

July 2017

INCLUSIONARY ZONING FISCAL YEAR 2016 ANNUAL REPORT



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Cover photo: Condominiums at 301 H Street NE, a 25-unit building with three inclusionary zoning units.

Letter from Mayor Muriel Bowser



Mayor Muriel Bowser

As Washington, DC grows, we must ensure prosperity reaches every corner of our city and every resident.

That is why affordable housing has been a top priority of my Administration since Day One. Together, we are using every tool possible to make homeownership and affordable housing a reality for more Washingtonians and those wanting to call DC their home.

The Inclusionary Zoning Program is a perfect example of what is driving our unprecedented success. This report documents the growth of the program and its increased importance in DC's affordable housing opportunities. Ultimately, we are making better use of Inclusionary Zoning, and as a result, more Inclusionary Zoning units are in our pipeline.

And, more than ever before, we are using other resources to produce and preserve affordable housing in our nation's capital.

This includes my annual commitment of at least \$100 million to the Housing Production Trust Fund. For three years in a row, we have invested \$100 million annually in the fund – more per capita than any other city in the country. My Administration has already produced and preserved more than 3,600 units of affordable housing that will house roughly 9,000 residents. And, we have nearly 5,000 more units in the pipeline that will provide homes to roughly 12,500 residents.

In addition, we have committed an additional \$10 million in my Fiscal Year 2018 Budget for a new Housing Preservation Fund that will leverage private investments to yield nearly \$40 million for our efforts at preserving affordable housing units.

We also have made enhancements to our Home Purchase Assistance Program (HPAP), giving borrowers up to \$84,000 in down payment and closing cost assistance – that's \$30,000 more than in previous years.

These initiatives help facilitate the inclusive prosperity that gives Washingtonians from all eight wards a pathway to quality affordable housing opportunities, resulting in building stronger communities.

I look forward to promoting the development of affordable housing through Inclusionary Zoning, the HPTF, HPAP and all of our important affordable housing vehicles that make Washington, DC the most diverse, inclusive and equitable city in our nation.

A handwritten signature in black ink that reads "Muriel Bowser". The signature is fluid and cursive, with a large, prominent "B" at the end.

Executive Summary

The Fiscal Year (FY) 2016¹ Inclusionary Zoning (IZ)² Annual Report from the Department of Housing and Community Development (DHCD) marks the conclusion of the seventh 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, 2016 and was drafted in coordination with the DC Office of Planning.

Housing construction in the District of Columbia (District) remained robust as demonstrated by the large number of building permits issued for new privately owned housing units.³ From 2011, when the first IZ units were available for occupancy, through the end of calendar year 2015, the average annual number of new building permits in the District was 4,167. In calendar year 2016, 4,682 permits were issued for new housing units within the District, which is almost a 13 percent increase over the prior five-year average. This was also the second highest number since the Census Bureau started keeping track in 1980; surpassed only by 2015's record-breaking amount of 4,956.⁴

As the housing market grows, so does the number of IZ units. The 191 IZ units produced in FY2016 is a 54 percent increase over the number of IZ units produced in the prior fiscal year (124 units in FY2015) and almost one-half of the total number of IZ units produced to date. Figure 1, on page 4, 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 increasing dramatically.

DCHD and Mayor Muriel Bowser are committed to effectively addressing one of the thorniest problems facing our growing and thriving city: the ever-escalating cost of housing. Through record funding commitments to the Housing Production Trust Fund and housing preservation, and enforcing requirements on developments to provide affordable housing through programs such as Inclusionary Zoning, the District is attempting to meet the critical housing needs of our diverse labor force and population by creating more mixed income neighborhoods.

¹ The 2016 fiscal year is October 1, 2015 through September 30, 2016.

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 is currently working on proposed revised IZ administrative regulations (IZ Regulations), which are in the process of review before publication for public comment. These are intended to streamline the IZ administrative processes based on the experiences of the program to date. The current IZ administrative regulations may be found at <http://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/IZAdministrativeRegulations.pdf>.

³ United States Census Bureau, Building Permits Survey, <http://www.census.gov/construction/bps/>

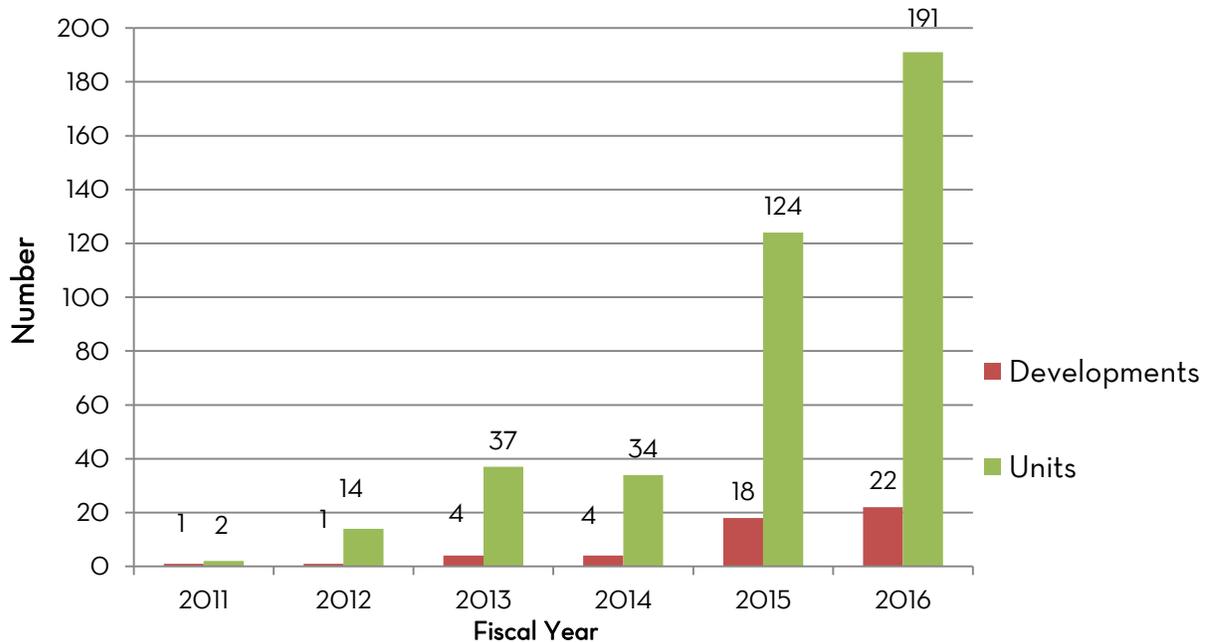
⁴ "DC's Apartment Boom Continued in 2016: Here's What That Means for your Rent" by John Ricco, Greater Greater Washington, February 3, 2017.

Administered by DHCD since 2009, the District's Inclusionary Zoning program applies to most new residential developments and significant expansions of buildings in certain zones of the city, but in all eight wards. It requires that developments reserve approximately 8 to 10 percent of the available residential floor space as affordable for income-qualified households; in turn, developers can build up to 20 percent more square footage than would ordinarily be permitted. Qualifying households are selected by random lottery after attending an orientation and registering online.

Produced Inclusionary Developments and Units by Fiscal Year

The vast majority of the 191 IZ units produced in FY2016 (73 percent) are rental units (140 of the units were rentals and the remaining 51 units were for sale). According to the Washington, DC Development Report,⁵ nearly 90 percent of the 14,847 residential units under construction or renovation as of August 2016 are rental units.

Figure 1



50 Developments, 402 Units

Source: DHCD, April 2017

This coincides with the preferences of most households registering for the IZ program to rent, as opposed to buy, as shown in Figure 2.

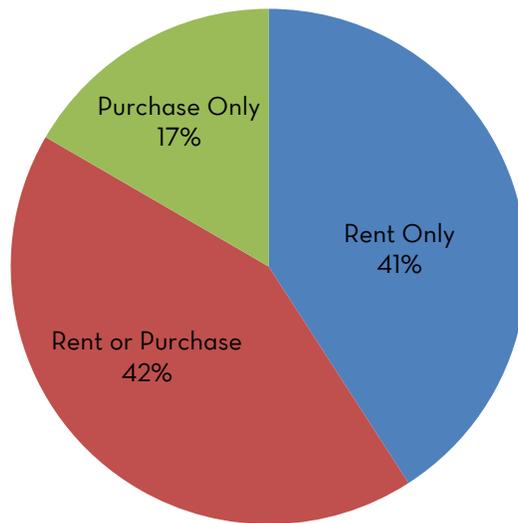


Right: Interior view of living space in a unit at 301 H Street NE.

⁵Washington, DC Development Report, 2016/2017 Edition, a publication by Washington DC Economic Partnership and CBRE, page 46.

Household Registrations* by Rent/Purchase Preference

Figure 2



Based on 7,718 household registrations

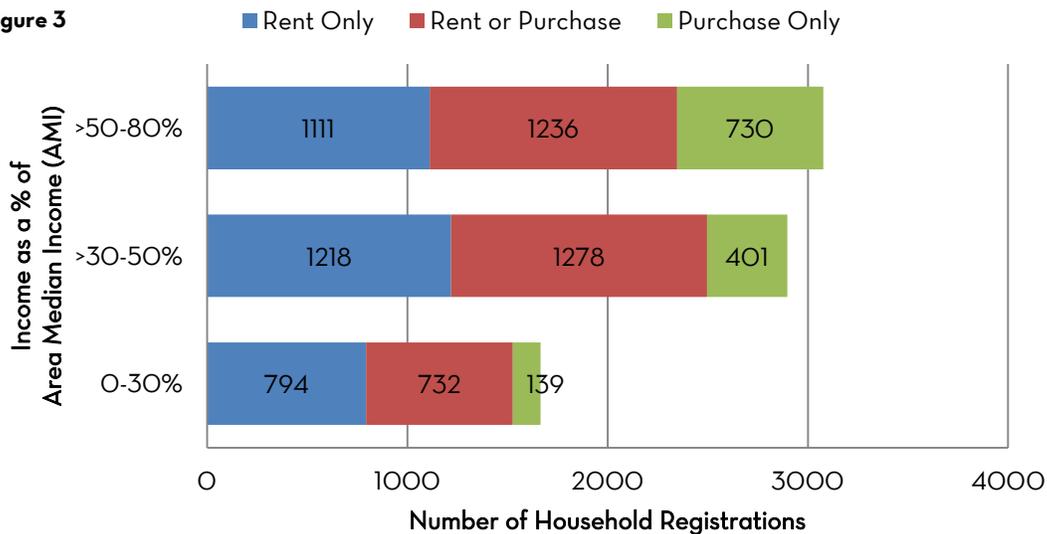
Source: DHCD, April 2017

*Note: The total number of registrations includes some duplicate registrations for the same households (roughly 10 percent of registrations). DHCD is in the process of cleaning up this data.

Figure 3 further shows the preferences of registered households broken down by income level.

Household Registrations* by Rent/Purchase Preference and AMI Level

Figure 3



Based on 7,639 household registrations (excludes 79 registrations over 80% AMI)

Source: DHCD, April 2017

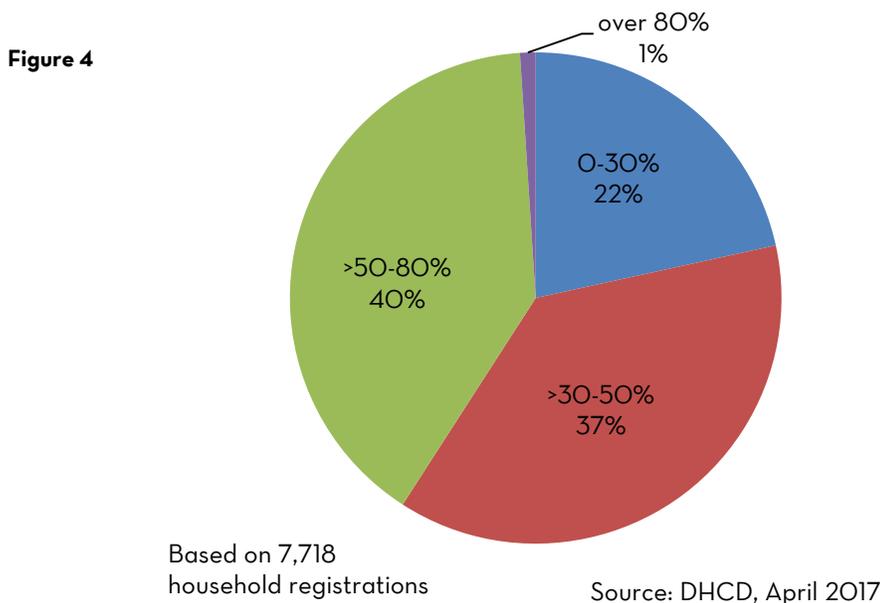
*Note: The total number of registrations includes some duplicate registrations for the same households (roughly 10 percent of registrations). DHCD is in the process of cleaning up this data.

There are currently⁶ two affordability levels for IZ units – 50 percent of Area Median Income (AMI)⁷ (reserved for households earning up to 50 percent of AMI) and 80 percent AMI (reserved for households earning between 51 and 80 percent of AMI). Of the 191 IZ units produced in FY2016:

- Seventy-five percent (144 units) were for 80 percent AMI households.
- The remaining 25 percent (47 units) were available for 50 percent AMI households.

However, approximately 60 percent of the households registered for the IZ program have a household income less than or equal to 50 percent of AMI, as seen in Figure 4.

Household Registrations by % AMI Level*



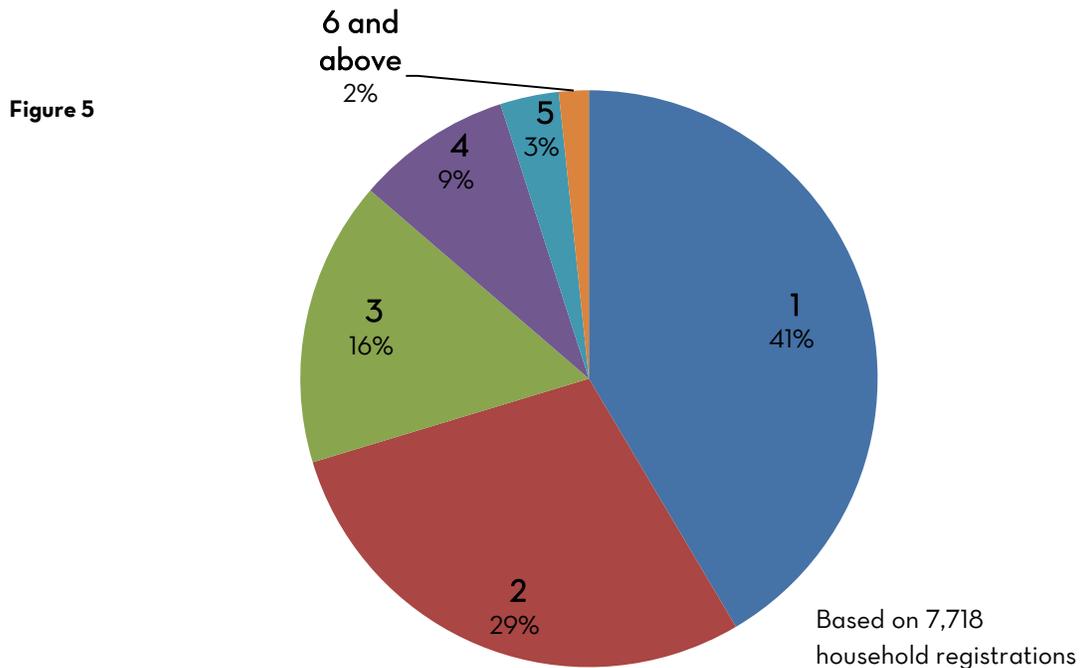
*Note: The total number of registrations includes some duplicate registrations for the same households (roughly 10 percent of registrations). DHCD is in the process of cleaning up this data.

As seen in Figure 5, on page 7, the largest number of households registered for the IZ program consists of one person (41 percent). One and two person households combined amount to 70 percent of all registrations.

⁶ Changes were ordered by the Zoning Commission, which are pending Council action and would change all rental IZ units to be 60 percent AMI and all sale IZ units to be 80 percent AMI.

⁷ In FY2016, Area Median Income 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 \$108,600, and is adjusted for household size. (<https://www.huduser.gov/portal/datasets/il/il16/IncomeLimitsBriefingMaterial-FY16.pdf>). In FY2016 the IZ program referred to this as the Area Median Income or AMI.

Registrations* by Number of Household Members



Source: DHCD, April 2017

*Note: The total number of registrations includes some duplicate registrations for the same households (roughly 10 percent of registrations). DHCD is in the process of cleaning up this data.

About Inclusionary Zoning

The IZ program supports the District's and DHCD's missions to produce and preserve affordable housing opportunities by requiring new rental or condominium buildings over 10 units—and renovations increasing an existing building's gross floor area by over 50 percent—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 AMI and 80 percent AMI households.

FY2016 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.⁸ In answering these questions, this report primarily discusses data from FY2016 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 FY2016 saw a significant increase in the number of IZ units produced and occupied by eligible households and this production should continue to increase with little indication of any adverse effect on the production of housing in the District.

1. Number of IZ Units⁹ produced¹⁰ at each targeted income level:

In FY2016, 191 IZ units were produced, of which 47 units (about 25 percent) were set aside for 50 percent AMI households and 144 units (about 75 percent) were produced for 80 percent AMI households.

At the close of FY2016, 402 IZ units had been produced since program inception. Of these units, 73 (about 18 percent) were designated for 50 percent AMI households, and 329 (about 82 percent) were reserved for 80 percent AMI households.

2. Number of IZ Units produced for sale:

In FY2016, 51 IZ units were produced for sale. This is well over half of the 84 total for-sale units produced from program inception through the end of FY2016.

3. Number of IZ Units produced for rent:

In FY2016, 140 IZ units were produced for rent. This is almost half of the total of 318 rental units that have been produced from program inception to the end of FY2016.

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

⁸ 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.

⁹ Unless otherwise specifically provided, the capitalized terms used in this report have the same meaning as defined in the IZ Regulations.

¹⁰ The tabulation of IZ units produced annually is based on the Notice of Availability issue date submitted by the developer to DHCD. 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. Section 2602.3(f) of the zoning code exempts projects receiving subsidized financing through 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.

In FY2016, the median income of households:

- renting IZ units was \$53,299; and
- purchasing IZ units was \$49,275.

The median income of households renting IZ units in FY2016 is slightly higher than the median income of households purchasing IZ units since a higher percentage of renters were in the 80 percent AMI category, thus pulling the median higher. Eighty percent AMI households accounted for 71 percent of IZ rental units that began a lease in FY2016 but accounted for only 62 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 low- (50 percent AMI) or moderate-income (80 percent AMI) households:

No IZ units were purchased or rented by any District agency or third parties for resale in FY2016.

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 low- (50 percent AMI) or moderate-income (80 percent AMI) households.

Among the 34 IZ units sold in FY2016, 22 buyers used DHCD's purchase assistance subsidy, the Home Purchase Assistance Program (HPAP), totaling \$870,872; an average of \$39,585 per unit. Two of the 22 buyers also benefited from the Employer Assisted Housing Program (EAHP), totaling \$21,500; an average of \$10,750 per unit. 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 10.

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

a. Average rent in FY2016:

- Average rent price, studio: **\$1,220**
- Average rent price, one bedroom: **\$1,372**
- Average rent price, two bedrooms: **\$1,636**

b. Average sale price in FY2016:

- Sale price for the single studio sold: **\$214,600**
- Average sale price, one bedroom: **\$183,720**
- Average sale price, two bedrooms: **\$214,236**
- Average sale price, three bedrooms: **\$339,990**
- Average sale price, four bedrooms: **\$236,900**

Note that the only IZ studio sale in FY2016 was an 80 percent AMI unit. In FY2016, 80 percent AMI units accounted for 60 percent of one bedroom sales (12 of 20 sales) and 64 percent of two bedroom sales (7 of 11 sales) with the remainder being 50 percent AMI units.

In FY2016, there was only one three bedroom sale (a single family home¹¹ at 80 percent AMI) and one four bedroom sale (a single family home at 50 percent AMI), which explains why the four bedroom sale price is lower than the three bedroom sale price.

8. The number of waivers or alternative compliance requested and granted in FY2016:

Five projects were granted exemptions from IZ in FY2016, all of which were exempted from IZ due to the projects receiving District and/or federal funding. While exempt from the IZ procedures, they are still required to provide affordable units equal to or in excess of the square footage required by the IZ regulations, as further described in footnote 10. When the District and/or federal funding expire, these projects are subject to IZ. No projects requested or were granted waivers from IZ during FY2016.

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

Twenty-four projects submitted Certificates of Inclusionary Zoning Compliance (CIZC) in FY2016:

- Fifteen of the 24 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).
- Eight of the 24 projects were Planned Unit Developments (PUDs)¹² and the remaining project was in a single-family zone.¹³

The overall bonus density of the 15 multi-family, non-PUD development projects was six percent in FY2016:

- Ten projects (67 percent) received an average of 16 percent bonus density.
- Four projects did not receive bonus density.
- One project dramatically underutilized its potential bonus density by building row-homes in a multi-family zone, bringing the average down considerably.
- Without that single development, the average bonus density is 12 percent.

¹¹ Single family homes and townhomes are subject to different maximum purchase/rental prices than multi-family homes.

¹² The average bonus density for the eight PUDs was 24 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 24 percent.

¹³ 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 multi-family zones.

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

Since IZ took effect in August 2009, the number of projects filing CIZCs and proceeding to construction/completion has steadily grown, with a slight reduction in FY2016. The table below shows that the number of IZ units has increased in proportion to the number of private sector residential developments each year.

Table: CIZC Applications by Fiscal Year¹⁴

	Projects	Total Units	Market Units	IZ Units¹⁵	50% AMI	80% AMI	ADUs¹⁶
FY10	1	22	20	2	1	1	-
FY11	2	272	215	57	1	56	-
FY12	12	1,712	1,097	149	17	132	466
FY13	17	1,115	649	104	25	79	362
FY14	30	2,095	1,589	200	43	157	306
FY15	43	3,547	2,090	355	98	257	1,102
FY16	24	2,415	1,901	244	33	211	270
Totals	129	11,178	7,561	1,111	218	893	2,506

Source: DHCD, March 2017. Note that some numbers in Table A have been updated from previous Annual Reports, to reflect ongoing review of records.

Table 2 shows that the number of IZ units included in CIZCs filed in FY2016 is 111 fewer than in FY2015, which mirrors the reduction of 189 in market rate units in the same period.

According to U.S. Census reports, the District approved new construction permits for 5,129 units of housing in FY2016; this is 24.1 percent more than in FY2015 (4,134 units).¹⁷ Since 2,415 total units were included in CIZCs in FY2016 compared to 5,129 included in new construction permits issued in FY2016, approximately 47 percent of units issued building permits were subject to IZ.

The remaining 53 percent of units under construction are in projects that are exempt from IZ because:

- pre-development approvals were granted before the effective date of IZ¹⁸;

¹⁴ Includes developments receiving exemptions, as described in question number 8 above, that must set aside IZ units after applicable subsidy periods expire.

¹⁵ The number of IZ units in this table refers to those included in CIZCs filed in FY2016, as opposed to the number of units referred to elsewhere in this report, which refers to those produced in FY2016, as further described in footnote 10.

¹⁶ "ADU" is defined as affordable dwelling unit, and includes the units in properties receiving IZ exemptions, as described in question number 8 above. The ADU tabulation is added to the number of IZ units and market rate units to reflect the total number of units included in CIZCs issued in FY2016.

¹⁷ DHCD analysis of U.S. Census data, <http://www.census.gov/construction/bps/>, accessed February 8, 2017, 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.

¹⁸ The Final Rulemaking for IZ implementation was published in the *D.C. Register* on December 11, 2009.

- locations are in areas where IZ does not apply (see Map 1), 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 in the map on page 13. 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.

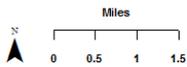
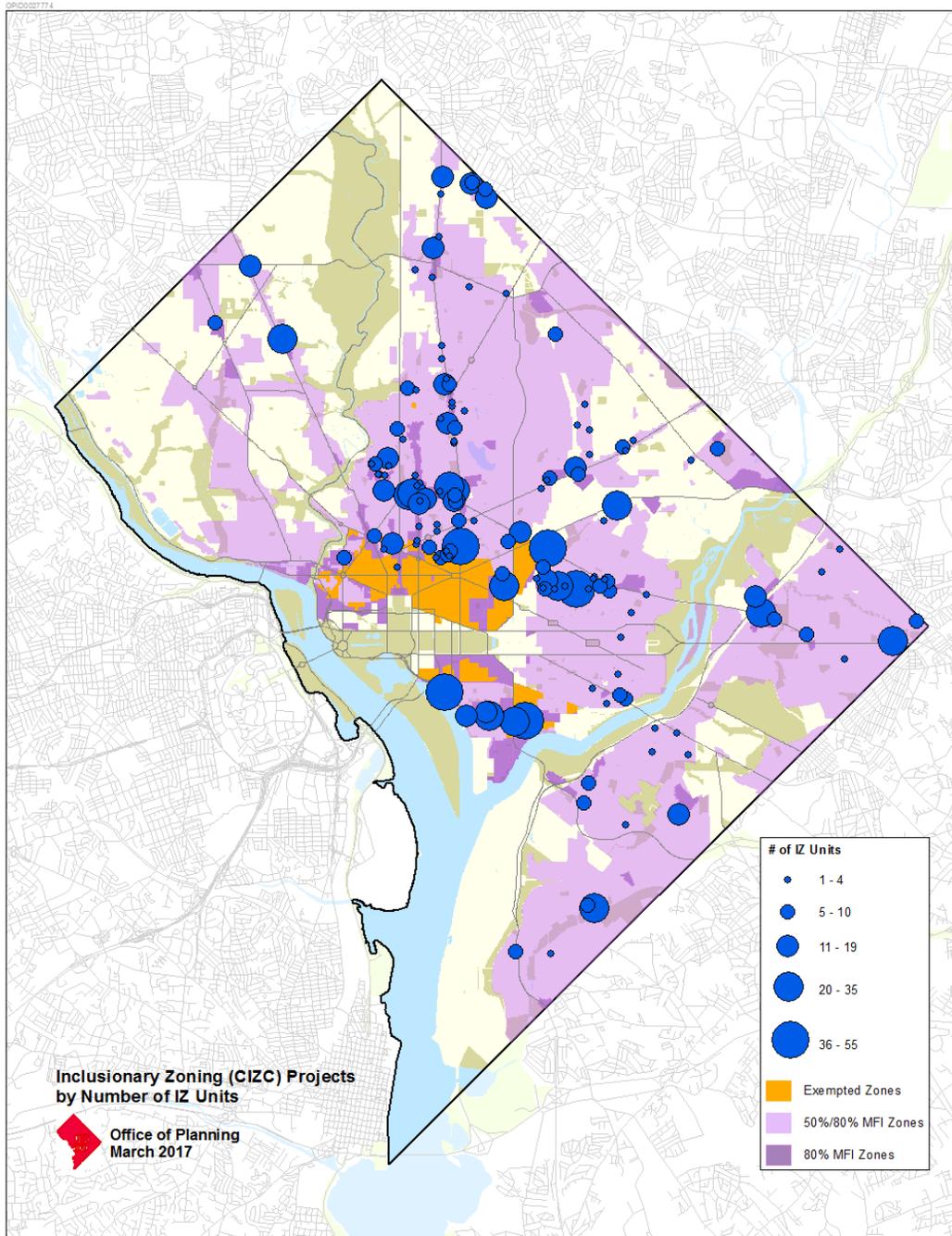
Right: Exterior view of Fahrenheit Apartments, 3930 Georgia Avenue NW, a 31-unit building with three inclusionary zoning units.



Below: Interior view of living space in a unit at Fahrenheit Apartments.



Map: Filed Certificates of Inclusionary Zoning Compliance



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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