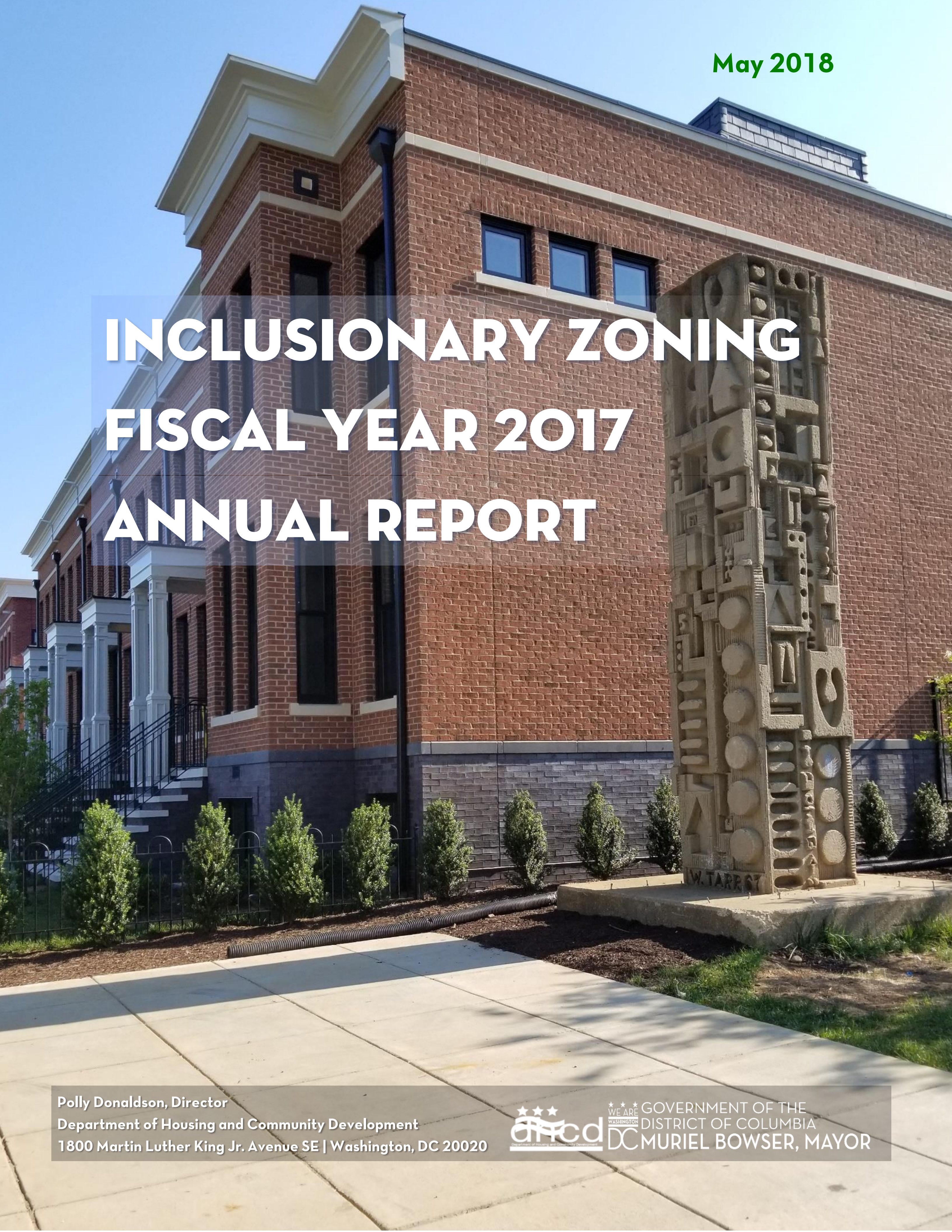
May 2018

INCLUSIONARY ZONING FISCAL YEAR 2017 ANNUAL REPORT



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dhcd

WE ARE WASHINGTON DC

GOVERNMENT OF THE DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

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Cover photo: The Buchanan Park Townhomes in Capitol Hill

Letter from Mayor Muriel Bowser

Mayor Muriel Bowser

As Washington, DC grows, we are committed to making room for everyone, whether it be someone who put down roots long ago, or who wants to make DC their home for the first time.

This is why we are using every funding source and tool available, so more individuals and families can take advantage of all the benefits our growing and prosperous city has to offer. Since coming into office, my Administration has sparked the creation or preservation of more than 10,800 affordable units, with another 5,200 in preconstruction.

In fact, we have allocated approximately $1 billion for fiscal year 2018 to help make living in Washington, DC more affordable for everyone—and plan to spend more than $1 billion next year.

Our strategy has won national recognition: Washington, DC is the 2017 winner of the Urban Land Institute's Larson Housing Policy Leadership Award. This annual award, provided by ULI's Terwilliger Center for Housing, recognizes innovative ways the public sector is addressing the nation's affordable housing crisis.

The Inclusionary Zoning Program is one such innovative approach we use to house more Washingtonians. And in this report, we will show how this program continues to grow and helps to guarantee that most new or substantially rehabilitated residential development in our nation's capital includes affordable units.

Inclusionary Zoning complements our other affordable housing programs and investments:

- My annual commitment of at least $100 million to the Housing Production Trust Fund – more per capita than any other city in the country.
- An annual $10 million Housing Preservation Fund that will leverage private investments to yield nearly $40 million for our efforts at preserving affordable housing units.
- Our Vacant to Vibrant DC initiative, which in early 2018 auctioned off vacant properties that will be transformed into affordable housing.
- Our enhancements to funding commitments for homeownership programs like DC Open Doors, the Home Purchase Assistance Program, as well as the Employer-Assisted Housing Program for District government employees and first-responders.

Because of Inclusionary Zoning, the HPTF, HPAP and our other affordable housing tools, we are ensuring that Washingtonians from all eight wards get a fair shot at actively participating in our city's prosperity.

Summary

The Fiscal Year (FY) 2017[1] Inclusionary Zoning (IZ)[2] Annual Report from the Department of Housing and Community Development (DHCD) marks the conclusion of the eighth complete fiscal year of IZ implementation since the program began in August 2009. This report provides an analysis of the IZ program from 2009 to September 30, 2017 and was drafted in coordination with the DC Office of Planning.

As the housing market grows, so does the number of IZ units. The 192 IZ units produced[3] in FY 2017 are consistent with the number of IZ units produced in the prior fiscal year (191 units in FY 2016), which brings the total number of IZ units produced to date to 594. 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.

At left: Unit entrance at Buchanan Park in Capitol Hill. At right: Kitchen at Buchanan Park

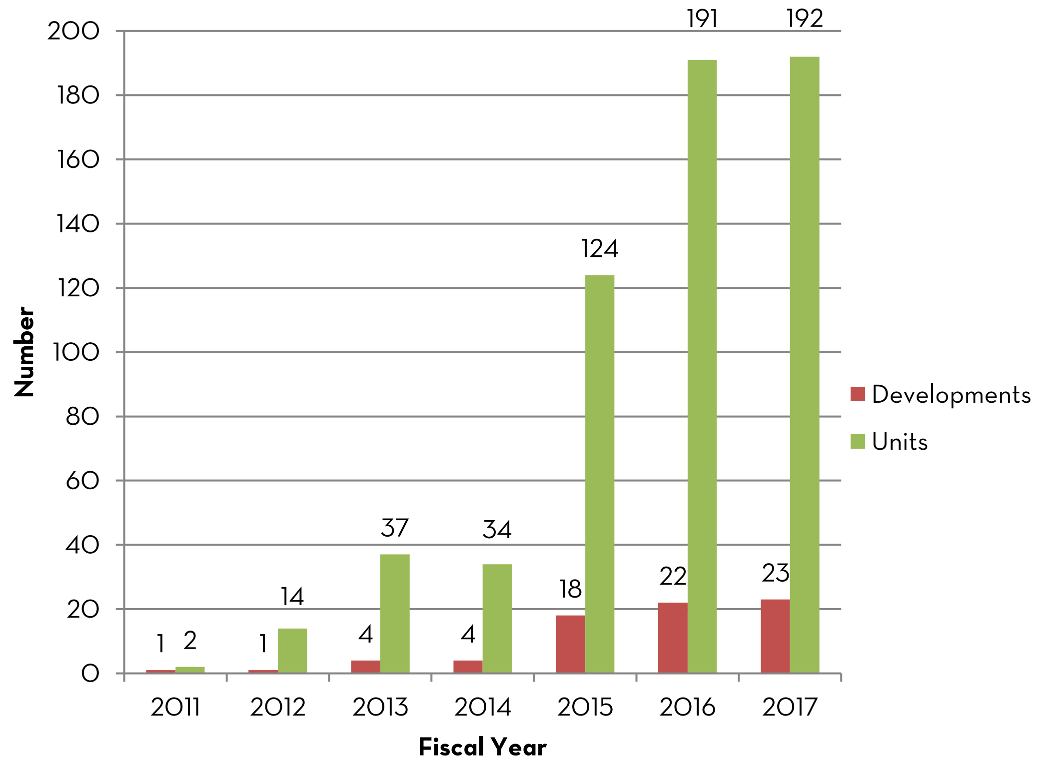
[1] The 2017 fiscal year is October 1, 2016 through September 30, 2017.

[2] The IZ 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) (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. The Final Rulemaking for implementation was published in the *D. C. Register* on December 11, 2009. DHCD published revised IZ administrative regulations (IZ Regulations) on September 1, 2017 for a 30-day public comment period. These regulations were adopted on an emergency basis to permit the program to implement changes to the IZ zoning regulations that were effective June 5, 2017. The IZ Regulation changes also streamline the IZ administrative processes based on the experiences of the program to date. The current IZ Regulations were published as a 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.

[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 a sale unit is ready for purchase or when a rental unit is available for lease. 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.

Produced Inclusionary Developments and Units by Fiscal Year

Figure 1

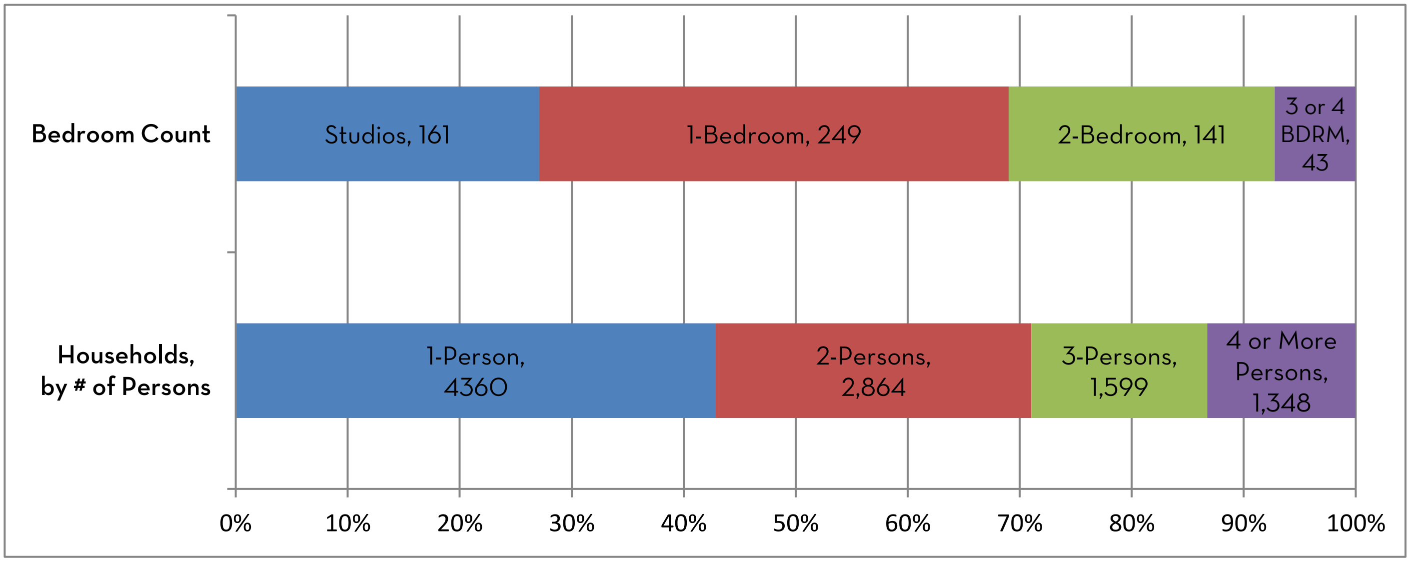


73 Developments, 594 Units through 9/30/17. Source: DHCD

The Hendrix, in Trinidad

IZ Unit Types Produced (by Bedroom Count) vs. IZ Household Registration (By Number of Persons in Each Household)* 2017

Figure 2



*Note: Registered households are those listed in the DHCD IZ database as seeking an IZ unit. The total number of registrations (10,171 as of 9/30/17) includes some expired registrations (roughly one third of registrations). DHCD is in the process of contacting these registrants to either update their registrations or remove them if they are no longer seeking IZ units. The total of 594 units includes all IZ units produced in FY 2011 – FY 2017.

Figure 2 shows the total number of IZ units produced broken down by number of bedrooms: 27 percent were studios, 42 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 (41 percent). One and two person households combined amount to over 70 percent of all registrations.

The IZ Regulations outline the unit size eligibility based on the bedroom count of the unit and the number of persons 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 published September 1, 2017 (and later made permanent on December 29, 2017) lowered the minimum occupancy for three and four bedroom units and did not provide maximums. 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 persons per bedroom plus one additional person. For example, in a two-bedroom unit, there could be two persons for each bedroom (or four persons) plus one additional person for a total maximum of five persons in the two-bedroom rental unit. (See Table 1.)

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

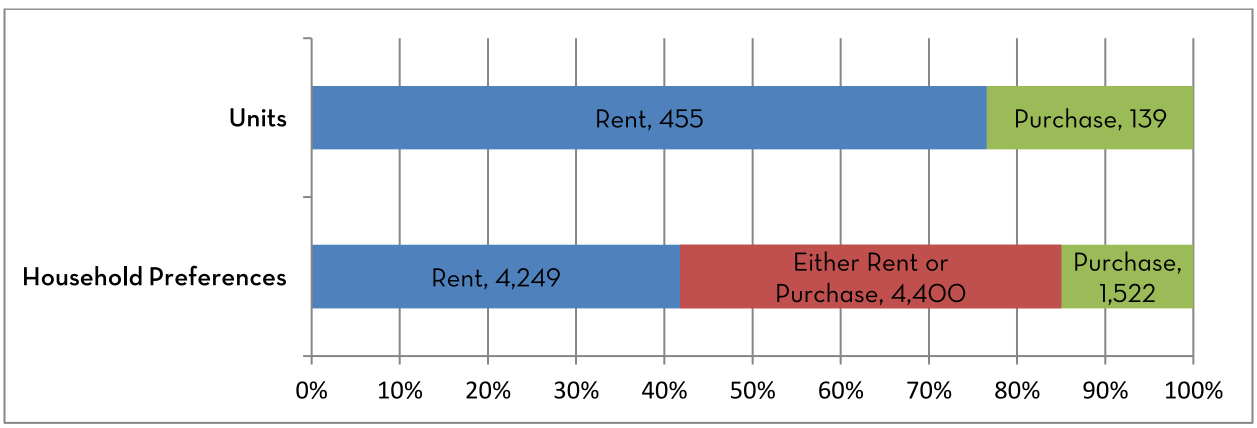
	Occupancy Limits (8/31/17 and prior)	Occupancy Limits (after 9/1/17)
Studio	1 Person Only	Minimum of 1 Person
1-Bedroom	1-2 Persons Only	Minimum of 1 Person
2-Bedroom	2-4 Persons Only	Minimum of 2 Persons
3-Bedroom	4-6 Persons Only	Minimum of 3 Persons
4-Bedroom	6-8 Persons Only	Minimum of 4 Persons

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

The vast majority of the 192 IZ units produced in FY 2017 (137 units or 71 percent) are rental units, while 55 units (or 29 percent) were 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.

IZ Unit Types Produced (Rent or Purchase) vs. IZ Household Registration Preferences (Rent or Purchase)* 2017

Figure 3



*Note: Registered households are those listed in the DHCD IZ database as seeking an IZ unit. The total number of registrations (10,171 as of 9/30/17) includes some expired registrations (roughly one third of registrations). DHCD is in the process of contacting these registrants to either update their registrations or remove them if they are longer seeking IZ units. The total of 594 units includes all IZ units produced in FY 2011 – FY 2017.

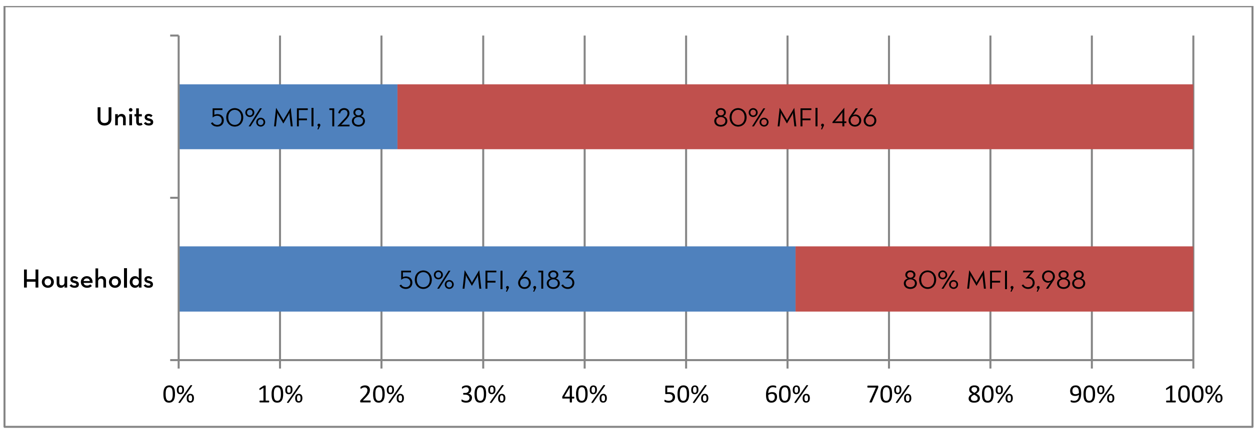
During FY 2017, IZ units were produced at two affordability levels — 50 percent[4] of Median Family Income (MFI)[5] (reserved for households earning up to 50 percent of MFI) and 80 percent MFI (reserved for households earning between 51 percent and 80 percent of MFI). Of the 192 IZ units produced in FY 2017:

- Seventy-three percent (141 units) were for 80-percent MFI households.
- The remaining 27 percent (51 units) were available for 50-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.

IZ Unit Affordability Levels vs. Household Registration Income Levels* 2017

Figure 4



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4 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. These data will be reflected in future reports.

5 In FY 2017, 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 $110,300, and is adjusted for household size (https://www.huduser.gov/portal/datasets/il.html). In FY 2017 the IZ program referred to this as the Median Family Income or MFI (previously referred to as Area Median Income or AMI).

About Inclusionary Zoning

The IZ program supports the District's and DHCD's missions to produce and preserve affordable housing opportunities by requiring developments with 10 or more new 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.

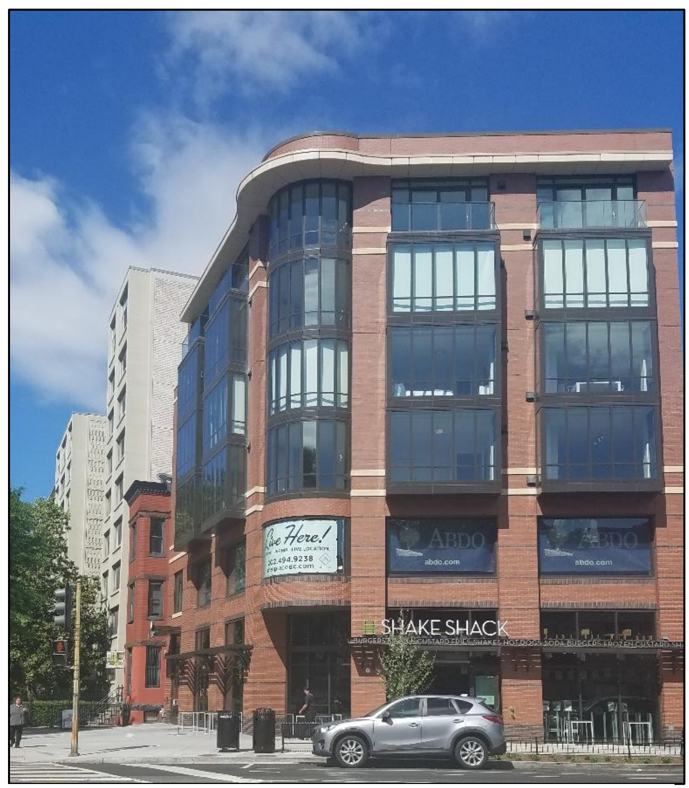
The goals of the IZ program are to:

- 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 MFI and 80 percent MFI households.

FY 2017 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.[6] In answering these questions, this report primarily discusses data from FY 2017 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 both FY 2016 and FY 2017. This production should continue to increase with little indication of any adverse effect on the production of housing in the District.



Mai Place in Logan Circle

[6] DHCD is required to submit an annual report responding to 10 questions in accordance with §6-1041.09 of the IZ Act, as implemented in the IZ Regulations.

1. **Number of IZ units[7] produced at each targeted income level:**

   In FY 2017, 192 IZ units were produced, of which 51 units (about 27 percent) were set aside for 50-percent MFI households and 141 units (about 73 percent) were produced for 80-percent MFI households.

   At the close of FY 2017, 594 IZ units had been produced since program inception. Of these units, 128 (about 22 percent) were designated for 50-percent MFI households, and 466 (about 78 percent) were reserved for 80-percent MFI households.

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

   In FY 2017, 55 IZ units were produced for sale (29 percent of IZ units produced in FY 2017). From program inception through the end of FY 2017, 139 for-sale units have been produced (23 percent of all IZ units produced).

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

   In FY 2017, 137 IZ units were produced for rent (71 percent of IZ units produced in FY 2017). From program inception through the end of FY 2017, 455 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 FY 2017, the median income of households:
   - renting IZ units was $58,005; and
   - purchasing IZ units was $48,948.

   The median income of households renting IZ units in FY 2017 is slightly higher than the median income of households purchasing IZ units since a higher percentage of renters were in the 80 percent MFI category. Eighty percent MFI households accounted for 99 percent of IZ rental units that began a lease in FY 2017 but accounted for only 63 percent of households closing on for-sale units.

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 FY 2017.

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[7] 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.

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.**

Among the 52 IZ units sold in FY 2017:

- Twenty-five buyers used DHCD's purchase assistance subsidy, the Home Purchase Assistance Program (HPAP), totaling $1,073,067; an average of $42,923 per unit.
- Six of the 52 buyers benefited from the Employer Assisted Housing Program (EAHP) with $10,000 provided for each purchase (a total of $60,000).
    - o Of the six buyers using EAHP, five of them also used HPAP.
- The total of HPAP and EAHP funding toward IZ unit purchases closing in FY 2017 is $1,133,067.

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 FY2017:

- Average rent price, studio: $1,510
- Average rent price, one bedroom: $1,545
- Average rent price, two bedrooms: $1,922

b. Average for-sale price in FY2017:

- Average for-sale price, studio: $173,700
- Average for-sale price, one bedroom: $180,793
- Average for-sale price, two bedrooms: $225,707
- Average for-sale price, three bedrooms: $254,297
- Sale price for the single four bedroom unit sold: $236,900

Of properties reporting new rentals or rental re-certifications in FY 2017, 99 percent of the units were in the 80 percent MFI category. This skews the average rental prices in FY 2017 higher than the actual average rents.

In FY 2017, 80 percent MFI units accounted for:

- 60 percent of studio sales (nine of 15 sales);
- 64 percent of one bedroom sales (nine of 14 sales);
- 80 percent of two bedroom sales (12 of 15 sales); and
- 43 percent of three bedroom sales (three of seven sales).

The remainder were 50 percent MFI units.

There was only one four-bedroom sale (a townhome[8] at the 50 percent MFI level), which explains why the four bedroom sale price is lower than the average three bedroom sale price.

8. The number of waivers or alternative compliance requested and granted in FY 2017:

The Zoning Commission approved alternative compliance for one Planned Unit Development (PUD), Case Number 16-13 in FY 2017. The PUD approval permitted the developer to move a portion of its onsite IZ requirement offsite in exchange for doubling the square footage and providing family sized units within nearby Advisory Neighborhood Commissions (ANCs) in Wards 5 and 6. The developer partnered with Habitat for Humanity as part of the approval.

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

Thirty-two projects submitted Certificates of Inclusionary Zoning Compliance (CIZC) in FY 2017:

- Seventeen of the 32 projects were multi-family developments that were either matter-of-right (meaning they complied with all zoning requirements) or received some zoning relief from the DC Board of Zoning Adjustment (BZA cases).
- Ten of the 32 projects were multi-family PUDs.[9]
- The remaining five projects were in a single-family zone.[10]

The overall bonus density of the 17 multi-family, non-PUD development projects was 12 percent in FY 2017:

- Fifteen projects (88 percent) received an average of 18 percent bonus density.
- Two projects did not receive bonus density.
    - One project was a large site with additional capacity yet to be used.
    - One project was a small project that opted into IZ. [11]

[8]Single family homes and townhomes are subject to higher maximum purchase/rental prices than multi-family homes.
[9] The average bonus density for the 10 PUDs was 38 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 and is not included in the calculation of 38 percent.
[10] 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.
[11] Title 11, Subtitle C, Section 1001.2(e) of the zoning code allows projects in some zoning districts that are not normally subject to IZ to "opt in" to IZ and take advantage of the associated bonus density. This project did not receive bonus density, but achieved additional lot occupancy permitted by IZ.

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

The factors influencing the production of housing in Washington, DC are many and there is little evidence that IZ requirements in particular have had an adverse effect. Since IZ took effect in August 2009, the number of projects filing CIZCs has boomed, starting at one in FY2010, producing 22 total units, now standing at 165, producing 14,419 total units, with corresponding increases in both market and IZ units, as shown in Table 2. In FY2017 the number of projects and total number of units increased, while IZ units stayed the same. This reflects a shift toward more mid to high-rise buildings which have slightly smaller IZ requirements.

Table 2. CIZC Applications by Fiscal Year[12]

	Projects	Total Units	Market Units	IZ Units	50% MFI	60% MFI	80% MFI	IZ Exempt Units[13]	% IZ Units[14]
FY10	1	22	20	2	1	-	1	-	10%
FY11	2	272	215	57	1	-	56	-	27%
FY12	12	1,712	1,097	149	17	-	132	466	14%
FY13	17	1,115	649	104	25	-	79	362	16%
FY14	30	2,095	1,589	200	43	-	157	306	13%
FY15	43	3,547	2,090	355	98	-	257	1,102	17%
FY16	28	2,714	2,129	262	35	-	227	323	12%
FY17	32	2,942	2,544	262	74	5	183	136	10%
Totals	165	14,419	10,333	1,391	294	5	1,092	2,695	14%

Source: Office of Planning, March 2018. Note that some previous year numbers in Table 2 have been updated from previous Annual Reports, to reflect ongoing review of records.

According to U.S. Census reports, the District approved new construction permits for 4,048 units of housing in FY 2017.[15] Since 2,942 total units were included in CIZCs in FY 2017 compared to 4,048 included in all new construction permits issued in FY2017, approximately 73 percent of units issued building permits were subject to IZ.

[12] This table refers to units in the CIZCs filed in FY 2017, as opposed to the number of units produced in FY 2017 referred to elsewhere in this report, as further described in footnote 3 and includes developments currently considered exempt that must set aside IZ units after the applicable subsidy period expires.
[13] Includes developments exempt from some IZ administrative process and reporting requirements, as described in footnote 3. The total of IZ Exempt units plus IZ units and market rate units equals the total number of units included on CIZCs issued in FY 2017.
[14] Percent of IZ Units is calculated by dividing the number of IZ Units by the number of Market Units.
[15] DHCD analysis of U.S. Census data, http://www.census.gov/construction/bps/, accessed March 14, 2018, which may not be completely accurate as monthly data may include projects that do not actually get built or include duplicate permits for the same project.

The remaining percent of units under construction are in projects that are not subject to IZ because:

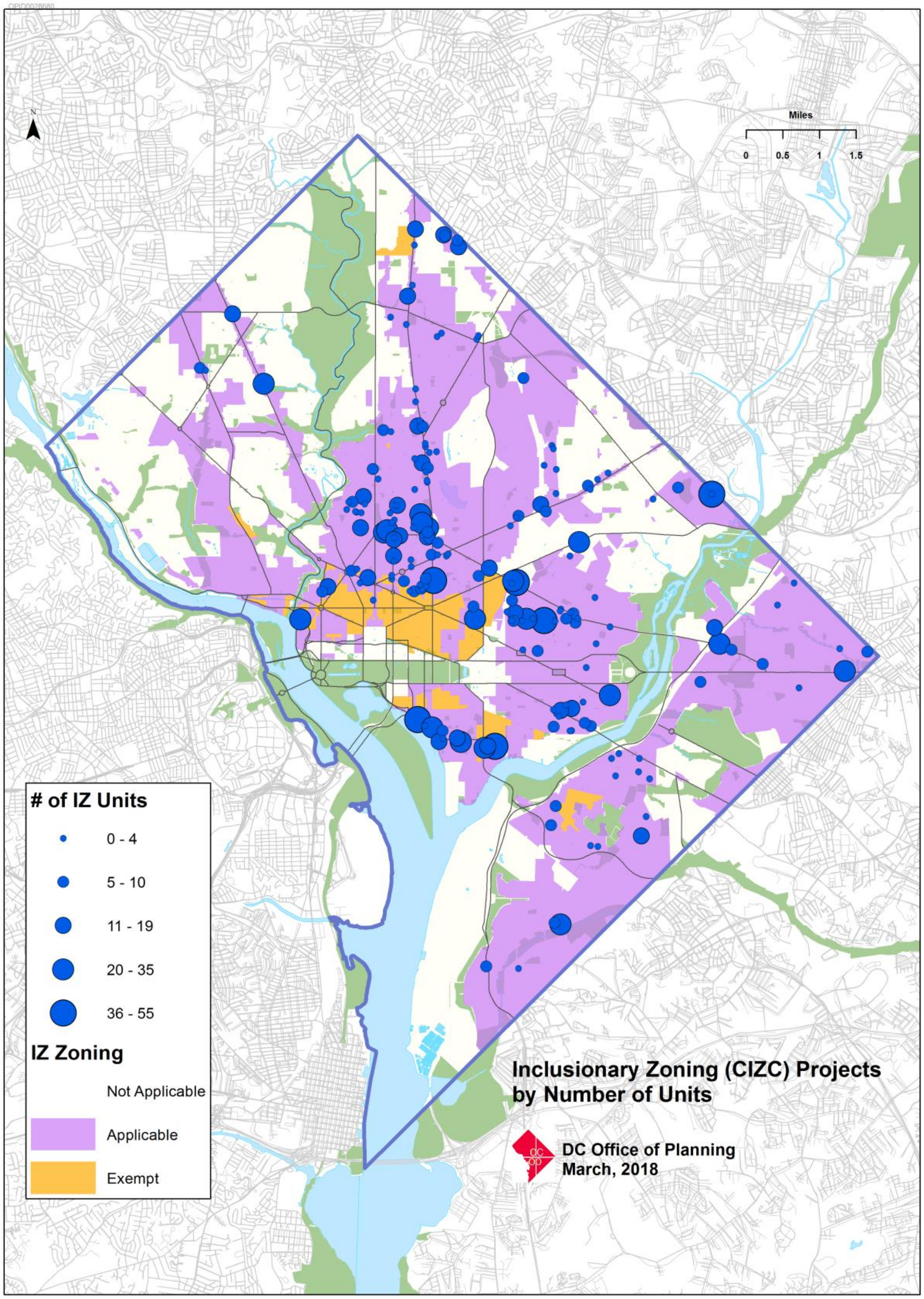
- pre-development approvals were granted before the effective date of IZ[16];
- locations are in areas where IZ does not apply (see Map on next page), which represents the vast majority of units for which permits were issued in non-IZ projects;
- uses are exempt from IZ, such as dormitory or embassy housing; or
- projects are too small to trigger IZ.

IZ projects are now occurring in most neighborhoods across the District, as shown on the Map. The locations of CIZCs in most areas of the city and the numbers above suggest that IZ has not had any significant negative impact on residential development in the District.

Totten Mews in Fort Totten, garage entrance

[16] The Final Rulemaking for IZ implementation was published in the *D.C. Register* on December 11, 2009.

Map. Filed Certificates of Inclusionary Zoning Compliance



District of Columbia

Government of the District of Columbia

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.

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