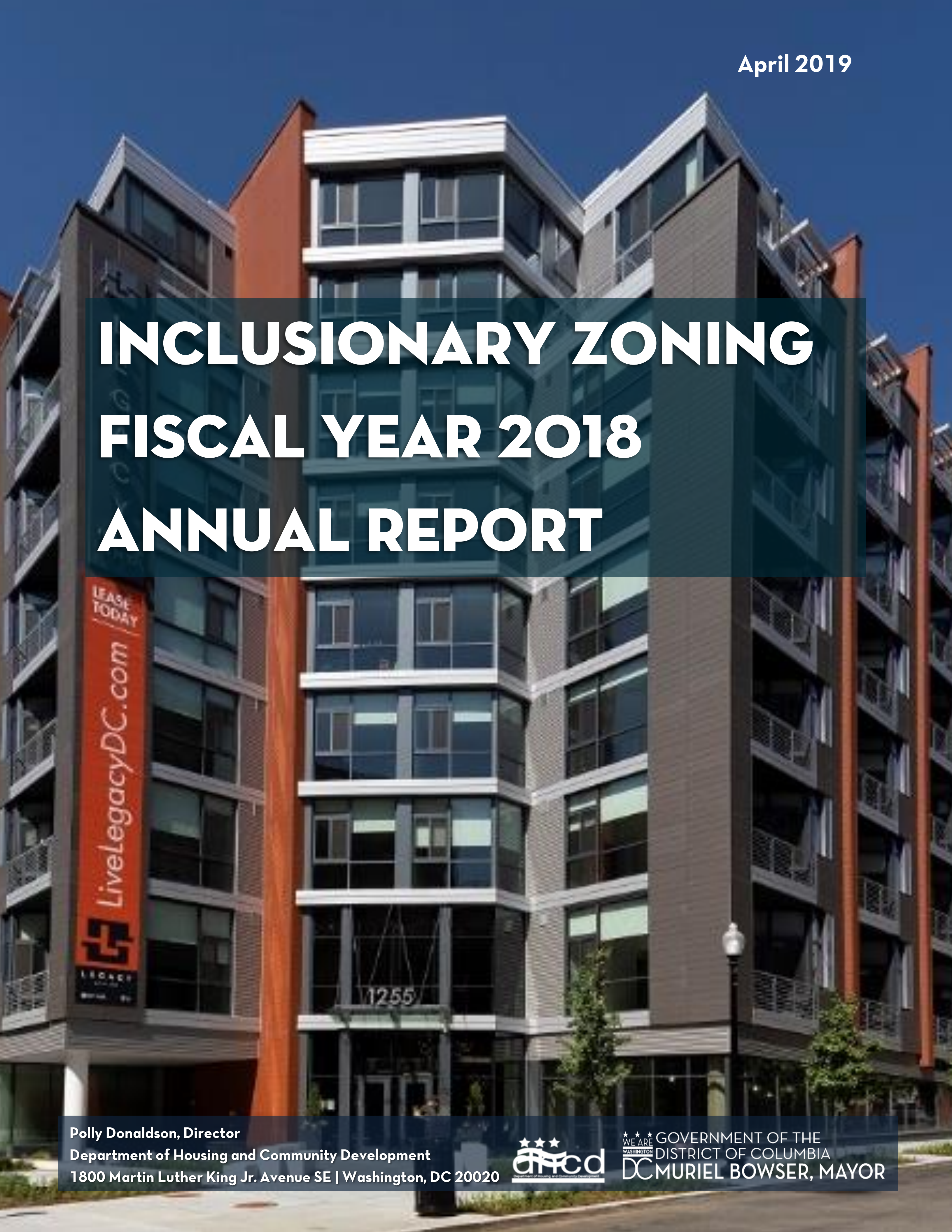
April 2019



INCLUSIONARY ZONING FISCAL YEAR 2018 ANNUAL REPORT

Polly Donaldson, Director
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dhcd Department of Housing and Community Development

WE ARE WASHINGTON DC GOVERNMENT OF THE DISTRICT OF COLUMBIA MURIEL BOWSER, MAYOR

Table of Contents

Cover: Legacy West End, in Ward 2.

At top is leasing office, to the right is a kitchen.

Letter from Mayor Muriel Bowser

Mayor Muriel Bowser

As I begin my second term, I look back on all that we have accomplished, but more importantly, remain focused on the work that remains to be done. We must increase our efforts to provide affordable housing for all those who wish to call Washington, DC home, whether they have lived here for five generations or they have only just arrived in our great city. So, I have set an ambitious goal to build 36,000 new housing units across the city—with 12,000 designated as affordable housing.

Achieving my Administration's vision of a growing, inclusive city means that every neighborhood must contribute to the solution, and we must maximize the use of every available tool. Our Inclusionary Zoning Program is a powerful resource guaranteeing that as new market rate development occurs, it includes affordable housing. The Fiscal Year 2018 Inclusionary Zoning (IZ) Annual Report shows how in the past year, this program leveraged the growth of our city to produce nearly 200 units of needed affordable housing in some of our most attractive developments and dynamic neighborhoods. Coupled with its citywide lottery system to select future tenants and owners, the IZ program provides a fair shot to everyone who applies.

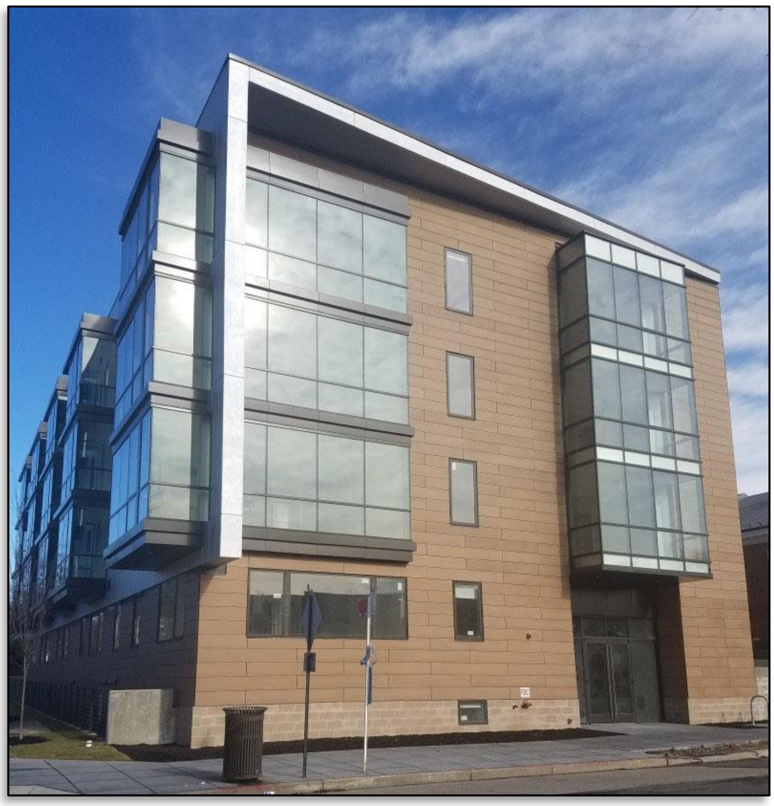
Thanks to IZ and our other affordable housing programs, we have committed more resources per capita than any jurisdiction across the country to producing and preserving affordable housing— and we are seeing results. In FY 2018, the District:

- Committed over $167 million in Housing Production Trust Fund (HPTF) financing for affordable housing production and preservation and produced or preserved over 2,000 units of affordable housing with HPTF funds;
- Established the District's new $40 million public-private Housing Preservation Fund, which is on track to preserve over 700 units in its first year;
- Preserved over 400 units of affordable housing by financing purchases through the Tenant Opportunity to Purchase Act; and
- Finalized regulations to implement the District Opportunity to Purchase Act, giving us still another way to help keep affordable buildings in our city.

While I am proud of our accomplishments, we must continue to face challenges in the housing world head on. I look forward to working with each of you to make Washington, DC a place everyone can feel #DCProud to call home.

Review of the Inclusionary Zoning Program in Fiscal Year 2018

The Inclusionary Zoning (IZ)[1] program supports the District's and the DC Department of Housing and Community Development (DHCD's) missions to produce and preserve affordable housing opportunities by requiring new developments with 10 or more dwelling units or proposing new gross floor area that would result in 10 or more dwelling units to include a percentage of affordable units (approximately 8 percent to 10 percent of the gross residential floor area) in exchange for a density bonus (up to 20 percent gross floor area) beyond what is allowed under existing zoning regulations.



The Hendrix, in the H Street Corridor of Ward 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 moderate income households.

The Fiscal Year (FY) 2018[2] IZ Annual Report from DHCD marks the conclusion of the ninth complete fiscal year since the program began in August 2009. This report provides an analysis of the IZ program from 2009 to September 30, 2018 and was drafted in coordination with the DC Office of Planning (OP) and DC Department of Consumer and Regulatory Affairs (DCRA).

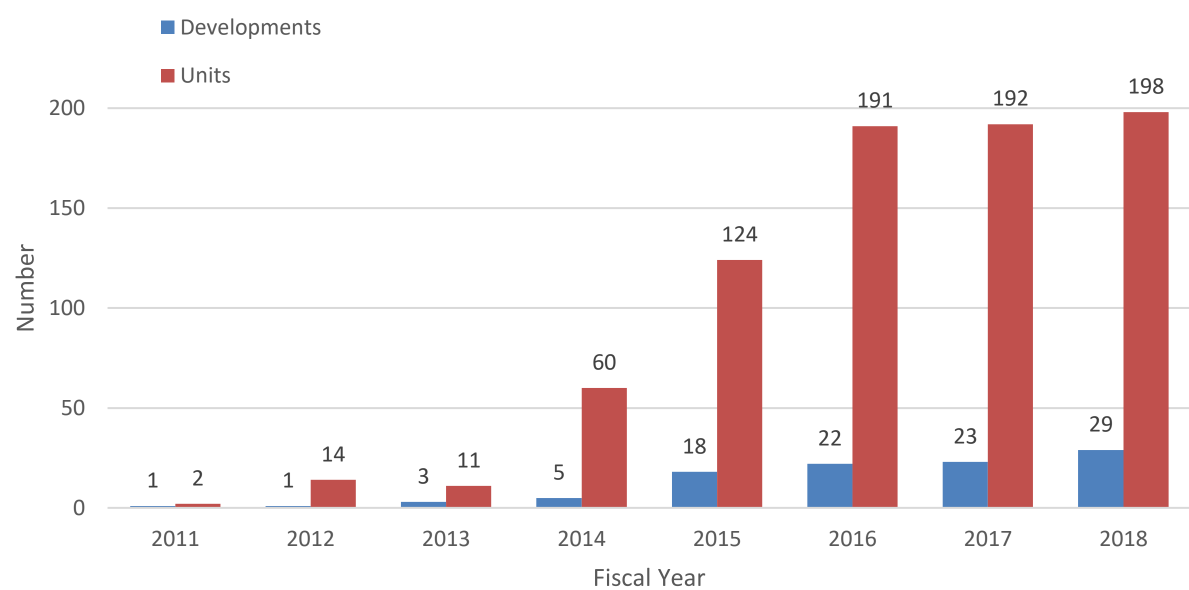
[1] The IZ program was developed based on the Inclusionary Zoning Implementation Amendment Act of 2006 (D.C. Law 16-275 (effective March 14, 2007), D.C. Official Code §6-1041.07) (IZ Act) and Mayor's Order 2008-59, dated April 2, 2008. These documents mandated the adoption of a new Chapter 22 entitled "Inclusionary Zoning Implementation" of Title 14 (Housing) of the District of Columbia Municipal Regulations ("IZ Regulations"). The Final Rulemaking for implementation was published in the *D. C. Register* on December 11, 2009. The current IZ administrative regulations were published as Final Rulemaking in the *D.C. Register* on December 29, 2017 and may be found at https://www.dcregs.dc.gov/Common/NoticeDetail.aspx?NoticeId=N0065229.

[2] The 2018 fiscal year is October 1, 2017 through September 30, 2018.

Produced Inclusionary Developments and Units by Fiscal Year

The IZ program produced[3] 198 IZ units in FY2018, the largest number of units produced in any fiscal year and consistent with the increases seen in the two prior fiscal years (192 units in FY2017 and 191 units in FY2016). This brings the total number of IZ units produced to date to 792. Figure 1 shows the number of IZ units and IZ developments produced each fiscal year, since the inception of the IZ program, clearly showing the number of each steadily increasing.

Figure 1



102 Developments, 792 Units through 9/30/18. Source: DHCD.

New zoning regulations that became effective in 2016[4] allowed the use of habitable penthouse space for the first time in the District. Previously, penthouse space could only be used for mechanical purposes. Habitable penthouse space is subject to IZ regulations, which specify that a percentage of the square footage of habitable penthouse space in residential buildings must be set aside as IZ or payment may be made to the Housing Production Trust Fund (HPTF), while habitable penthouse space in non-residential buildings requires payment

[3] The tabulation of IZ units produced annually is based on the Notice of Availability (NOA) issue date submitted by the developer to DHCD. The NOA notifies DHCD when IZ units are ready for occupancy. The production numbers provided in questions 1-7 do not include financially subsidized affordable housing projects that are exempt from IZ administrative and reporting rules. Title 11, Subtitle C, Section 1001.6(a) of the zoning code exempts projects receiving financing through the federal government, DHCD, the District of Columbia Housing Finance Agency (DCHFA), or the District of Columbia Housing Authority (DCHA) from the IZ administrative process, including IZ reporting requirements, provided they still set aside at least 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. Questions 8 and 9 do include information on the subsidized affordable housing projects as it pertains to IZ.

[4] Subtitle C, Chapter 15 of the Zoning Regulations of 2016 (ZR16) became effective on September 6, 2016, and supersedes the previous version, 1958 Regulations.

Modera Sedici, in Lanier Heights/Adams Morgan neighborhood of Ward 1

to the HPTF. The payment amount is calculated by DCRA and is based on the square footage of the habitable penthouse space, assessed value of the property, square footage of the property, and permitted floor area ratio. At least one-half of the amount due must be paid before issuance of the building permit, with the balance due before issuance of the certificate of occupancy. During FY2017, $2,975,229 was collected and during FY2018, $5,017,037 was collected. In FY2018, two IZ units were created or offered at lower affordability levels due to habitable penthouse space—one for sale and one for rent.

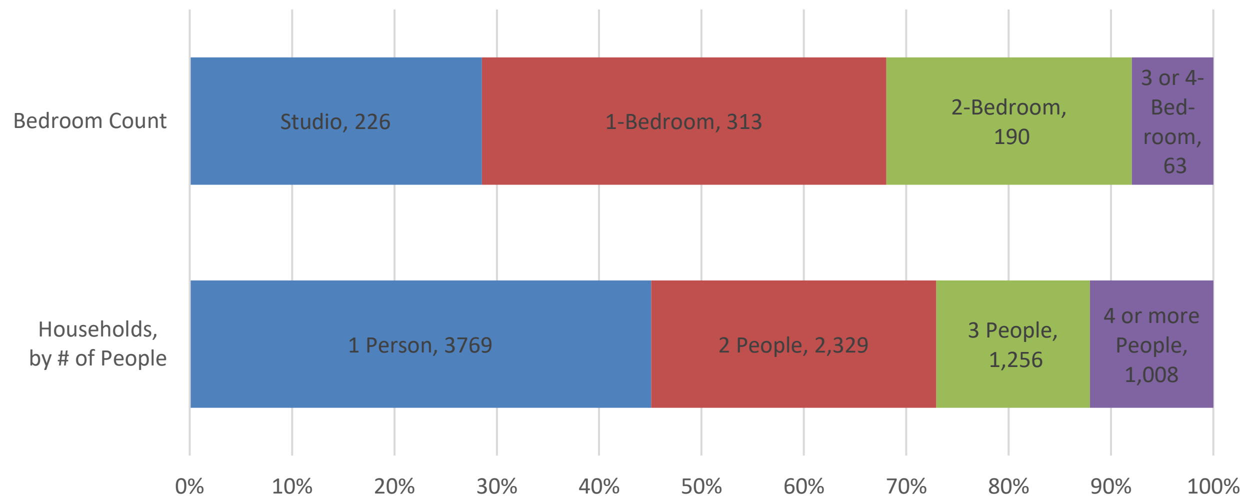
The new zoning regulations also modified the requirements related to opting in to IZ,[5] allowing projects not otherwise subject to IZ to opt in, to take advantage of the bonus density. Since then, eight projects have opted in to IZ, resulting in an additional eight IZ units.

[5] Title 11, Subtitle C, Section 1001.8 of the zoning code allows projects in some zoning districts that wouldn't normally be subject to IZ to "opt in" to IZ and take advantage of the associated bonus density.

IZ Unit Types Produced (By Bedroom Count) vs. IZ Household Registrations (by Number of People in Each Household) 2018[6]

Figure 2 shows the total number of IZ units produced broken down by number of bedrooms: 29 percent were studios, 40 percent were one bedrooms and 24 percent were two bedrooms. As also seen in Figure 2, the largest number of households registered for the IZ program consists of one person (45 percent). One- and two-person households combined amount to 73 percent of all registrations.

Figure 2



792 IZ Units and 8,362 IZ Household Registrations through 9/30/18. Source: DHCD.

The IZ Regulations outline the unit size eligibility based on the bedroom count of the unit and the number of people in a household. From the beginning of the program through August 31, 2017, the regulations provided both minimum and maximum household sizes for each unit size. The revised IZ Regulations, made permanent on December 29, 2017, lowered the minimum occupancy for three and four-bedroom units and did not provide maximums, as indicated in Table 1 (on page 8). Maximums after September 1, 2017 are property-specific and determined by local housing code as well as fair housing practices. However, the typical maximum formula used by rental properties is two people per bedroom plus one additional person. For example, in a two-bedroom unit, there could be two people for each bedroom (or four people) plus one additional person, for a total maximum of five people in the two-bedroom rental unit.

[6] Registered households are those listed in the DHCD IZ database as seeking an IZ unit. The total number of registrations (8,362 as of 9/30/18) includes some expired registrations (roughly 14 percent of registrations). DHCD is in the process of contacting these registrants to either update their registrations or remove them if no longer seeking IZ units. The total of 792 units includes all IZ units produced through FY2018.

Table 1. IZ Unit Size Eligibility (by Household Size)

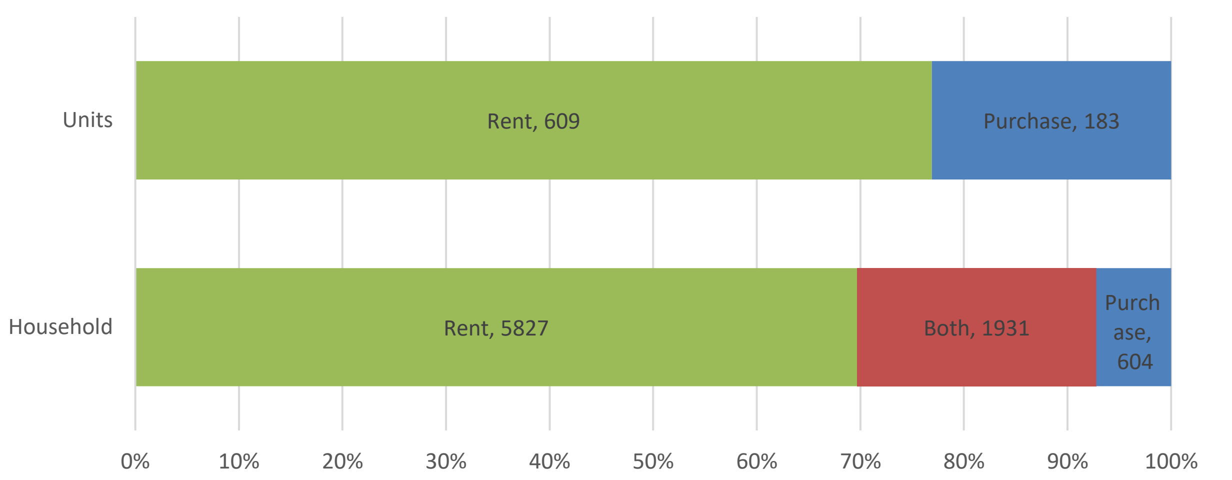
	Occupancy Limits (8/31/17 and prior)	Occupancy Limits (after 9/1/17)
Studio	1 Person Only	Minimum of 1 Person
1-Bedroom	1-2 Persons Only	Minimum of 1 Person
2-Bedroom	2-4 Persons Only	Minimum of 2 Persons
3-Bedroom	4-6 Persons Only	Minimum of 3 Persons
4-Bedroom	6-8 Persons Only	Minimum of 4 Persons

Source: IZ occupancy limits, IZ Regulations (DCMR Title 14, Chapter 22)

IZ Unit Types Produced (Rent or Sale) vs. IZ Household Registration Preferences (Rent or Purchase) 2018[7]

The vast majority of the 198 IZ units produced in FY2018 (154 units or 78 percent) are rental units, while 44 units (or 22 percent) are for-sale. This coincides with the preferences of most households registering for the IZ program to rent, as opposed to only purchase, as shown in Figure 3.

Figure 3



792 IZ Units and 8,362 IZ Household Registrations through 9/30/18. Source: DHCD.

[7] Registered households are those listed in the DHCD IZ database as seeking an IZ unit. The total number of registrations (8,362 as of 9/30/18) includes some expired registrations (roughly 14 percent of registrations). DHCD is in the process of contacting these registrants to either update their registrations or remove them if no longer seeking IZ units. The total of 792 units includes all IZ units produced through FY2018.

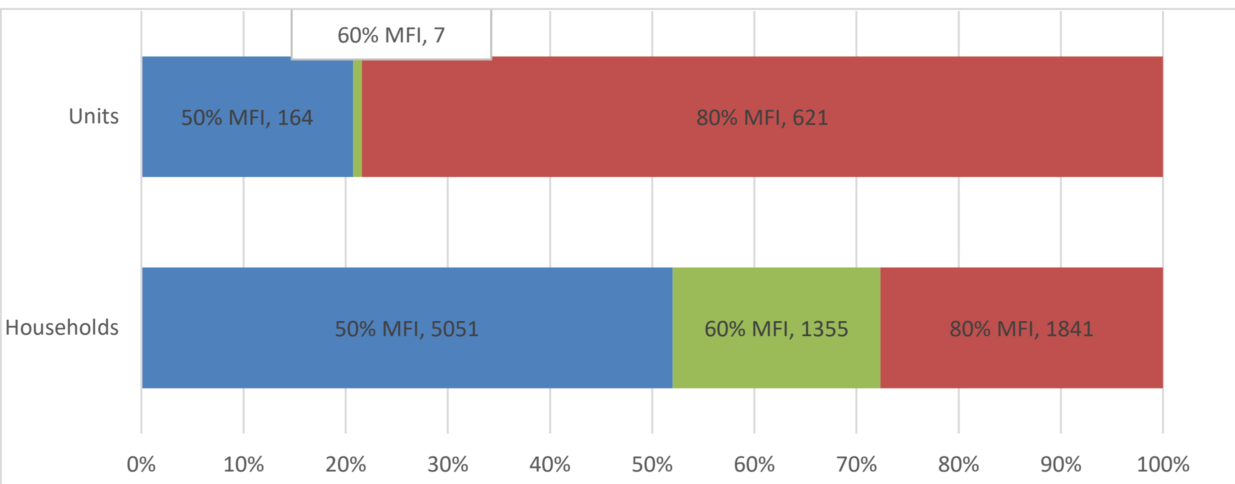
IZ Unit Affordability Levels vs. Household Registration Income Levels 2018[8]

During FY2018, IZ units were produced at three affordability levels—50 percent[9] of Median Family Income (MFI)[10] (reserved for households earning up to 50 percent MFI), 60 percent MFI (reserved for households earning up to 60 percent MFI), and 80 percent MFI (reserved for households earning between 61 and 80 percent MFI). Of the 198 IZ units produced in FY2018:

- Seventy-eight percent (155 units) were for 80 percent MFI households.
- Eighteen percent (36 units) were for 50 percent MFI households.
- The remaining 4 percent (seven units) were available for 60 percent MFI households.

While demand for affordable units exceeds supply at all income levels, the problem is especially acute at the lowest income levels, as seen in Figure 4. The 60 percent MFI affordability level was established by new regulations (see footnote 8) and more units are expected to become available at that level in the coming years.

Figure 4



792 IZ Units and 8,247 IZ Household Registrations through 9/30/18 (excludes 115 registrations above 80% MFI). Source: DHCD.

[8] In Figure 4, 60 percent MFI households are those who make between 51 percent -60 percent MFI. Registered households are those listed in the DHCD IZ database as seeking an IZ unit. The total number of registrations (8,362 as of 9/30/18) includes some expired registrations (roughly 14 percent of registrations). DHCD is in the process of contacting these registrants to either update their registrations or remove them if no longer seeking IZ units. The total of 792 units includes all IZ units produced through FY2018.

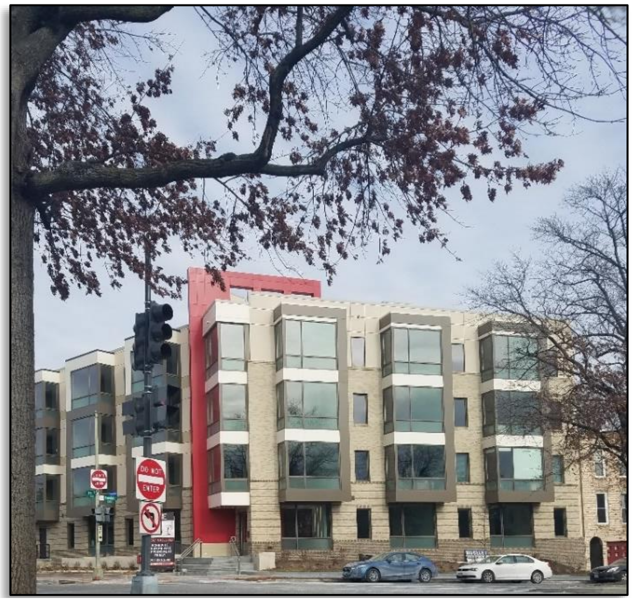
[9] The 50 percent and 80 percent affordability levels were previously determined by the zoning district in which each development was located. Changes ordered by the Zoning Commission (and effective June 5, 2017) shift the affordability levels of future units produced. Most new rental IZ units will be at 60 percent MFI and most new sale IZ units will be at 80 percent MFI.

[10] In FY2018, Median Family Income (MFI) for the Washington, D.C. metropolitan statistical area, as published annually by the U.S. Department of Housing and Urban Development (HUD), for a family of four was $117,200, and is adjusted for household size. (https://www.huduser.gov/portal/datasets/il.html). In FY2018 the IZ program referred to this as the Median Family Income or MFI (previously referred to as Area Median Income or AMI).

FY2018 Annual Report (Legislative Reporting Requirement)

Each year DHCD is required to report to the Council of the District and the city's Zoning Commission on the impact of the IZ program by responding to 10 specific questions.[11] In answering these questions, this report primarily discusses data from FY2018 but draws comparisons to the program's production of units in previous years and projections for the program's future growth.

The report concludes that similar numbers of IZ units were produced in FY2016, FY2017, and FY2018. This production should continue to increase with little indication of any adverse effect on the production of housing in the District.



1500 Pennsylvania Avenue SE, in the Hill East neighborhood of Ward 6

1. **Number of IZ Units[12] produced at each targeted income level:**

   In FY2018, 198 IZ units were produced, of which 36 units (18 percent) were set aside for 50 percent MFI households, seven units (4 percent) were designated for 60 percent MFI households, and 155 units (78 percent) were produced for 80 percent MFI households.

   At the close of FY2018, 792 IZ units had been produced since program inception. Of these units, 164 (21 percent) were designated for 50 percent MFI households, seven (1 percent) were set aside for 60 percent MFI households, and 621 (78 percent) were reserved for 80 percent MFI households.

2. **Number of IZ Units produced for sale:**

   In FY2018, 44 IZ units were produced for sale (22 percent of IZ units produced in FY2018). From program inception through the end of FY2018 a total of 183 for-sale units have been produced (23 percent of all IZ units produced).

[11] DHCD is required to submit an annual report responding to 10 questions in accordance with §6-1041.09 of the IZ Act.
[12] Unless otherwise specifically provided, the capitalized terms used in this report have the same meaning as defined in the IZ Regulations. Inclusionary Units are also referred to as IZ units in this report.

3. **Number of IZ Units produced for rent:**

In FY2018, 154 IZ units were produced for rent (78 percent of IZ units produced in FY2018). From program inception through the end of FY2018 a total of 609 rental units have been produced (77 percent of all IZ units produced).

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

In FY2018, the median income of households:
- Renting IZ units was $57,594; and
- Purchasing IZ units was $50,401.

A higher percentage of households renting IZ units were in the 80 percent MFI category than owners, which is why the median income of households renting IZ units is higher than the median income of households purchasing IZ units in FY2018.

5. **The number of IZ Units purchased or rented by DHCD, other District agencies, or third parties for resale to eligible households:**

No IZ units were purchased or rented by any District agency or third parties for resale in FY2018.

6. **The value of subsidies, if any, contributed toward the rental or purchase of units by DHCD, other District agencies, or third parties for affordability to eligible households.**

Subsidy Source	Number of Recipients	Total Subsidy	Average/Typical Subsidy Amount
Home Purchase Assistance Program (HPAP)	26	$1,347,010	$51,808
Employer Assisted Housing Program (EAHP)	4	$70,000	$10,000 or $20,000
Negotiated Employee Assistance Home Purchase Program (NEAHP)	1	$3,000	$3,000
Closing Costs Assistance Program Grant from Operation Hope	1	$2,500	$2,500

Twenty-six out of forty-three (60 percent) of all purchasers closing on an IZ unit in FY2018 received an HPAP subsidy. All five purchasers who received funding from EAHP, NEAHP, or Operation Hope also received HPAP funding. DHCD does not collect information regarding subsidies from other District agencies or third parties.

This response does not include subsidies provided to developers of projects in the form of land grants or Housing Production Trust Fund (HPTF) grants or loans for the entire project, which would result in the projects being IZ Exempt, as described in footnote 3.

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

a. Average rent in FY2018:

- Studio: $1,307
- One bedroom: $1,355
- Two bedrooms: $1,569
- Three bedrooms: $1,695

b. Average for-sale price in FY2018:

- Studio: $162,138
- One bedroom: $146,967
- Two bedrooms: $204,556
- Three bedrooms: $260,267
- Four bedrooms: $395,000[13]

In FY2018, 80 percent MFI units accounted for one-half of studio sales (four of eight units), but only one-third of one-bedroom sales (two of six sales), which is why the average studio for-sale price is higher than the average one-bedroom price.

8. The number of waivers or alternative compliance requested and granted in FY2018:

The Zoning Commission did not approve alternative compliance for any Planned Unit Development(s) (PUDs) in FY2018.

9. Analysis of how much bonus density was actually achieved for each development in which IZ Units were required:

Fifty-two projects' Certificates of Inclusionary Zoning Compliance (CIZC) were approved by DCRA in FY2018:

- Forty-five of the 52 projects were multi-family developments that were either matter-of-right (meaning they complied with all zoning requirements) or received some zoning variance from the DC Board of Zoning Adjustment (BZA cases).

[13] Only one four-bedroom house was sold in FY2018.

- Five of the 52 projects were multi-family PUDs,[14] and
- The two remaining projects (one of which opted into IZ) were in a single-family zone.[15]

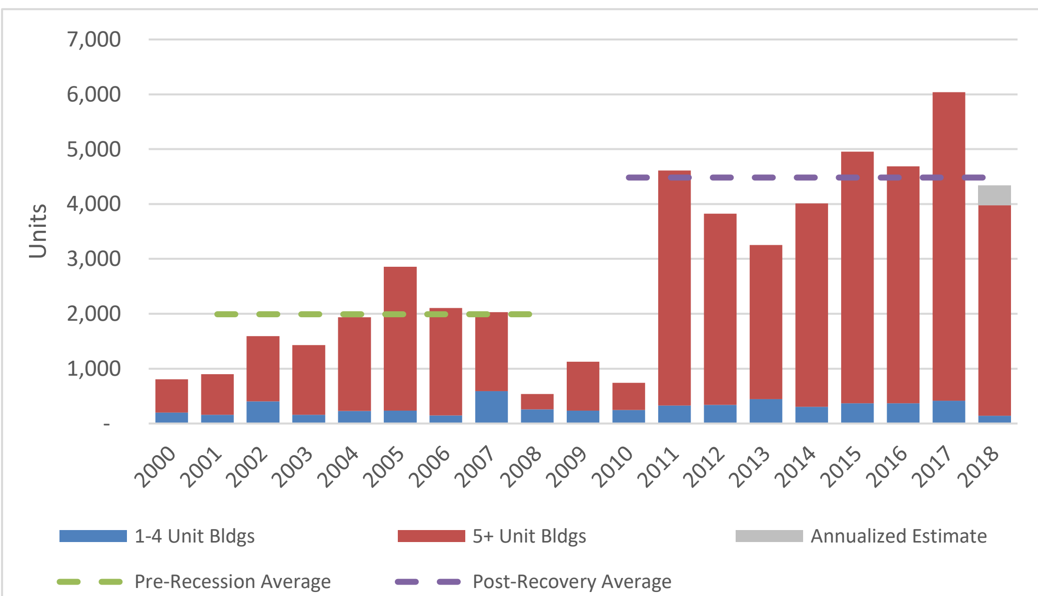
The overall bonus density of the 45 multi-family, non-PUD development projects was 15 percent in FY2018:

- Forty-three projects (96 percent) received an average of 18 percent bonus density.
- Two projects did not receive bonus density.
    - One project was within the Capitol Gateway Overlay, which went through design review by the Zoning Commission; and
    - One project was a historic property.

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

Many factors influence the production of housing in Washington, DC and there is little evidence that IZ requirements have had an adverse effect. Since the first IZ units were built in FY2011, the number of new residential units added to the District's housing stock has steadily increased, according to US Census Building Permits Survey, as shown in Figure 5.

Figure 5: Number of Permitted New Residential Units

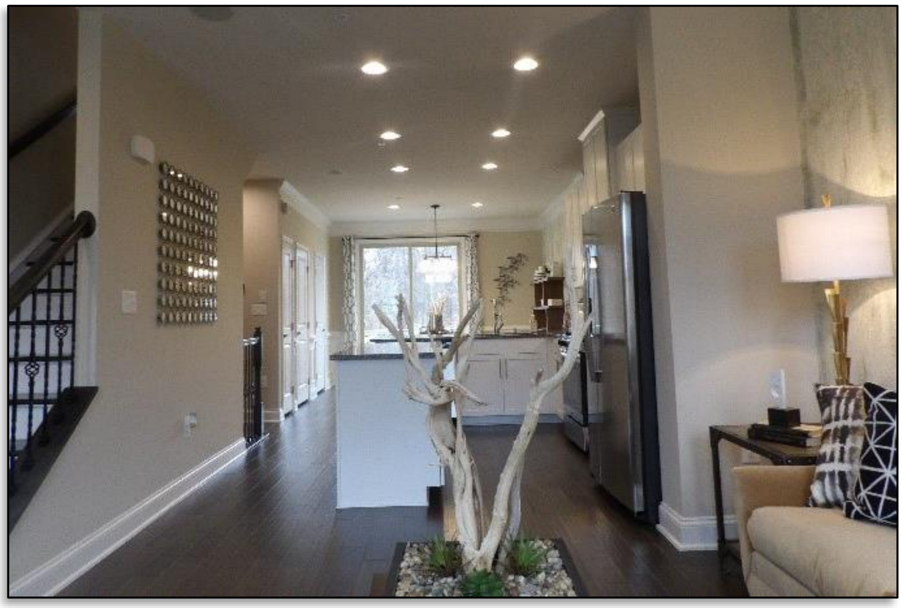


Source: US Census Building Permits Survey

[14] The average bonus density for the 5 PUDs was 74.6 percent, but many PUDs also involve a map amendment to change the zoning district, which may result in higher density as a matter of right. Therefore, the PUDs are not included in the calculation of the average bonus density for IZ multi-family projects.

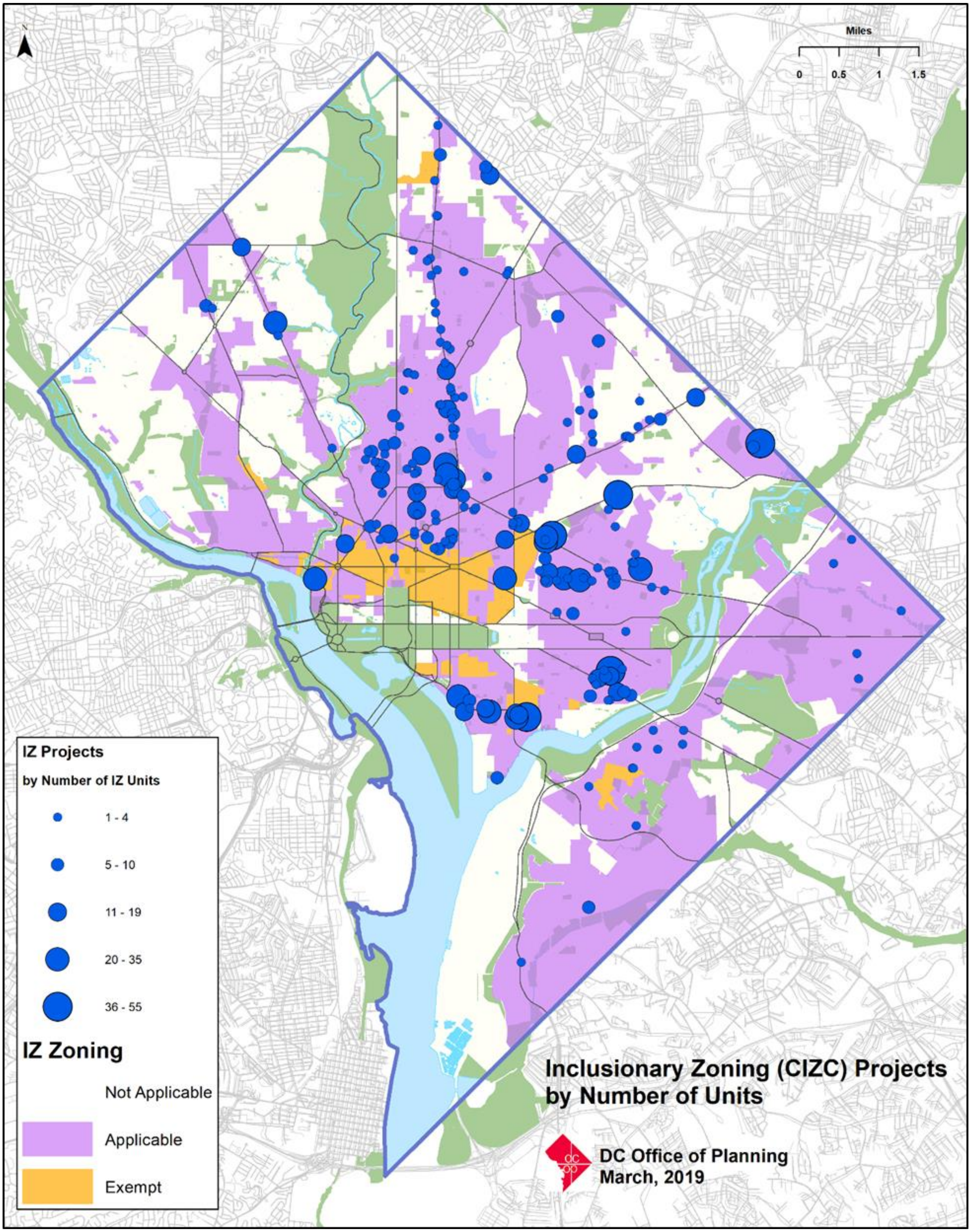
[15] Bonus density in single-family zones is granted through an increase in the number of units permitted, which is highly dependent on the size and type of units. Therefore, access to bonus density cannot be measured to the same degree as in multi-family zones.

Moreover, the number of IZ projects has steadily increased up to 52 projects filing CIZCs in FY2018, a 63 percent increase over FY2017. New FY2018 IZ projects range in both size and location across the District, from small projects without a mandatory requirement, but that choose to opt in to IZ, to large projects containing 22 IZ units and almost 250 total units. The breadth of sizes and locations, as shown in Map 1 on page 15, indicate that IZ is not adversely affecting housing production in any one area of the city or District-wide. Further the overall pace of the development in the District continues. Delta Associates 2018 4th Quarter report documents that 6,564 units are expected to deliver in 2019.



The Banneker Townhomes, in Woodridge/Fort Lincoln neighborhood of Ward 5. Front entry is above; living room is at right.

Map 1. Filed Certificates of Inclusionary Zoning Compliance



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