



MURIEL BOWSER
MAYOR

April 12, 2023

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Mendelson:

I am pleased to submit to the Council of the District of Columbia the enclosed *Inclusionary Zoning Annual Report for Fiscal Year 2022*, which was prepared by the Department of Housing and Community Development ("DHCD") pursuant to section 109 of the Inclusionary Zoning Implementation Amendment Act of 2006, effective March 14, 2007 (D.C. Law 16-725; D.C. Official Code § 6-1041.09).

This report documents the continued success of the Inclusionary Zoning program in providing affordable housing in the District.

I am available to discuss any questions you may have regarding this report. In order to facilitate a response to your questions, please contact Colleen Green, Acting Director, DHCD, at (202) 442-7200.

Sincerely,

A handwritten signature in black ink, appearing to read "Muriel Bowser".

Muriel Bowser

Enclosures



INCLUSIONARY ZONING ANNUAL REPORT FOR FISCAL YEAR 2022



DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT
COLLEEN GREEN, ACTING DIRECTOR



GOVERNMENT OF THE
DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

Contents

A Letter From Acting Director Colleen Green	3
Review of the Inclusionary Zoning Program in Fiscal Year 2022.....	4
Figure 1. IZ Developments and Units Produced by Fiscal Year (2011- 2022).....	5
Figure 2. IZ Unit Types Produced (by Bedroom Count) and IZ Household Registrations (by Number of People in Each Household) Since Program Inception.....	6
Figure 3. IZ Unit Tenures Produced (Rent or Purchase) and IZ Household Preferences (Rent or Purchase).....	6
Figure 4. IZ Units Produced by Fiscal Year and MFI Level (2011-2022).....	7
Figure 5. IZ Unit Affordability Levels and Household Registration Income Levels	8
Habitable Penthouse Space	8
IZ Opt-in.....	9
FY2022 Annual Report (Legislative Reporting Requirement).....	10
Figure 6: Number of Permitted New Residential Units	14
Map 1. Geographic Distribution of Inclusionary Developments and Number of IZ Units.....	15



Image 1 – Rooftop, City Ridge, 20 Ridge Square NW (top);
kitchen and living room area (right).

Cover – Exterior, Alta 801, 801 New Jersey Avenue
NW



A Letter From Acting Director Colleen Green

Greetings District residents.

On behalf of Mayor Muriel Bowser and the staff at the DC Department of Housing and Community Development (DHCD), I am pleased to share the Inclusionary Zoning Annual Report for Fiscal Year 2022.

Since 2009, the District's Inclusionary Zoning (IZ) program requires that most new development projects in the city set aside at least eight (8) to ten (10) percent of their residential floor area for affordable rental or for-sale units.

For Fiscal Year 2022, the IZ program produced 380 new affordable housing units, the most units produced in a single year. This marks the fifth consecutive year that the number of units has increased. To date, the program has produced nearly 2,000 IZ units.

IZ units comprise both affordable rental and homeownership options. Our network of community-based organizations is ready to assist prospective tenants and homebuyers with orientation classes and registration to determine their eligibility for an IZ unit.

As we continue making strides toward Mayor Bowser's goal of 12,000 new affordable units by 2025, the demand for affordable housing remains a key priority for many District households. Fortunately, the District has a variety of local and federal resources to help produce affordable housing units.

Again, we submit the findings in this report to offer insight on the key affordable housing opportunities made by the IZ program for all District residents.

Colleen Green

Colleen Green
Acting Director

Review of the Inclusionary Zoning Program in Fiscal Year 2022

The Inclusionary Zoning (IZ)¹ program is one of many tools the District of Columbia uses to produce affordable housing. It requires most new multifamily housing developments, or expansions of existing properties, in the District to include affordable housing units.² IZ creates both rental and for-sale units.

The goals of the IZ program are to:

- create mixed income neighborhoods,
- produce affordable housing for a diverse labor force, and
- increase homeownership opportunities for moderate income households.

The Fiscal Year (FY) 2022 IZ Annual Report from the Department of Housing and Community Development (DHCD) marks the conclusion of the thirteenth complete fiscal year since the program began in August 2009. This report provides an analysis of the IZ program from 2009 to September 30, 2022, and was drafted in coordination with the DC Office of Planning (OP) and the DC Department of Buildings (DOB).³ OP and DOB provided both data and analysis integral to the publication of the report.

The IZ program produced 380 IZ units⁴ in FY2022, which is the most ever produced in a single fiscal year in the program's history. The previous record was set in FY2021 with 372 units produced.⁵ To date, the total number of IZ units produced since the inception of the IZ program is 1,966.

Figure 1 (next page) shows the number of IZ units and IZ developments produced by fiscal year since the inception of the IZ program. The number of IZ units produced and developments becoming available for occupancy annually has generally increased yearly since the program began.

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=NOO65229>.

² Under the IZ regulations, most new developments with 10 or more dwelling units or proposing new gross floor area that would result in 10 or more dwelling units must include a percentage of affordable units (approximately 8% to 10% of the gross residential floor area) in exchange for a density bonus (up to 20% gross floor area) beyond what is allowed under existing zoning regulations.

³ DOB is formerly part of the Department of Consumer and Regulatory Affairs (DCRA).

⁴ The tabulation of IZ units produced annually is based on the first 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 throughout this report do not include financially subsidized affordable housing developments that are exempt from IZ administrative and reporting rules (per Title 11, Subtitle C, Section 1000.6(a) of the zoning code).

⁵ During ongoing data updates, some of the prior year data were corrected (FY2018: 199 to 202 units (AdMo Heights building expansion added 4 units and 1 duplicate unit was deleted).

Figure 1. IZ Developments and Units Produced by Fiscal Year (2011- 2022)

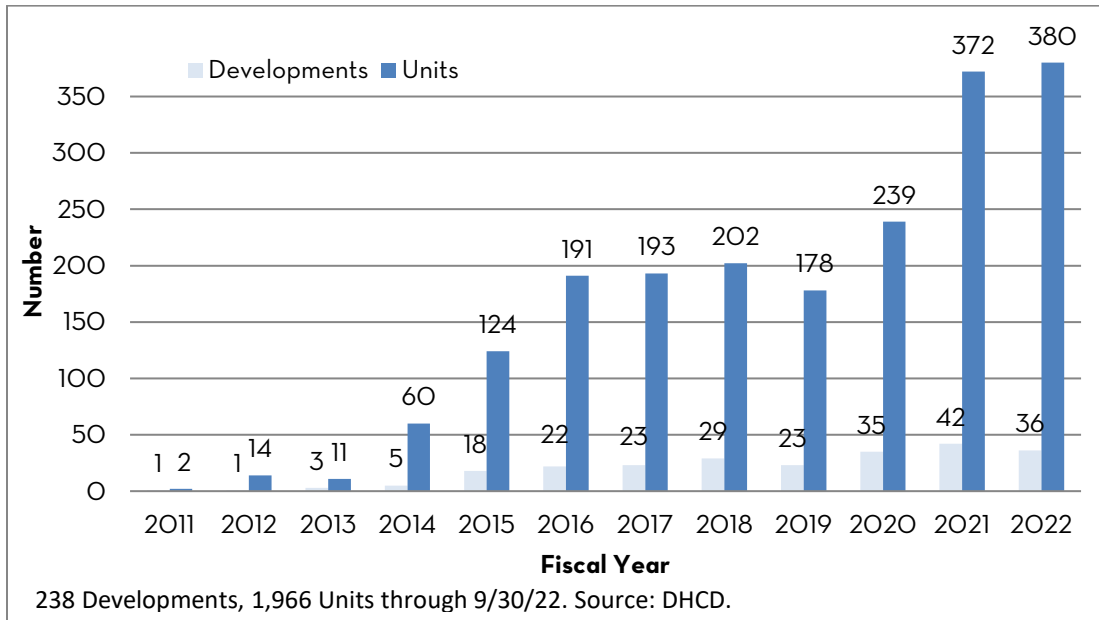
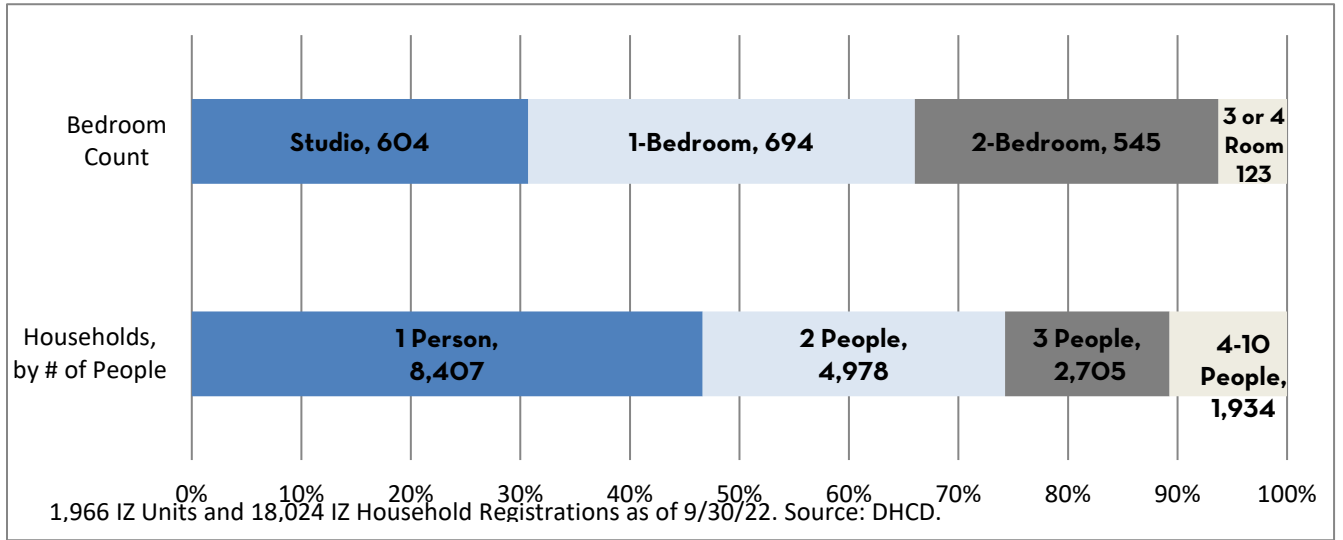


Figure 2 (next page) shows the total number of IZ units produced broken down by number of bedrooms since program inception: 31% are studios, 35% have one bedroom, and 28% have two bedrooms. As also seen in Figure 2, one-person households are the largest number of households registered for the IZ program (47%). One and two-person households combined amount to 74% of all registrations. The current IZ regulations require a minimum of one person per bedroom.⁶

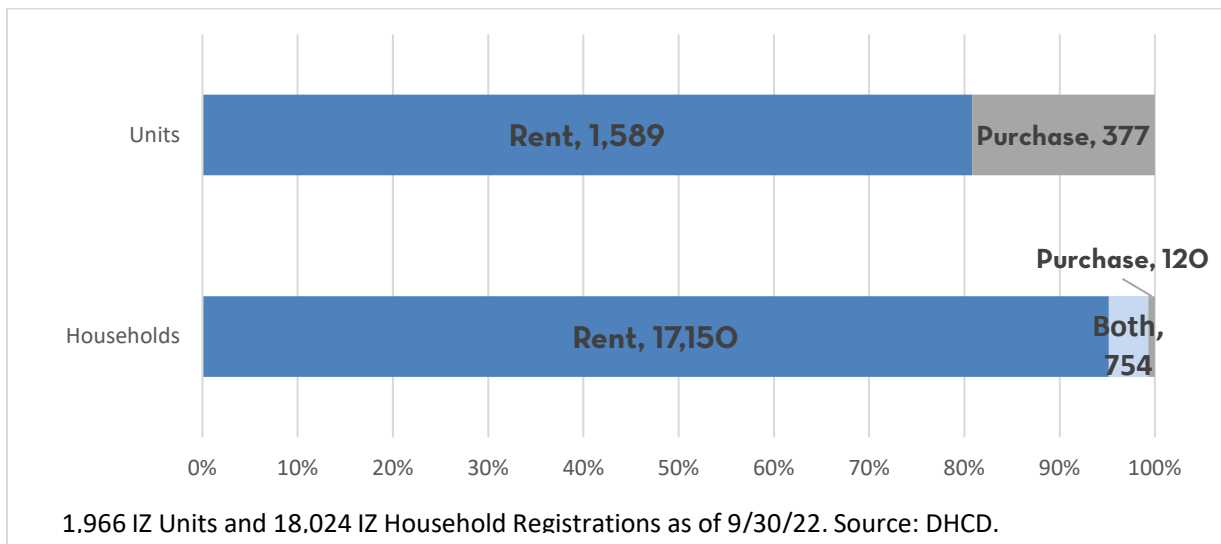
⁶ The IZ Regulations outline the unit size eligibility based on the bedroom count of the unit and the number of people in a household. From the beginning of the program through August 31, 2017, the regulations provided both minimum and maximum household sizes for each unit size. Effective December 29, 2017, the revised IZ Regulations 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 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.

Figure 2. IZ Unit Types Produced (by Bedroom Count) and IZ Household Registrations (by Number of People in Each Household) Since Program Inception



In FY2022, 91% of the 380 IZ units produced (350 units) are rental units, while 9% (30 units) are for-sale units. The high share of rental units produced compared to for-sale units is in line with the preference of most registered households, as 95% of all registered households are registered for rental units only, as shown in Figure 3.

Figure 3. IZ Unit Tenures Produced (Rent or Purchase) and IZ Household Preferences (Rent or Purchase)⁷



⁷ Reported numbers represent all units produced as of the end of FY2022. Of produced units, 1,589 (81%) were rental units and 377 (19%) were for-sale units. Registered households are those listed in the DHCD IZ database as seeking an IZ unit. Less than one percent of the registered households may be duplicate registrations due to the renewal process. Of the 18,024 registered households, 17,150 (96%) are eligible only to rent, 754 (3%) are eligible to either rent or purchase, and 120 (1%) are only interested in purchasing.

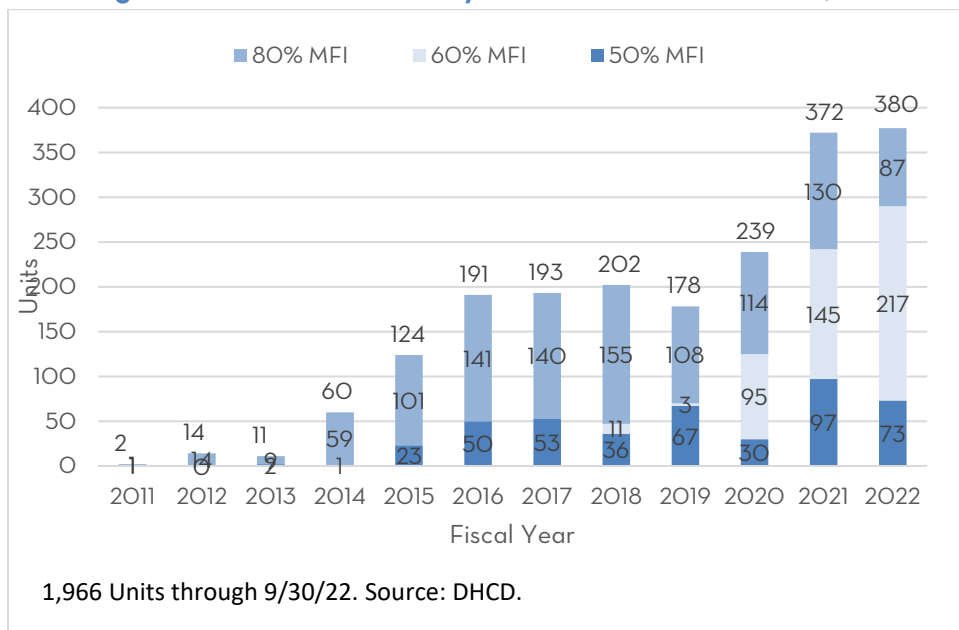
During FY2022, IZ units were reserved in four income categories: for households earning up to 30% of the Median Family Income (MFI), up to 50% MFI, up to 60% MFI, and up to 80% MFI. Most new rental IZ units are produced at 60% MFI and most new for-sale IZ units are produced at 80% MFI. Of the 380 units produced in FY2022:

- 87 units (23%) were for 80% MFI households.
- 217 units (57%) were for 60% MFI households.
- 73 units (19%) were available for 50% MFI households.
- 3 units (1%) were available for 30% MFI households.

Of note in the breakout above, in FY2022, for the first time in IZ history, 30% MFI units were produced. The production of the 30% MFI units resulted from the Zoning Commission's (ZC) approval of a Planned Unit Development (PUD). These were in addition to units at the 50% and 80% affordability levels, which were approved before the 2017 ZC changes became effective⁸.

Figure 4 illustrates the production of IZ units by MFI level in FY2022 as well as in prior years. Due to the 2017 ZC changes in MFI levels, a higher percentage of 60% MFI units are being produced.

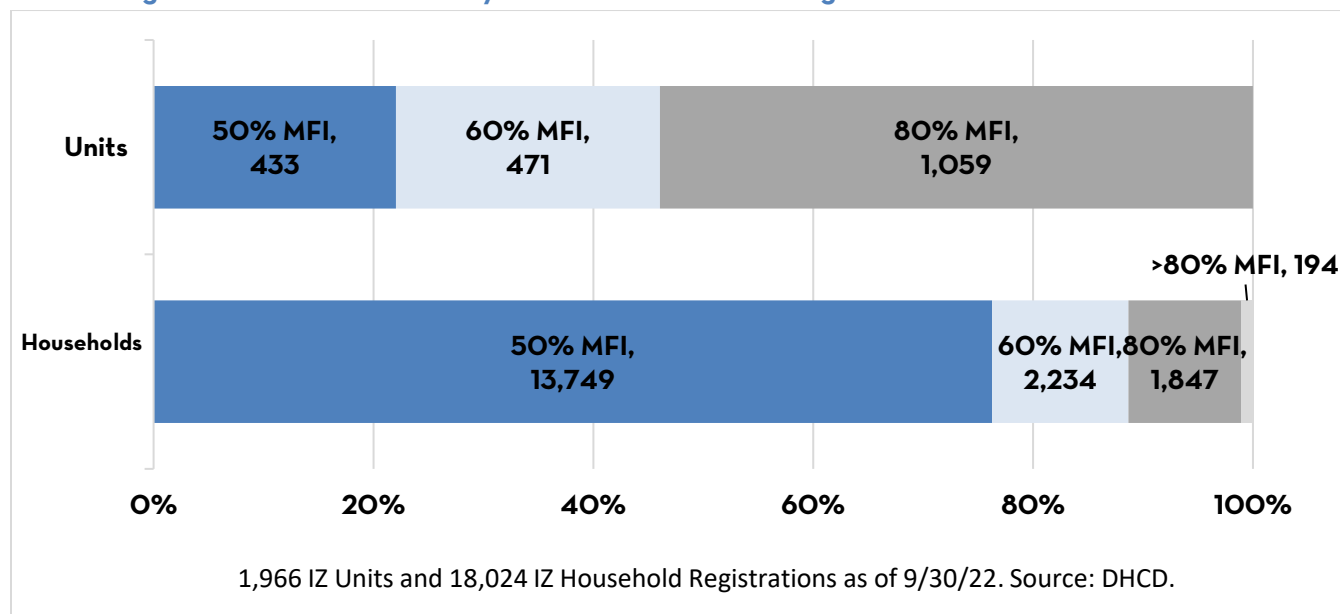
Figure 4. IZ Units Produced by Fiscal Year and MFI Level (2011-2022)



⁸ Initially, IZ units were allocated at the 50% MFI and the 80% MFI levels depending on the zoning district in which a development was located. Changes ordered by the Zoning Commission (ZC) (effective June 5, 2017) shifted the affordability levels of future units.

While demand for affordable units exceeds supply at all income levels, as indicated by the counts provided in Figure 5 (next page), the imbalance is especially acute at the lowest income levels. However, the IZ program is not the primary tool to create housing at the lowest income levels. Those units are generally created by financing through the Housing Production Trust Fund (HPTF), low-income housing tax credits, and rental subsidies.

Figure 5. IZ Unit Affordability Levels and Household Registration Income Levels ⁹



Habitable Penthouse Space

In residential and commercial buildings that use penthouse space for purposes other than mechanical uses, either an area equal to a percentage of the square footage of the habitable penthouse space must be set aside as IZ affordable to households at 50% MFI¹⁰ or, in lieu of affordable units, payment can be made to the HPTF. Of the 195 residential developments with habitable penthouse space from 2016 through the end of FY2022, 117 developments have opted to set aside the required square-footage for affordable units while 78 developments have made HPTF payments instead. In FY2022 alone, 8,626 square feet of IZ housing units were

⁹ In Figure 5, 60% MFI households are those who make over 50% MFI up to and including 60% of MFI. However, 60% MFI units are available to a broader range of households (those earning 60% MFI or below, which includes all 50% MFI households).

¹⁰ In FY2022, 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 \$142,300, and is adjusted for household size. (<https://www.huduser.gov/portal/datasets/il.html>). MFI was previously referred to as Area Median Income or AMI.

permitted¹¹ for construction due to habitable penthouse space. This contributed to the creation of approximately 40 IZ units at the 50%.¹²

Non-residential buildings with habitable penthouse space are also required to make payments to the HPTF. During FY2022, \$4,376,402 was collected from both residential and non-residential properties, for a total¹³ of \$24,109,047 since 2016.

IZ Opt-in

Developments not otherwise subject to IZ have the ability to opt-in to the program and take advantage of the bonus density the IZ regulations allow.¹⁴ In FY2022, 14 developments opted into IZ, resulting in 14 additional IZ units under development. Since the regulations became effective, 55 developments have opted in, adding 85 total IZ units.

¹¹ Permitted meaning developments that received Certificates of Inclusionary Zoning Compliance (CIZCs) signed by the Zoning Administrator during this time frame as part of the standard building permit process for Inclusionary Developments. This means that the building permits were approved. However, the units are not available for occupancy until construction is complete and an NOA is received by DHCD.

¹² This figure is reported as square footage versus number of units created, since some developers choose to allocate total IZ square footage generated because of habitable penthouse space construction across multiple IZ units. However, all these units must be set aside as 50% MFI units, as required by the regulations.

¹³ If a payment is made, the payment amount is calculated by DOB 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 and the balance is due before issuance of the certificate of occupancy.

¹⁴ See Title 11, Subtitle C, Section 1001.8 of the zoning code.

FY2022 Annual Report (Legislative Reporting Requirement)

Each year, DHCD is required to report to the Council of the District of Columbia and the Zoning Commission on the impact of the IZ program by responding to 10 specific questions.¹⁵ In answering these questions, this report primarily discusses data from FY2022 but makes comparisons to the program's production of units in previous years and projections for the program's future growth.

As supported by the data, the numbers of IZ units produced each fiscal year has generally increased compared to the previous years.

1. Number of IZ Units¹⁶ produced at each targeted income level:

In FY2022, 380 IZ units were produced. The below table details the breakdown of units produced at each targeted income level.

MFI Level	FY2022 IZ Units Produced	% of All Units Produced in FY2022
80% MFI	87 units	23%
60% MFI	217 units	57%
50% MFI	73 units	19%
30% MFI	3 units	1%
TOTAL	380 units	100%

At the close of FY2022, 1,966 IZ units had been produced since program inception. The below table details the breakdown of units produced at each targeted income level.

MFI Level	Total IZ Units Produced since Program Inception	% of All Units Produced since Program Inception
80% MFI	1,059 units	54%
60% MFI	471 units	24%
50% MFI	433 units	22%
30% MFI	3 Units	<1%
TOTAL	1,966 Units	100%

¹⁵ DHCD is required to submit an annual report responding to 10 questions in accordance with § 6-1041.09 of the IZ Act.

¹⁶ 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.

2. Number of IZ Units produced for sale:

In FY2022, 30 IZ units were produced for sale (8% of all IZ units produced in FY2022). From program inception through the end of FY2022, a total of 377 for-sale units have been produced (19% of all IZ units produced).

3. Number of IZ Units produced for rent:

In FY2022, 350 units were produced for rent (92% of all IZ units produced in FY2022). From program inception through the end of FY2022, a total of 1,589 rental units have been produced (81% of all IZ units produced).

4. The median income of the households that purchased¹⁷ or rented¹⁸ IZ Units:

In FY2022, the median income of households that:

- purchased IZ units was \$57,499; and
- rented IZ units was \$54,992.

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 FY2022. However, during FY2022, DHCD purchased an 80% MFI affordable dwelling unit (ADU) for re-sale through the IZ lottery process as a 60% MFI unit. DHCD used its legal authority to purchase the ADU unit as part of a pilot program in which DHCD purchases IZ units and ADUs to preserve and increase the affordability of the units. DHCD purchases IZ units and ADUs in very limited circumstances, typically when an individual owner is unable to re-sell the unit after demonstrating use of pre-determined best efforts. To prevent the IZ unit or ADU from remaining vacant or becoming market-rate, DHCD purchases the unit and then offers the unit for sale to residents at a lower MFI level.

¹⁷ IZ units closing in FY2022.

¹⁸ Both new and renewing IZ unit renters with income certifications in FY2022.

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.

Subsidies for IZ Purchases in FY2022			
Subsidy Source	Number of Households	Total Subsidy	Average/ Typical Subsidy Amount per Recipient
Home Purchase Assistance Program (HPAP)	33	\$1,883,424	\$57,073
Employer Assisted Housing Program (EAHP)	7	\$132,762	\$18,966
DC Open Doors	8	\$50,036	\$6,255
Federal Home Loan Bank	4	\$27,542	\$6,886

In FY2022, 33 of 53 purchasers (62%) closing on an IZ unit received an HPAP subsidy. Ten of the 33 HPAP recipients used one additional source of funding from EAHP, DC Opens Doors or the Federal Home Loan Bank (FHLB). Two of the 33 HPAP recipients used 2 additional sources of funding. One received funding from EAHP and DC Open Doors, and the other recipient also received funding from the FHLB and EAHP. DHCD does not collect information regarding subsidies from other District agencies or third parties. This response does not include subsidies provided to developers by the Federal or District government which would result in the developments being IZ Exempt, as described in Footnote 5.

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

Average monthly rent in FY2022:¹⁹

Type of Unit (rental)	50% MFI Average Rent (monthly)	60% MFI Average Rent (monthly)	80% MFI Average Rent (monthly)	Average* Rent (monthly)
Studio	\$829	\$1,046	\$1,474	\$1,192
1-bedroom	\$914	\$1,104	\$1,516	\$1,247
2-bedroom	\$1,062	\$1,310	\$1,803	\$1,495
3-bedroom	\$1,146	No Units	No Units	\$1,146
4-bedroom	No Units	\$1,740	No Units	\$1,740

*Weighted Average

¹⁹ Both new and renewing IZ tenants with an income certification in FY2022.

Average for-sale price in FY2022: ²⁰

Type of Unit (for-sale)	50% MFI Average Sales Price	60% MFI Average Sales Price	80% MFI Average Sales Price	Average* Sales Price
Studio	\$140,300	No Sales	\$257,900	\$179,500
1-bedroom	\$141,900	\$183,900	\$252,130	\$218,187
2-bedroom	\$133,433	\$196,900	\$266,608	\$223,170
3-bedroom	\$245,025	No Sales	\$388,034	\$340,364
4-bedroom	No Sales	No Sales	\$450,133	\$450,133

*Weighted Average

8. The number of waivers or alternative compliance requested and granted in FY2022:

The Zoning Commission and the Board of Zoning Adjustment (BZA) did not approve alternative compliance for any Planned Unit Development (PUD) in FY2022.

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

DOB approved Certificate of Inclusionary Zoning Certificate (CIZCs) for 69 developments in FY2022, of which 65 were multi-family developments and 4 were single family developments:

Multi-Family (65 developments)

- 61 multi-family developments were either matter-of-right (meaning they complied with all zoning requirements), received some zoning relief from the BZA, or were subject to a ZC Design Review. The average bonus density for all 61 developments was a 13% increase in density (including 7 developments that did not receive any bonus density at all). The 54 developments that did receive bonus density averaged a 17.6% increase in density. Not all developments receive bonus density, and the reasons are site specific. Some examples include developments with large site sizes that only build on one small portion of the site or those that may be subject to historic preservation guidelines.
- Four multi-family developments were Planned Unit Developments (PUDs). Bonus density is not calculated for PUDs because the analysis is not a straight-line calculation. PUD bonus density is awarded for other reasons than simply offering affordable units, which makes it difficult to disaggregate the IZ contribution to the bonus density calculation.

Single-Family (4 developments)

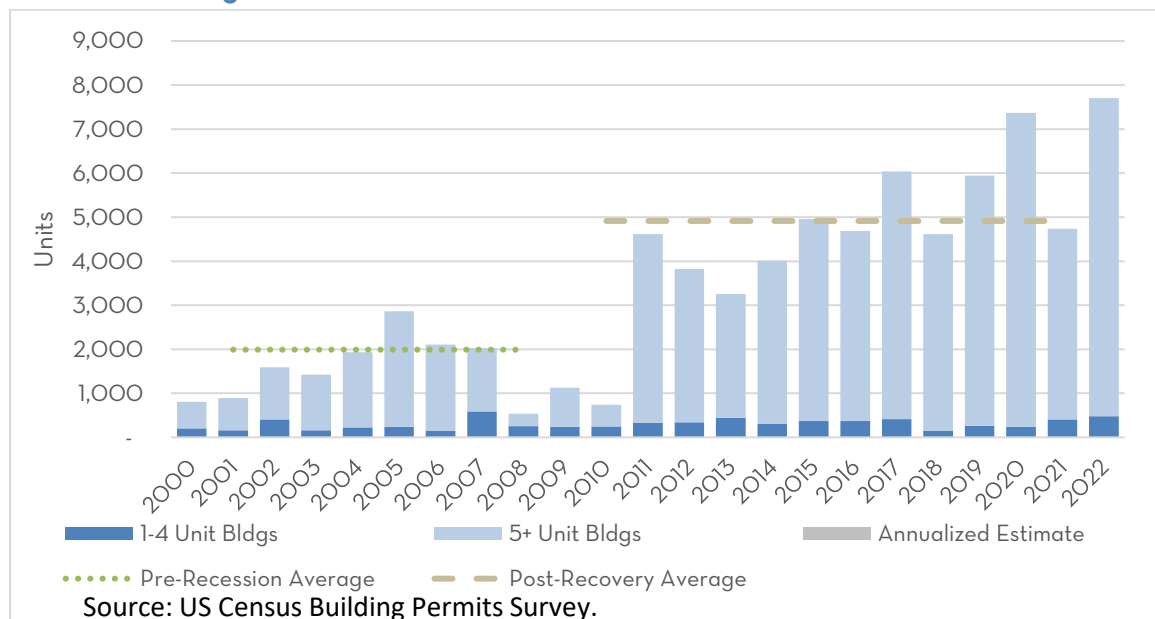
There were four single-family developments. All four were in single-family zone categories which do not allow bonus density to be calculated.

²⁰ IZ unit sales closing in FY2022.

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

There is no evidence that IZ requirements have had an adverse effect on the production of housing in the District. In FY2022, the number of new units added to the District's housing stock was in-line with the post-recession average, which coincides with the beginning of the IZ program in the District, according to US Census Bureau Building Permits Survey, as shown in Figure 6.

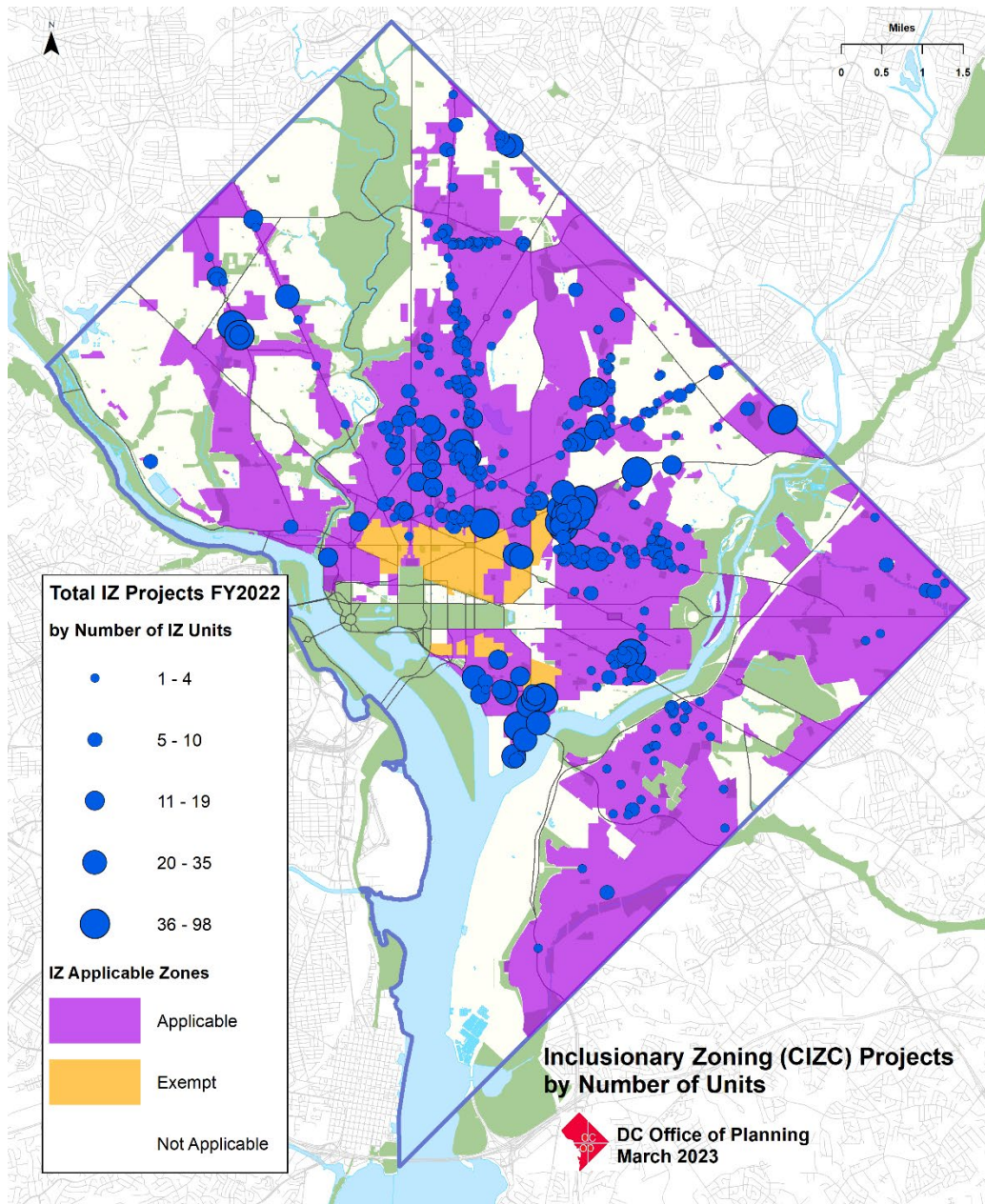
Figure 6: Number of Permitted New Residential Units



Since the construction of IZ units is tied to the pace of new development, this indicates that developers are not developing fewer buildings because of IZ Regulations. In addition, there were 14 projects which voluntarily chose to opt in to IZ during FY2022. As of the end of the fiscal year, there are a total of 55 developments that voluntarily have 1 or more IZ units.

IZ developments range in both size and location across the District, from small buildings without a mandatory requirement, that choose to opt in to IZ, to large developments containing 20 IZ units and 235 total units. Map 1 shows that IZ units are located in developments constructed throughout the District.

Map 1. Geographic Distribution of Inclusionary Developments and Number of IZ Units²¹



²¹ CIZCs signed by the Zoning Administrator as of 9/30/22 as part of the building permitting process.