



INCLUSIONARY ZONING ANNUAL REPORT FOR FISCAL YEAR 2023



DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT
COLLEEN GREEN, DIRECTOR



GOVERNMENT OF THE
DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

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Rooftop, Upton Place, 4000 Wisconsin Ave. NW



Pool, Upton Place, 4000 Wisconsin Ave. NW

*Cover image - Common area space with monument views,
Gallery 64, 64 H St. SW*

A Letter From 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 2023.

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 its production of affordable housing units.

Inclusionary Zoning (IZ) is one of the District's many programs producing affordable housing. IZ does not require District or Federal funding, but instead relies on the private sector to create mixed-income communities. IZ units are created by private developers as part of otherwise market-rate developments, so one of the few tools creating affordable housing in highly desirable areas, near amenities such as public transportation, jobs, restaurants, and grocery stores.

Since 2009, the District's 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 2023 (FY23), the IZ program produced 413 new affordable housing units, the most units produced in a single year. To date, the program has produced nearly 2,400 IZ units.

IZ units are comprised of 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.

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
Director

Review of the Inclusionary Zoning Program in Fiscal Year 2023

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) 2023³ IZ Annual Report from the Department of Housing and Community Development (DHCD) marks the conclusion of the fourteenth complete fiscal year since the program began in August 2009. This report provides an analysis of the IZ program from 2009 to September 30, 2023, and was drafted in coordination with the DC Office of Planning (OP) and the DC Department of Buildings (DOB).⁴

The IZ program produced 413 IZ units⁵ in FY2023, which is the most ever produced in a fiscal year in the program's history. The previous record was set in FY2022 with 379 units produced. To date the total number of IZ units produced since the inception of the IZ program is 2,373.

Figure 1 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>.

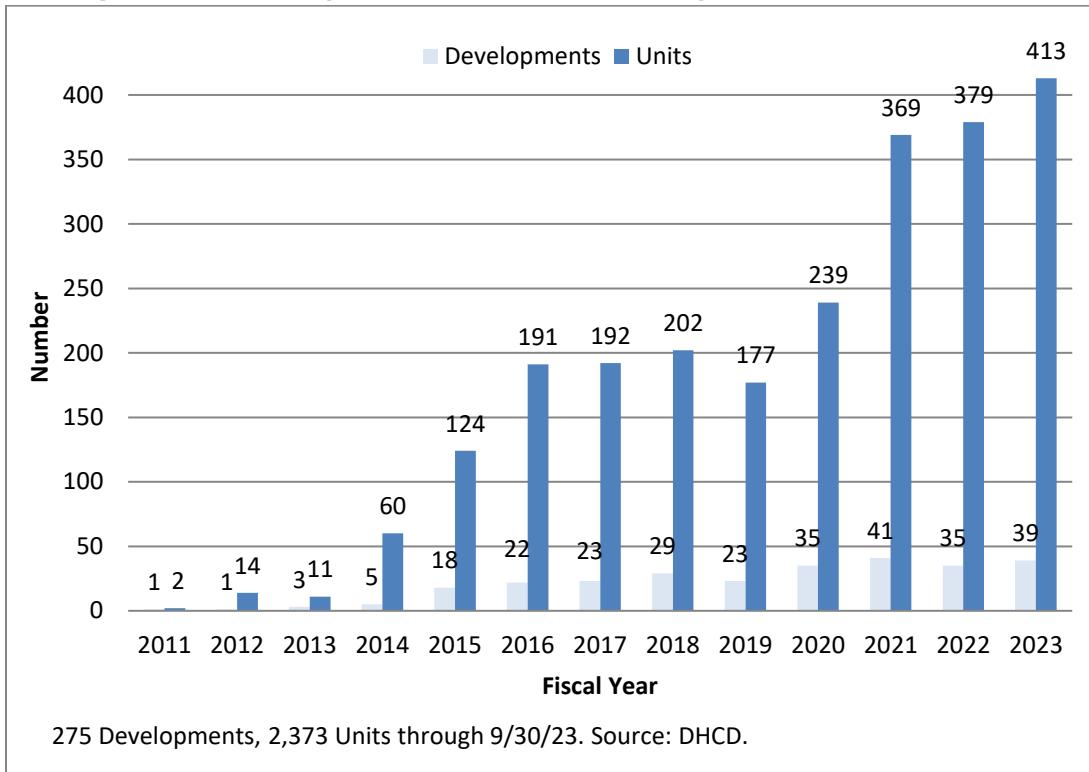
² Under the IZ regulations, most new developments with 10 or more dwelling units or proposing new gross floor area that would result in 10 or more dwelling units must include a percentage of affordable units (approximately 8 percent to 10 percent of the gross residential floor area) in exchange for a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

³ The 2023 fiscal year was October 1, 2022, through September 30, 2023.

⁴ DOB is formerly part of the Department of Consumer and Regulatory Affairs (DCRA).

⁵ 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).

Figure 11. IZ Developments and Units Produced by Fiscal Year (2011- 2023)



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% median family income (MFI)⁶ or, in lieu of affordable units, payment can be made to the Housing Production Trust Fund (HPTF). Of the 221 residential developments with habitable penthouse space from 2016 through the end of FY2023, 130 developments have opted to set aside the required square-footage for affordable units while 91 developments have made HPTF payments instead. In FY2023 alone, 13,255 square feet of IZ housing units were permitted⁷ for construction due to habitable penthouse space. Overall, since 2016, at least 130 units have been created at the 50% MFI level due to habitable penthouse space, which would otherwise have been designated at a higher affordability level (typically 60% MFI in recent years).

Non-residential buildings with habitable penthouse space are also required to make payments to the HPTF. During FY2023, \$2,980,923 was collected from both residential

⁶ In FY2023, 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 \$152,100, 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.

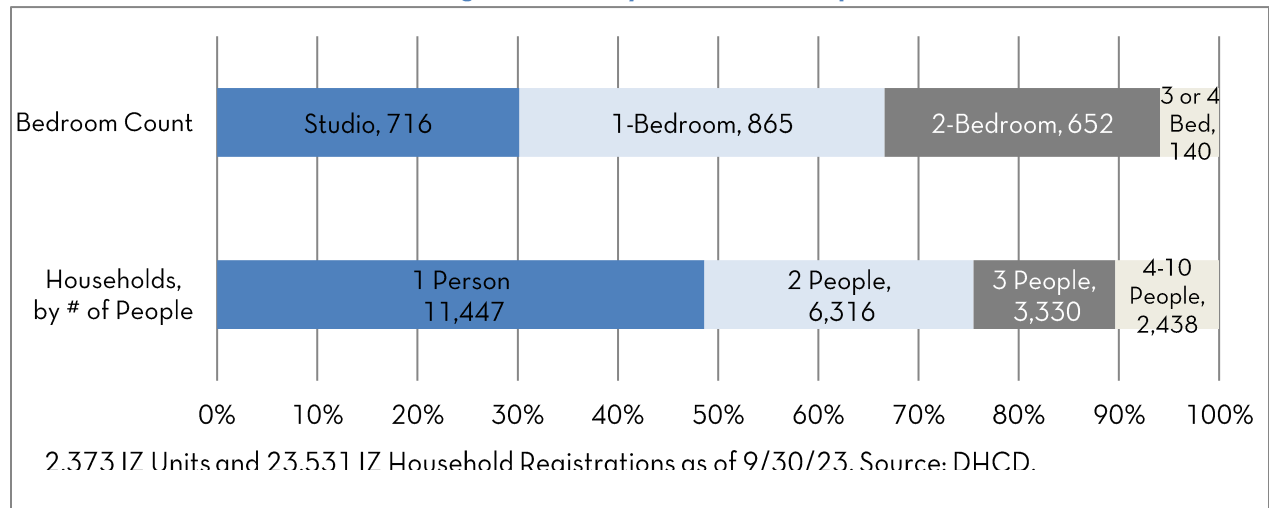
⁷ Permitted meaning developments that received Certificates of Inclusionary Zoning Compliance (CIZCs) signed by the Zoning Administrator during this time frame as part of the standard building permit process for Inclusionary Developments. This means that the building permits were approved. However, the units are not available for occupancy until construction is complete and an NOA is received by DHCD.

and non-residential properties, for a total⁸ of \$28,389,678 since 2016.

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.⁹ In FY2023, 10 developments opted into IZ, resulting in 12 additional IZ units under development. Since the regulations became effective, 65 developments have opted in, adding 78 total IZ units.

Figure 2 shows the total number of IZ units produced broken down by number of bedrooms since program inception: 30% are studios, 36% have one bedroom, and 27% have two bedrooms. As also seen in Figure 2, one-person households are the largest number of households registered for the IZ program (49%). One-person and two-person households combined amount to 75% of all registrations. The current IZ regulations require a minimum of one person per bedroom.¹⁰

Figure 2. IZ Unit Types Produced (by Bedroom Count, Since Program Start) vs. Current IZ Household Registrations (by Number of People in Each Household)



In FY2023, 93% of the 413 IZ units produced (384 units) are rental units, while 7% (29 units) are

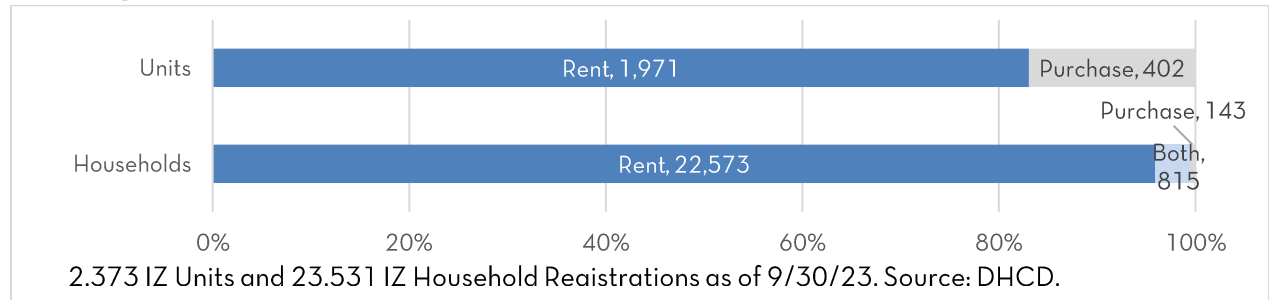
⁸ If a payment is made, the payment amount is calculated by DOB and is based on the square footage of the habitable penthouse space, assessed value of the property, square footage of the property, and permitted floor area ratio. At least one half of the amount due must be paid before issuance of the building permit and the balance is due before issuance of the certificate of occupancy.

⁹ See Title 11, Subtitle C, Section 1001.8 of the zoning code.

¹⁰ 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.

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 96% of all registered households are registered for rental units only, as shown in Figure 3.

Figure 23. Rent or Purchase: IZ Unit Tenures Produced vs. IZ Household Preferences¹¹

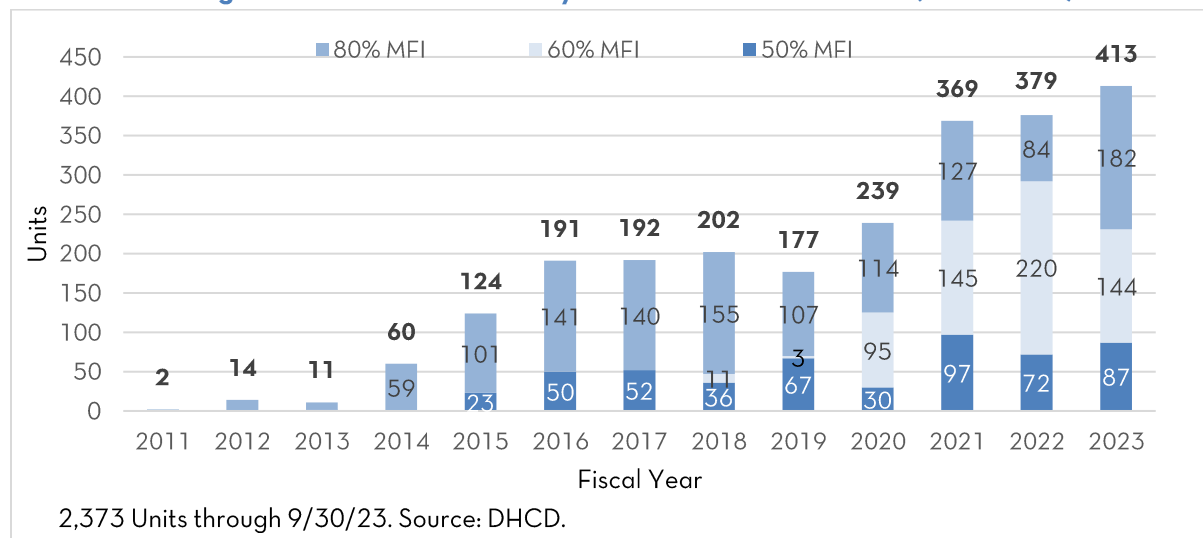


During FY2023, IZ units were reserved in three income categories: for households earning up to 50% MFI, up to 60% MFI, and up to 80% MFI. Of the 413 units produced in FY2023:

- 182 units (44%) were for 80% MFI households (168 rental and 14 for-sale).
- 144 units (35%) were for 60% MFI households (136 rental and 8 for-sale).
- 87 units (21%) were available for 50% MFI households (80 rental and 7 for-sale).

Figure 4 illustrates the production of IZ units by MFI level in FY2023 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.

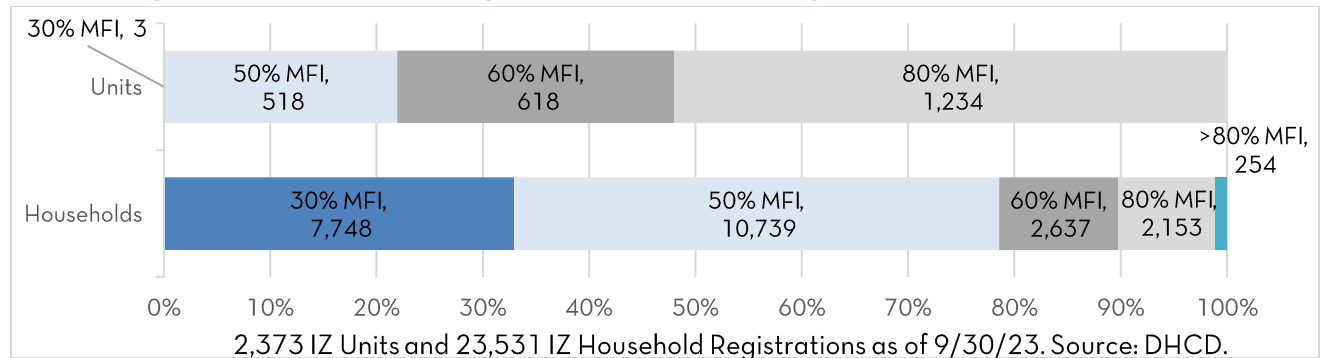
Figure 4. IZ Units Produced by Fiscal Year and MFI Level (2011-2023)



¹¹ Reported numbers represent all units produced as of the end of FY2023. Of produced units, 1,971 (83 percent) were rental units and 402 (17 percent) were for sale. Registered households are those listed in the DHCD IZ database as seeking an IZ unit. Of the 23,531 registered households, 22,573 (96 percent) are eligible only to rent, 815 (3 percent) are eligible to either rent or purchase, and 143 (1 percent) are only interested in purchasing.

While demand for affordable units exceeds supply at all income levels, as indicated by the counts provided in Figure 5, 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 HPTF, low-income housing tax credits and/or rental subsidies.

Figure 5. IZ Unit Affordability Levels vs. Household Registration Income Levels¹²



New in FY2023, DHCD used its legal authority to purchase one IZ unit as part of a pilot program in which DHCD purchases IZ units and Affordable Dwelling Units (ADUs¹³) to preserve and increase the affordability of the units. In this pilot, an 80% MFI unit was purchased by DHCD and made available in the IZ lottery process as a 50% MFI unit. 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.

¹² In Figure 5, 60 percent MFI households are those who make over 50 percent MFI up to and including 60 percent of MFI. However, 60 percent MFI units are available to a broader range of households (those earning 60 percent MFI or below, which includes lower MFI households as long as those households meet the minimum income requirements for the unit or have a voucher or other rental assistance then can bring with them to the IZ unit).

¹³ Affordable Dwelling Unit (ADU) is an umbrella term applied to for-sale and for-rent homes that are locally restricted for occupancy by households whose income falls within a certain range. ADUs are generally offered at a below-market rate. ADUs do not include developments that are federally restricted (for example, developments funded by the Home Investment Partnership Program (HOME), Low Income Housing Tax Credits (LIHTC) or Community Development Block Grant (CDBG)). Also, it does not include developments funded through the District's Housing Production Trust Fund (HPTF).

FY2023 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.¹⁴ In answering these questions, this report primarily discusses data from FY2023 but makes comparisons to the program’s production of units in previous years and projections for the program’s future growth.

The report concludes that the numbers of IZ units produced each fiscal year has generally increased compared to the previous years.

1. Number of IZ Units¹⁵ produced at each targeted income level:

In FY2023, 413 IZ units were produced. The below table details the breakdown of units produced at each targeted income level.

MFI Level	FY2023 IZ Units Produced	% of All Units Produced in FY2023
80% MFI	182 units	44%
60% MFI	144units	35%
50% MFI	87 units	21%
TOTAL	413 units	100%

At the close of FY2023, 2,373 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	1,234 units	52%
60% MFI	618 units	26%
50% MFI	518 units	22%
30% MFI	3 Units	<1%
TOTAL	2,373 Units	100%

2. Number of IZ Units produced for sale:

In FY2023, 29 IZ units were produced for sale (7% of all IZ units produced in FY2023). From program inception through the end of FY2023, a total of 402 for-

¹⁴ DHCD is required to submit an annual report responding to 10 questions in accordance with §6-1041.09 of the IZ Act.

¹⁵ 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.

sale units have been produced (17% of all IZ units produced).

3. Number of IZ Units produced for rent:

In FY2023, 384 units were produced for rent (93% of all IZ units produced in FY2023). From program inception through the end of FY2023, a total of 1,971 rental units have been produced (83% of all IZ units produced).

4. The median income of the households that purchased¹⁶ or rented¹⁷ IZ Units:

In FY2023, the median income of households that:

- purchased IZ units was \$64,786; and
- rented IZ units was \$59,001.

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

During FY2023, DHCD purchased one 80% MFI IZ unit and made it available for resale through the IZ lottery process as a 50% MFI unit.

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 FY2023			
Source	Number of Households	Total Subsidy	Average per Recipient
Home Purchase Assistance Program (HPAP)	43	\$5,556,016	\$126,273
Employer Assisted Housing Program (EAHP)	8	\$131,745	\$18,821
DC Open Doors	2	\$19,178	\$9,589
Federal Home Loan Bank	6	\$53,317	\$8,886

In FY2023, 43 of 57 purchasers (75%) closing on an IZ unit received an HPAP subsidy. Fourteen of the 43 HPAP recipients used one additional source of funding from EAHP, DC Opens Doors or the Federal Home Loan Bank (FHLB). 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 typically result in the developments being IZ Exempt, as described in Footnote 5.

¹⁶ New IZ units closing in FY2023.

¹⁷ Both new and renewing IZ unit renters with income certifications in FY2023.

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

Average monthly rent in FY2023:¹⁸

Type of Unit	50% MFI	60% MFI	80% MFI	Average Rent
Co-living	-	\$969	-	\$969
Studio	\$926	\$1,112	\$1,545	\$1,365
1-bedroom	\$904	\$1,136	\$1,577	\$1,326
2-bedroom	\$1,072	\$1,335	\$1,843	\$1,475
3-bedroom	\$1,121	\$1,530	\$2,103	\$1,632
4-bedroom	-	\$1,800	-	\$1,800

Average for-sale price in FY2023:¹⁹

Type of Unit	50% MFI	60% MFI	80% MFI	Average Sales Price
Studio	\$140,300	-	\$249,050	\$212,800
1-bedroom	\$141,900	\$216,900	\$248,775	\$214,088
2-bedroom	\$146,500	\$196,900	\$285,450	\$242,493
3-bedroom	\$253,927	\$231,700 ²⁰	\$410,606	\$313,830
4-bedroom	\$276,200	-	\$463,300	\$400,933

8. The number of waivers or alternative compliance requested and granted in FY2023:

The Zoning Commission and the Board of Zoning Adjustment (BZA) did not approve alternative compliance for any Planned Unit Development (PUD) in FY2023.

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

DOB approved CIZCs for 39 developments in FY2023, of which 38 were multi-family developments and one was a single-family development.

Multi-Family (38 developments)

- Of the 38 multi-family developments, 36 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. Of the 38 developments, 31 of them received bonus density (averaging 16.4%). The other 7 developments did not receive bonus density. Not all developments receive bonus density, and the reasons are site specific. Some examples include developments with large sites

¹⁸ Both new and renewing IZ tenants with an income certification in FY2023. Where “-” appears, there were no units.

¹⁹ Initial IZ unit sales closing in FY2023. Where “-” appears, there were no units.

²⁰ The 3-bedroom 60% MFI average sales price is lower than the 3-bedroom 50% MFI average sales price because there was only one data point, which happened to be a condo. The 50% MFI sales include both condos and higher-priced townhomes.

that only build on one small portion of the site or those that may be subject to historic preservation guidelines.

- The remaining 2 of the 38 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.

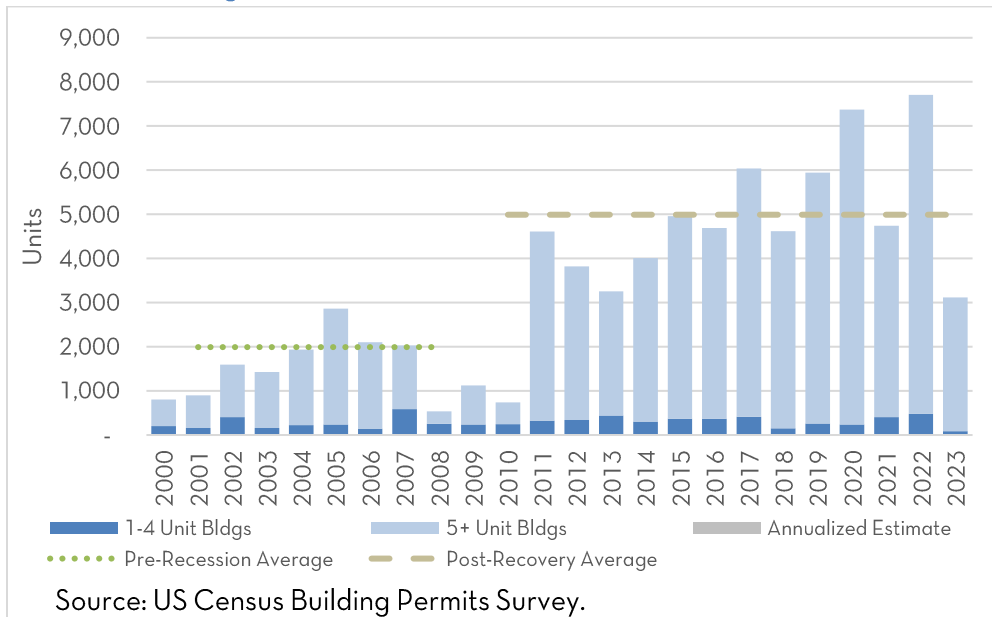
Single-Family (1 development)

There was one single-family development. The development was in single-family zone category which does not allow bonus density to be calculated.

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

There is no conclusive evidence that IZ requirements have had an adverse effect on the production of housing in the District. While not as many new units were permitted in FY2023, as in recent years, the number was similar to the amount permitted a decade ago and remains higher than the years prior to 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

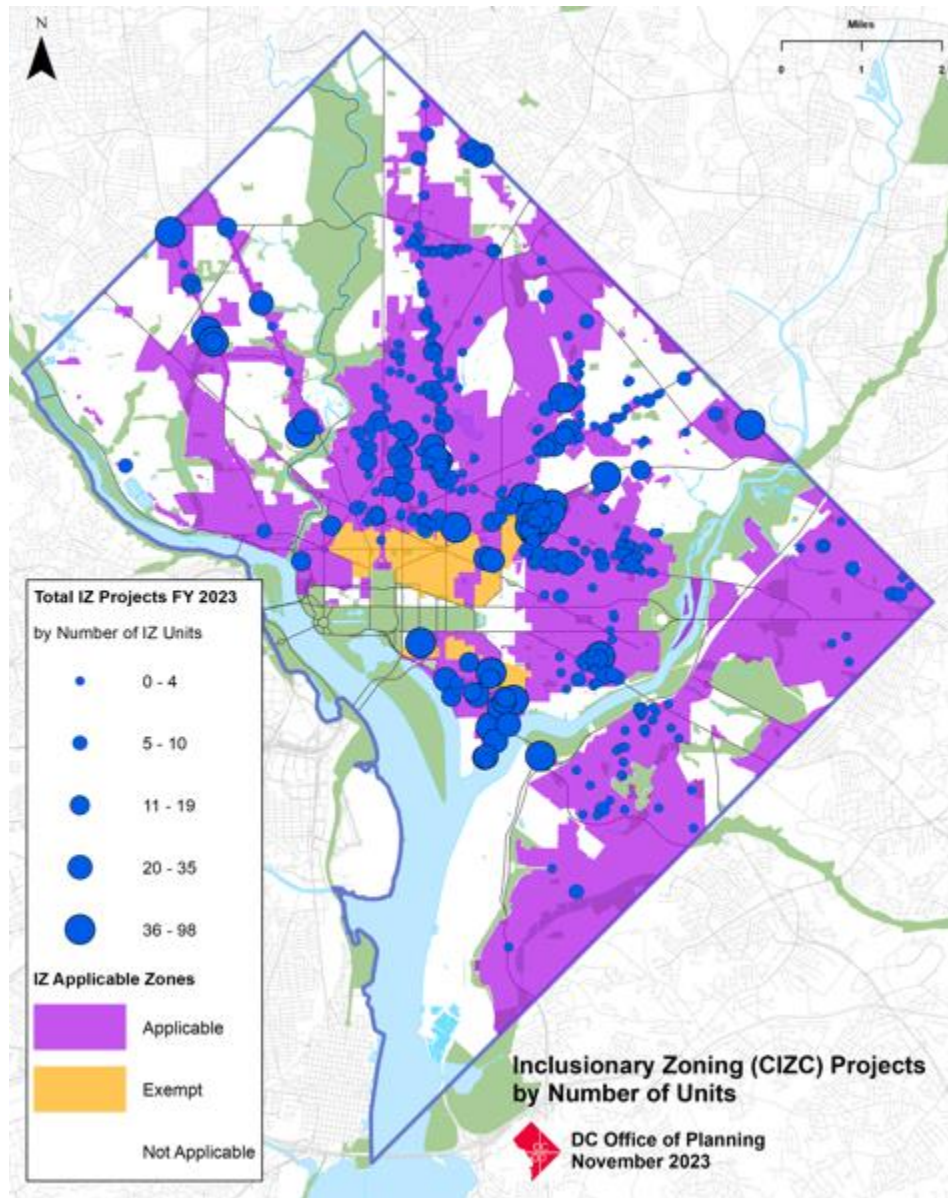


Since the construction of IZ units is tied to the pace of new development, this indicates that developers are not developing fewer buildings because of IZ Regulations. In addition, there were 10 projects which voluntarily chose to opt in to IZ

during FY2023. As of the end of the fiscal year, there are a total of 66 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 98 IZ units and 492 total units. Map 1 shows that IZ units are located in developments constructed throughout the District and that the IZ program is not adversely affecting housing production in any one area of the city or District-wide.

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



²¹ CIZCs signed by the Zoning Administrator as of 9/30/23 as part of the building permitting process.