



RESEARCH REPORT

Affordable Housing Needs Assessment

Phase I

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Executive Summary

This report is the first part of a housing study being completed by the Urban Institute for the DC Office of the Deputy Mayor for Planning and Economic Development (DMPED). DMPED requested an affordable housing needs assessment to measure, quantify, and qualify the need for affordable housing, within each ward, and neighborhood cluster; to quantify the need to preserve and construct housing units appropriate to meet the needs of DC residents now and in the future; and to help guide investment decisions in affordable housing by the city.

The study is being completed in two phases. Phase I, summarized in this report, reports on the status of the inclusionary zoning and affordable dwelling unit programs.

Phase II, to be completed later this winter, will include demographic and housing profiles for the city, wards, and neighborhood clusters, including parcel-based data; estimation of current and projected affordable housing need; and an analysis of the housing supply to provide guidance on the city's investment decisions in affordable housing.

Inclusionary Zoning and Affordable Dwelling Unit Programs

The city's inclusionary zoning and affordable dwelling unit programs create affordable housing in new or reconstructed residential developments in a diverse set of neighborhoods where development is taking place. While such programs exist in other jurisdictions, Washington, DC, has a unique opportunity to showcase its programs as models for the rest of the country.

Affordable dwelling unit (ADU) is an umbrella term applied to the for-sale and for-rent homes that are restricted for occupancy by households whose income falls within a certain range and are generally produced in exchange for zoning relief, tax incentives, public financing, or the right to purchase or lease District-owned land. Inclusionary zoning (IZ) is a policy utilized by municipalities and counties to create affordable housing through private sector development. The District of Columbia's IZ program is mandatory and applies to developments that build a certain number of new units or expand the space of existing developments by a certain size. In addition, unlike the ADU program where units remain affordable for a specified number of years, affordability is permanent in IZ units.

Although the IZ legislation was adopted in 2006, it took three years before implementing regulations were issued. The bursting of the national housing market bubble also resulted in significantly decreased construction activity around the time implementation began. As a result, the first IZ units were not presented to the market until 2011. Now, however, with a building boom resuming in the city, over the next few years a number of new developments will be coming on line that will include IZ units.

We focus primarily on the IZ program because it has a more standard set of requirements than ADUs and the city has recently been trying to bring the ADU requirements more in line with the IZ program.

Current Program Features

The DC IZ program has a number of important features, specified in the enabling legislation and program regulations:

- IZ program requirements are triggered in new residential buildings with 10 or more dwelling units or in existing buildings when construction expands the gross floor area by 50 percent or more. The IZ program applies to multi-family dwelling units as well as one family, row dwellings, or flats constructed at the same time, or in phases, on contiguous parcels of land or lots divided by an alley under the same owner.
- IZ requires that portions of the units be priced for households at 50 percent and 80 percent of area median income (AMI). The number and distribution of inclusionary units depends on the construction type and density of the inclusionary development, as well as the zoning district where the development is located.
- Developers of inclusionary units must meet design guidelines including minimum size requirements. The number of studio, efficiency, and one-bedroom inclusionary units cannot be more than the number of market-rate units of those sizes and units cannot be concentrated in one area. IZ units must also have finishes and appliances comparable to those of market-rate units.
- Developments that receive certain federal or DC subsidies are exempt from the administrative requirement of the IZ program. Other projects are entirely exempt from the IZ program, including any projects with active building permits issued before the program became effective.

Inclusionary Zoning Accomplishments

As of May 2014, 477 affordable IZ units in 57 projects have been constructed, are under construction, or are planned (table ES.1).² The majority of IZ units thus far, 82 percent, are rental. Of the rental units, 33 have been leased as of May 2014. Only 72 out of the 477 inclusionary units (approximately 15 percent) are designated for homeownership. Six homeownership units have gone to market and four out of the six have been sold as of May 2014.

Since the IZ program is mandatory, IZ also allows for affordable housing in neighborhoods where it might otherwise be too expensive to build or preserve affordable housing. Most built and planned inclusionary units are in areas where the median home sales price is between \$300,000 and \$500,000. Of the 57 projects that include IZ units, 37 are located in the northwest quadrant, which has some of the most expensive neighborhoods in the District of Columbia.

TABLE ES.1

Inclusionary Zoning Developments Constructed, under Construction, and Planned As of May 2014 in Washington, DC

	Inclusionary Zoning (IZ) developments			
	Constructed	Under construction	Planned	Total
Rental				
Developments	8	21	2	31
IZ affordable units	99	265	28	392
Homeowner				
Developments	5	15	2	22
IZ affordable units	10	45	17	72
Tenure not specified				
Developments	0	1	3	4
IZ affordable units	0	2	11	13
Total				
<i>Developments</i>	13	37	7	57
<i>IZ affordable units</i>	109	312	56	477

Source: Certificate of Inclusionary Zoning Compliance filings, Office of Planning, May 2014.

Program Challenges

The IZ program has great potential to help expand the city's supply of affordable housing, particularly in neighborhoods undergoing rapid development. Nevertheless, experience around the country with similar programs has shown that IZ policies have their own set of particular implementation challenges.

To identify potential issues and challenges with DC's current IZ program, we interviewed 22 key informants from city agencies, affordable housing developers, marketers, community development organizations, and affordable housing advocacy groups.³ We also reviewed significant documents and looked at IZ programs in other cities.

In this report, we discuss a number of issues potentially facing the IZ program:

- *Are IZ prices too close to market-rate units?* Key informants expressed concern that the IZ program has not been able to provide affordable housing for the lowest income households experiencing the widest gap between available supply and actual demand of affordable housing. The market nature of the IZ program necessitates a trade-off between the incentives provided to developers and the level of affordability that can be required. Comparison cities with similar programs set the affordability levels for rental housing between 55 and 70 percent of AMI, and for owner housing between 70 and 90 percent AMI. The levels DC has set for its IZ program are roughly within these ranges, although 50 percent AMI seems to be at the bottom of the range for rental housing and comparatively low for owner housing. Nevertheless, the upper affordability limits for rental units in some other programs we looked at were lower than DC's maximum of 80 percent AMI. For example, San Francisco's IZ program has a 55 percent AMI threshold for rental units and 70 percent AMI for off-site ownership units.
- *Does the size and quality of IZ units meet the needs of different household types?* Key informants questioned whether the IZ program is producing units that meet the needs of larger households, notably families with children. Under current rules, the sizes of inclusionary units are dictated by the demand for market-rate units, which currently is for studio and one-bedroom units. To address this, DC could consider requiring developers to build a certain number of larger units.
- *Do condominium fees make IZ units unaffordable?* Many key informants expressed concerns that rapidly rising condominium fees in new developments may make IZ units unaffordable to target-income owners. Our review of IZ programs in other cities found that this is a common challenge. To address this, DC raised the estimate for condominium fees from \$0.50 to \$0.60 per square foot for setting sales prices of inclusionary units. DC currently recommends that developers use a par value approach when setting fees, but the city could consider making this a requirement.
- *Do the IZ resale requirements balance long-term affordability and allow homebuyers to obtain a return on their investment?* The IZ program establishes permanent restrictions on

homeowner units that limit the price on resale. Some informants criticized the policy of limiting the return that homeowners can realize as denying IZ participants an important benefit of homeownership. While it is difficult to assess this policy since no inclusionary units have been resold, we noted that programs with permanent affordability do work elsewhere. In addition, our analysis found that, if the IZ program had been in place the last 10 years with current program rules, inclusionary units would have remained affordable and provided a reasonable rate of return to homebuyers on resale.

- *Should the program allow for more flexibility with vacant units?* Although only six ownership inclusionary units have gone on the market thus far, some key informants are concerned about the flexibility of DC's program with regard to units that remain vacant for longer than comparable market-rate units. Again, with limited experience in sales of inclusionary units thus far, it is difficult to assess how much of a potential problem this is. Nevertheless, IZ programs in other cities have flexibility to deal with units that cannot be readily sold, such as allowing sales to buyers outside the target income range. The proposed IZ administrative regulations would shorten the administrative process and allow developers to find households through an approved marketing plan. These changes would expedite the purchase and leasing of IZ units.
- *Does the IZ program need more post-purchase support for homebuyers?* Some key informants said that there was a strong need for more post-purchase support for IZ homeowners, which might include training on basic responsibilities of housing maintenance, financial planning, and preparing for a unit resale. Post purchase support is not a key feature of the current IZ program but it is something the city should consider adding. Most other cities find that such services are invaluable to ensuring the long-term success of their programs and some hire outside contractors to provide support for inclusionary homebuyers.
- *Does the process for selecting eligible IZ participants work effectively?* Many key informants expressed concerns that the current process for selecting potential renters and buyers of IZ units is inefficient at finding eligible renters and homebuyers. The proposed changes to the IZ administrative regulations would require homebuyers to be pre-certified by a lender before entering the IZ lottery, which would greatly reduce problems of selecting buyers who cannot then obtain financing. Key informants also recommended better leveraging the city's community development organizations, nonprofits, and church groups to promote the program to residents as well as reaching out directly to city agencies to advertise the program to city employees.

- *Do participants understand program rules?* Another concern expressed was that households often do not fully understand the rules of the IZ program, such as the resale restrictions, even when they get to the point of purchasing a unit. We believe that there are further improvements that could be made to give clearer, less confusing information to program participants, such as by providing more written material or renaming the lottery as a “drawing.” DC should also actively seek feedback from participants to understand better which aspects of the program work well and which need improvement.
- *Does the IZ program administration have sufficient capacity?* Key informants believe that the city needs additional administrative capacity to manage the program effectively. Adequate support for the administration of the IZ and ADU programs is essential to their success. While these programs require no direct outlays from the city for housing subsidies, they do need resources for administration, enforcement, and monitoring to make sure that the programs are accomplishing their goals effectively.

In summary, while the overall design of DC’s IZ program seems sound, incorporating features of successful programs in other places, we believe that adopting the proposed IZ administrative regulations will help developers, renters, and owners save time and improve their understanding of the program and its requirements. Furthermore, there appear to be important challenges in implementing the program in a manner that will produce all the results intended when the policy was first put in place. The city needs to devote adequate resources for effective administration of the program and to collect, monitor, and report more detailed data about the IZ program to understand better whether the policy is working effectively.

Introduction

This report is the first part of a housing study being completed by the Urban Institute for the DC Office of the Deputy Mayor for Planning and Economic Development (DMPED). DMPED requested an affordable housing needs assessment to measure, quantify, and qualify the need for affordable housing, within each ward, and neighborhood cluster; to quantify the need to preserve and construct housing units appropriate to the meet the needs of DC residents now and in the future; and to help guide investment decisions in affordable housing by the city.

The study is being completed in two phases. Phase I, summarized in this report, reports on the status of the inclusionary zoning and affordable dwelling unit programs.

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Inclusionary Zoning and Affordable Dwelling Unit Programs

This report examines the city's inclusionary zoning and affordable dwelling unit programs, which create affordable housing in new or reconstructed residential developments.¹ While such programs exist in other jurisdictions, Washington, DC, has a unique opportunity to showcase its programs as models for the rest of the country and demonstrate how they can be effective in producing affordable housing in a high cost, rapidly growing urban area. We report on the history and performance of these programs to date and examine their strengths as well as explore potential issues that may be preventing them from achieving their maximum benefits.

Program Goals and Objectives

The affordable dwelling unit and inclusionary zoning programs are both meant to produce affordable housing in a diverse set of neighborhoods where new development is taking place. While there are many similarities in the basic structure of the two programs, there are also important differences. Affordable dwelling unit (ADU) is an umbrella term applied to the for-sale and for-rent homes that are locally restricted for occupancy by households whose income falls within a certain range and are generally offered at a below-market rate. ADUs are generally produced in exchange for zoning relief, tax incentives, public financing, or the right to purchase or lease District-owned land. Specific ADU provisions, such as the length of time housing units in the development must remain affordable, income limits for affordable units, and resale restrictions for homeowner units, are set out in deeds, covenants, land disposition agreements, ADU administration plans, and other originating documents. These provisions have historically varied from project to project, as each is a result of a unique negotiation or project approval. More recently, however, the city has attempted to make ADU restrictions more standardized across developments.²

Like ADUs, inclusionary zoning (IZ) is a policy utilized by municipalities and counties to create affordable housing through private sector development. Developers set aside a percentage of units for low- and moderate-income households in newly constructed, rehabilitated, or preserved residential projects. To compensate for the cost of producing the affordable units, developers receive density bonuses or other nonmonetary concessions, such as variances in zoning requirements. While some IZ

programs nationally are voluntary, such as New York City's New Housing Marketplace Plan, the District of Columbia's IZ program is mandatory and applies to developments that build a certain number of new units or expand the space of existing developments by a certain size. In addition, unlike the ADU program where units remain affordable for a specified number of years, in IZ, unit affordability is permanent; that is, units remain affordable for their entire life.

The District of Columbia adopted its mandatory IZ policy in 2006, during a period of rapid population growth and housing value increases (see appendix A for a brief history of the IZ program). The goals of DC's Inclusionary Zoning Implementation Act of 2006 include the following:

- Leverage private development, and the skills of private developers, to create affordable housing
- Reduce the negative impact of market-rate residential development on affordable housing supply
- Increase the supply of affordable housing to meet the needs of the workforce
- Preserve diversity and economic integration by ensuring a range of housing for households of all incomes, sizes, and age ranges
- Alleviate and/or stabilize the housing costs for low- and moderate-income households
- Create long-term affordable housing for low- and moderate-income households
- Provide opportunities for homeownership for low- and moderate-income levels.³

Although the IZ legislation was adopted in 2006, it took three years before implementing regulations were issued. The bursting of the national housing market bubble also resulted in significantly decreased construction activity around the time implementation began. As a result, the first IZ units were not presented to the market until 2011. Now, however, with a building boom resuming in the city, over the next few years a number of new developments will be coming on line that will include IZ units.

One potential benefit of the ADU and IZ programs is the creation or preservation of mixed-income neighborhoods. Since developers must build affordable housing units within the development itself, affordable housing can be created in more expensive neighborhoods where it would otherwise be cost-prohibitive for the city to create affordable housing through direct subsidies, such as with low-income housing tax credits or the Housing Production Trust Fund (Lerman 2006). Ensuring that affordable

housing is created in these developments increases the likelihood that low- and moderate-income DC households can remain in neighborhoods that possess attractive amenities, such as proximity to transit or good schools, and can help the city maintain an economically diverse workforce. When faced with limited public subsidies from local and federal resources, the ADU and IZ programs leverage the power of the private market to fulfill a public need. That is, affordable housing is achieved without any direct financial investment (besides administrative costs) from public agencies.

The remainder of this chapter summarizes the current features of the IZ program and reviews the program's accomplishments to date. Where possible, we also discuss issues related to the ADU program. However, we focus primarily on the IZ program because, as noted earlier, it has a more standard set of requirements than ADUs; and, the city has recently been trying to bring the ADU requirements more in line with the IZ program. IZ has a relatively short history to date, but we discuss some of the commonly identified issues and challenges the program has faced in its initial years, according to key informants. The final section summarizes the findings of the analysis and provides recommendations for further research.

Current Program Features

The Department of Housing and Community Development (DHCD), the Department of Consumer and Regulatory Affairs (DCRA), the Office of Planning (OP), and the Office of the District Mayor for Planning and Economic Development all play major roles in administering, enforcing, and reviewing the IZ program (see appendix B). The IZ requirement is triggered in new residential buildings with 10 or more dwelling units or in existing buildings when construction expands the gross floor area by 50 percent or more. IZ requires that a portion of the units be priced for households at 50 percent and 80 percent area median income (AMI), depending on the characteristics of the development. The IZ program applies to multi-family dwelling units as well as one family, row dwellings, or flats constructed at the same time, or in phases, on contiguous parcels of land or lots divided by an alley under the same owner.

The initial maximum purchase price or rent is listed in the Rent and Price Schedule, which are based on the AMI as calculated by the US Department of Housing and Urban Development (HUD). Table 1 lists the published maximum income limits for IZ households in 2013.

TABLE 1

IZ Maximum Income Limits, 2013

Household size	50 % AMI	80% AMI
1	\$38,306	\$60,839
2	\$43,778	\$69,530
3	\$49,250	\$78,221
4	\$54,722	\$86,912
5	\$60,195	\$95,604
6	\$65,667	\$104,295

Source: Department of Housing and Community Development, District of Columbia, 2014.

Under DC Law, the mayor may establish a formula for the IZ maximum rent or purchase price so that households will not spend more than 30 percent of their annual income, a level considered to be affordable, on rent and utilities, for renters; and utilities, homeowner association or condominium fees, and mortgage payments (principal, interest, and property insurance and taxes), for owners. Through the Inclusionary Zoning Administration Regulations, the IZ program used a formula that established the qualification of IZ occupants, which is at a higher threshold than the pricing of IZ units. For inclusionary rental units, households must not pay more than 38 percent of annual income on rent and utilities. Inclusionary homeowners cannot spend more than 41 percent on mortgage payments, insurance, real property taxes, and condo/homeowner association fees. If the cost of the up front or recurring costs (e.g., homeowner association or condominium fees) of for sale inclusionary unit is 10 percent or more than the maximum price in the Rent and Price Schedule, then DHCD may lower the initial maximum price in order to maintain the affordability standards. Households selected for rental and ownership IZ units are selected through a housing lottery; developers may also outreach with potential households through a marketing plan if the lottery does not garner any eligible and interested tenants or owners.

To maintain permanent affordability of IZ homeowner units, the purchase price for the second and subsequent sales of the inclusionary homeownership unit is also limited. (See the discussion of the resale price formula in the program challenges section below for a more in-depth analysis of reselling inclusionary units.)

The number of inclusionary units that developers must set aside, and the distribution of 50 percent and 80 percent AMI units, depends on the construction type and density of the inclusionary development as well as the zoning district in which the development is located (see table 2). Developments occurring in higher density zones or that utilize steel and concrete in the frame may set aside fewer inclusionary units since construction costs are higher than developments constructed in less dense neighborhoods with more affordable materials. To offset the costs of including low- and

moderate-income units in developments, developers can receive up to a 20 percent bonus density. Some districts modify zoning standards, increasing the lot occupancy and maximum height allowances in order to allow for the IZ bonus density.

TABLE 2

Inclusionary Zoning Requirements by Density/Construction Type and Zoning District

Density/construction type	Zoning Categories	
	Residential zones (R-2 to R-5-D)	All other zones (C, CR, SP, and W)
Low-density zones (R-2 to R-5-B, C-2-A, W-1) (stick-built construction)		
Percentage of units required	Greater of 10% of residential floor area ratio (FAR) or 75% of the bonus density	Greater of 10% of residential FAR or 75% of the bonus density
Target households	Units set aside split evenly between 50% and 80% of AMI	Units set aside split evenly between 50% and 80% of AMI
Higher-density zones (R-5-C and D, C-2-B to C-3-C, W-2 and 3, CR and SP) (steel- and concrete-frame construction)		
Percentage of units required	Greater of 8% of residential FAR or 50% of the bonus density	Greater of 8% of residential FAR or 50% of the bonus density
Target households	Units set aside split evenly between 50% and 80% of AMI	Units set aside for 80% of AMI

Source: Department of Housing and Community Development, 2013

Developers of inclusionary units must meet design guidelines including a minimum size requirement, which is the lesser of at least 98 percent the average size of a comparable market-rate unit in the development, or at least 98 percent of the minimum unit size as noted in the table below (table 3). Inclusionary units must have finishes and appliances that are comparable to market-rate units, although they may be less expensive. The ratio of studio, efficiency, and one-bedroom inclusionary units cannot be more than the ratio of market-rate units of those sizes, and inclusionary units cannot be concentrated in one area. Regulations also mandate a minimum and maximum household size capacity (table 4).

TABLE 3

Minimum Size of Inclusionary Zoning Dwelling Units (Rental and Owner)

Types of dwelling	Type of unit	Minimum unit size (sq. ft.)
Multiple-family dwelling	Studio/efficiency	400
	One bedroom	550
	Two bedroom	800
	Three bedroom	1,000
	Four bedroom	1,050
One- or two-household dwellings	Two bedroom	1,000
	Three bedroom	1,200
	Four bedroom	1,400

Source: Department of Housing and Community Development, District of Columbia, 2009 and 2013.

TABLE 4

Unit Size Eligibility by Number of Bedrooms

Unit size (bedroom)	Minimum number of people in unit (2009)	Minimum number of people in unit (proposed regulations)	Maximum number of people in unit ^a (not in proposed regulations)
Studio or efficiency	1	1	1
1	1	1	2
2	2	2	4
3	4	3	6
4	6	4	8
5	8	5	10
6	10	5	12

Source: Department of Housing and Community Development, District of Columbia, 2009 and 2013.

^a The proposed DC regulations from August 2013 does not include a maximum threshold for the number of people in a unit.

Developments that receive federal or DC subsidies, including the New Communities Program, Community Development Block Grant, Low-Income Housing Tax Credit, or Housing Production Trust Fund Program, are exempt from the administrative requirement of the IZ program, such as the lottery. These developments must still set aside the greater between 10 percent of the gross floor area or 75 percent of the bonus density to low- and moderate-income units. In lieu of the IZ program requirements, the funding source will determine the administrative process, as well as the definition of low- and moderate-income (as long as the levels meet or exceed the IZ requirements), and the pricing structure. The IZ units may be the same unit as the affordable units under the federal or District subsidy program (i.e., a low-income housing tax credit unit). When the overlap occurs, the affordable unit assumes the administrative, income, and pricing requirements of the funding program. When the affordability period of the funding program ends, the unit is *still* affordable since it is also an IZ unit. The unit will just adopt the pricing structure of the IZ program, but maintain the administrative

requirements of the original funding program. For example, a low-income housing tax credit unit for households at 60 percent of AMI will, at the end of the low-income housing tax credit affordability period, adopt the IZ program AMI threshold of 80 percent AMI.

Certain projects are exempt from the IZ program, including the following: Planned Unit Developments (PUDs) under the Zoning Commission that were set down before the IZ program became effective; projects with Board of Zoning Adjustment orders dated before the IZ program became effective; and any projects with active Building Permits that were issued before the IZ program became effective.⁴ Other exempt projects include hotels, motels, inns, or dormitories; housing for or by educational institutions; diplomatic housing; rooming houses, boarding houses, or community-based residential facilities or single room occupancies; or properties in certain areas of the District.⁵

In addition, projects may build inclusionary units off site, with special exception from the Board of Zoning Adjustment, if the IZ units have exceptionally high condo fees, expensive or specialized social services, or rental use that is no longer economically feasible. Per the Zoning Code, the off-site inclusionary units must make a good faith attempt to be located in the same census tract as the inclusionary development; otherwise, the off-site inclusionary units may be located anywhere in the District. As of May 2014, no inclusionary unit has requested an off-site exception.

The District of Columbia may also grant a developer partial or full relief from the Inclusionary Zoning requirements if the developer can prove that the requirements no longer make the land economically viable. The Zoning Ordinance also permits the mayor or the District of Columbia Housing Authority to purchase up to 25 percent of ownership of inclusionary units in a development. So far, Neither the mayor nor the Housing Authority has purchased any inclusionary units. Please see appendix B for the stages of the inclusionary zoning program, including requirements for the affordable housing developer, inclusionary unit owner, and program participants.

The above program description is based on the current regulations for the IZ program, which were published in 2006. After a few years of experience with the program, the District of Columbia issued a public notice for comments on the IZ program in March 2012. After reviewing the comments, the DHCD posted the proposed rulemaking to amend the Inclusionary Zoning Administrative Regulations in August 2013. Although the proposed revised regulations have not yet taken effect, since they have been shared with the public for several months, DC hopes to implement the new regulations soon. In addition, DHCD has already enacted modifications to resolve some common issues with the IZ program to increase efficiency. DHCD plans on making more changes to the lottery system that may require a formal review process, including a public hearing and approval from the Zoning Commission.

Inclusionary Zoning Accomplishments

The first units produced under the IZ program came online in 2010 and were presented to the market in 2011. Since then, based on data from Certificate of Inclusionary Zoning Compliance (CIZC) filings as of May 2014, 477 affordable IZ units in 57 projects have been constructed, are under construction, or are planned (table 5).⁶ These units represent a total of 9.86 percent of all housing units (rental and for sale) in developments that have triggered the IZ threshold since the program began. Seventy-eight percent of the units are at the 80 percent AMI level, and the remainder is at the 50 percent AMI level. The majority of IZ units, 82 percent, are rental. Of the rental units, 33 have been leased as of May 2014. Only 72 out of the 477 inclusionary units (approximately 15 percent) are designated for homeownership. Six homeownership units have gone to market and four out of the six have been sold as of May 2014. An additional 13 inclusionary units (approximately 3 percent) do not have a tenure type listed in the CIZC filing.

TABLE 5

Inclusionary Zoning Developments Constructed, under Construction, and Planned As of May 2014 in Washington, DC

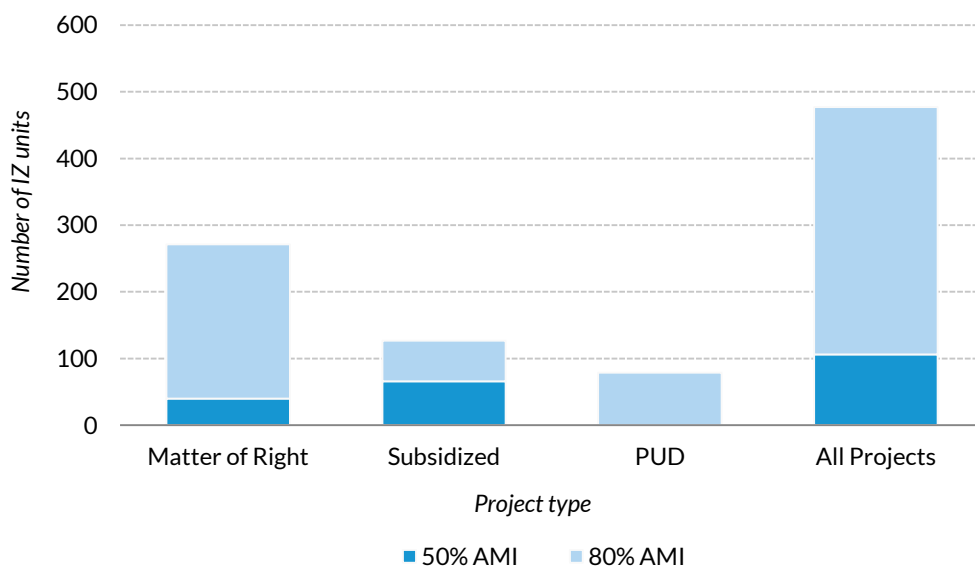
	Inclusionary zoning (IZ) developments			
	Constructed	Under construction	Planned	Total
Rental				
Developments	8	21	2	31
IZ affordable units	99	265	28	392
Homeowner				
Developments	5	15	2	22
IZ affordable units	10	45	17	72
Unspecified tenure				
Developments	0	1	3	4
IZ affordable units	0	2	11	13
Total				
Developments	13	37	7	57
IZ affordable units	109	312	56	477

Source: Certificate of Inclusionary Zoning Compliance filings, Department of Consumer and Regulatory Affairs and Office of Planning, District of Columbia, May 2014.

Many of the IZ units—approximately 57 percent of all IZ units and 5.6 percent of all units—are derived from matter of right projects, where the developer is entitled by zoning to construct or

rehabilitate a property with no additional special permission or approval required from the District. Twenty-seven percent of all inclusionary units are actually in developments that are receiving subsidies from or are financed by DHCD, DC Housing Finance Agency (HFA), or the District of Columbia Housing Authority (DCHA). IZ units in subsidized properties follow the administrative, pricing, and rent schedules of their funding source. The remainder of the IZ units is in Planned Unit Developments (PUDs), which may have different income targets, density bonuses, and other differences from inclusionary developments. Even though matter of right projects have produced more IZ units than the other project types, projects receiving subsidies from or developed by District agencies have produced the greatest number of IZ units affordable at the 50 percent AMI level, generating 66 IZ units at that level, compared with 40 IZ units in matter of right projects (see figure 1). In fact, approximately 52 percent of all IZ units in subsidized projects are at the 50 percent AMI level. PUDs did not create any units at the 50 percent AMI level.

FIGURE 1
Affordability Levels of IZ units
By project type



Source: Certificate of Inclusionary Zoning Compliance filings, Department of Consumer and Regulatory Affairs and Office of Planning, District of Columbia, May 2014.

Since the IZ program is mandatory for all developments that trigger the threshold, IZ also allows for affordable housing in neighborhoods that might otherwise be too expensive to build or preserve affordable housing. As seen in figure 2, most the inclusionary units are in areas where the median

property sales price for single-family homes and condominiums are between \$300,000 and \$500,000. Of the 57 developments that include IZ units, 37 developments (77 percent of all developments that have triggered the IZ requirement) are located in the northwest quadrant, which have the most expensive neighborhoods in the District of Columbia. In comparison, many other subsidized housing are scattered throughout the District, with large clusters in wards 7 and 8 (see figure 3).⁷ In fact, only 6 projects with a total 23 IZ units are located in the Southeast and Southwest quadrants. Many of the completed, under construction, or planned inclusionary units are also in neighborhoods that have seen significant increases in property sales price from 2003 to 2013 (see figure 4).

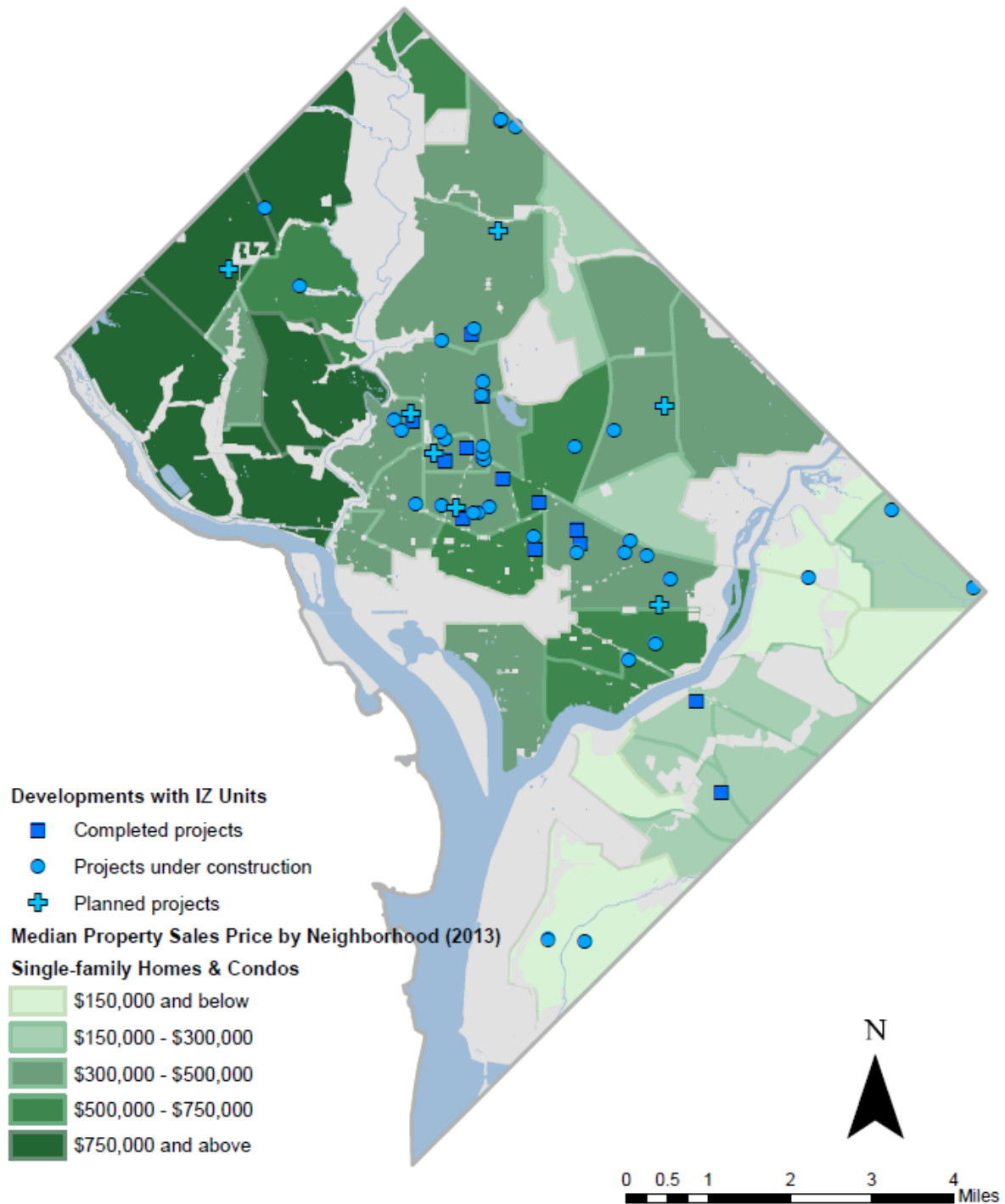
To offset the cost of incorporating affordable housing units, developers may receive a bonus density. Thirty-two of the 40 inclusionary developments that have been completed, are in construction, or are planned have utilized or plan to utilize the bonus density. According to key informants, developers may not always wish to utilize the bonus density, and those who do not use the bonus density do not seek exemption from the inclusionary zoning requirements.⁸

According to DHCD records, the ADU program has produced 608 for-sale units and 1,439 rental units that have gone on the market since the program first began, as of January 2014. An additional 32 for-sale units and 178 rental units are in the pipeline, as of April 2014. Furthermore, the inclusion of ADUs into the DHCD's compliance program is ongoing.

FIGURE 2

Inclusionary Zoning Projects and Median Property Sales

Number of IZ projects as of May 2014, sales as of 2013, Washington, DC

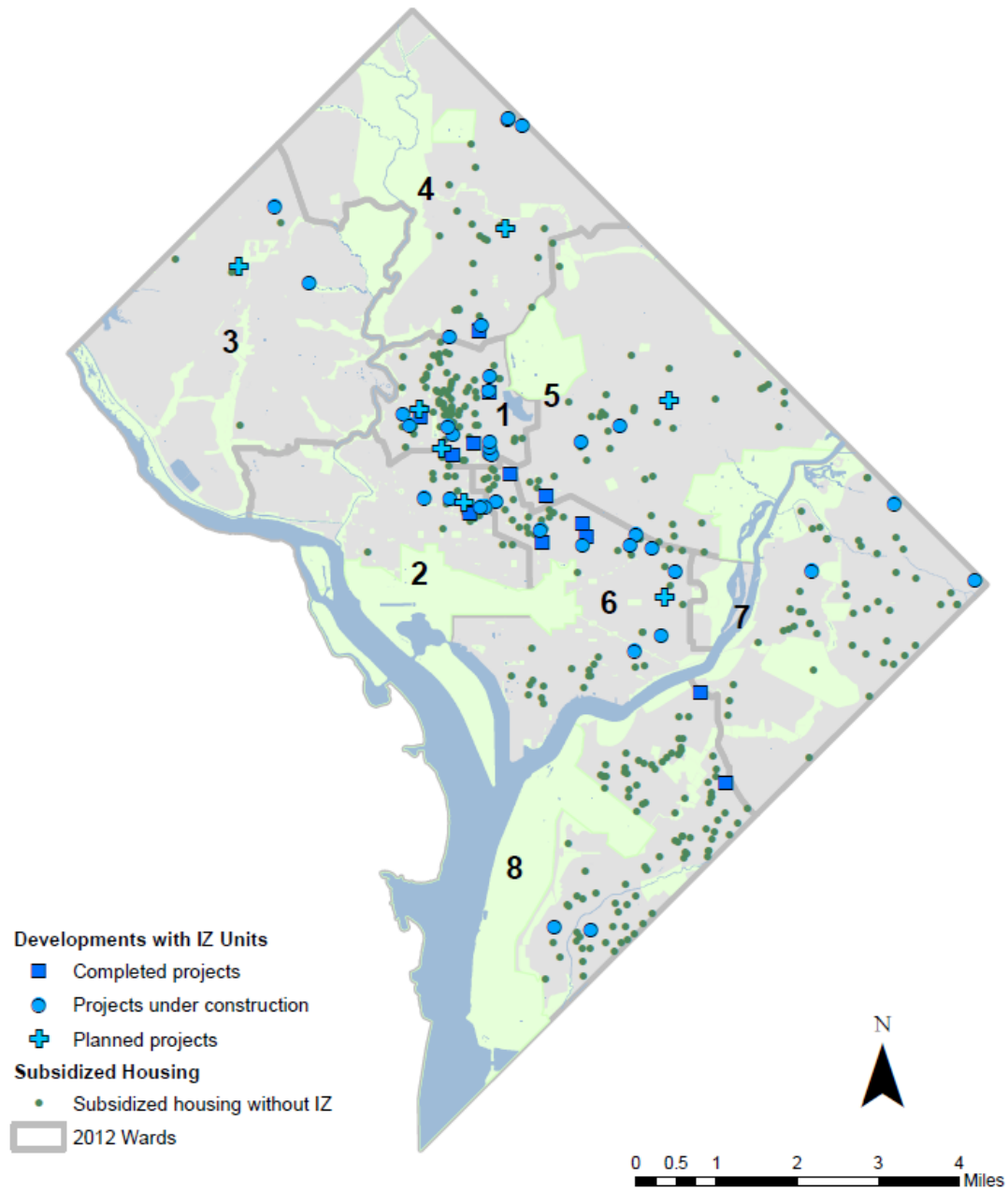


Source: Certificate of Inclusionary Zoning Compliance filings, Department of Consumer and Regulatory Affairs and Office of Planning, District of Columbia, May 2014.

FIGURE 3

Inclusionary Zoning Projects and Other Subsidized Housing

As of May 2014 Washington, DC,

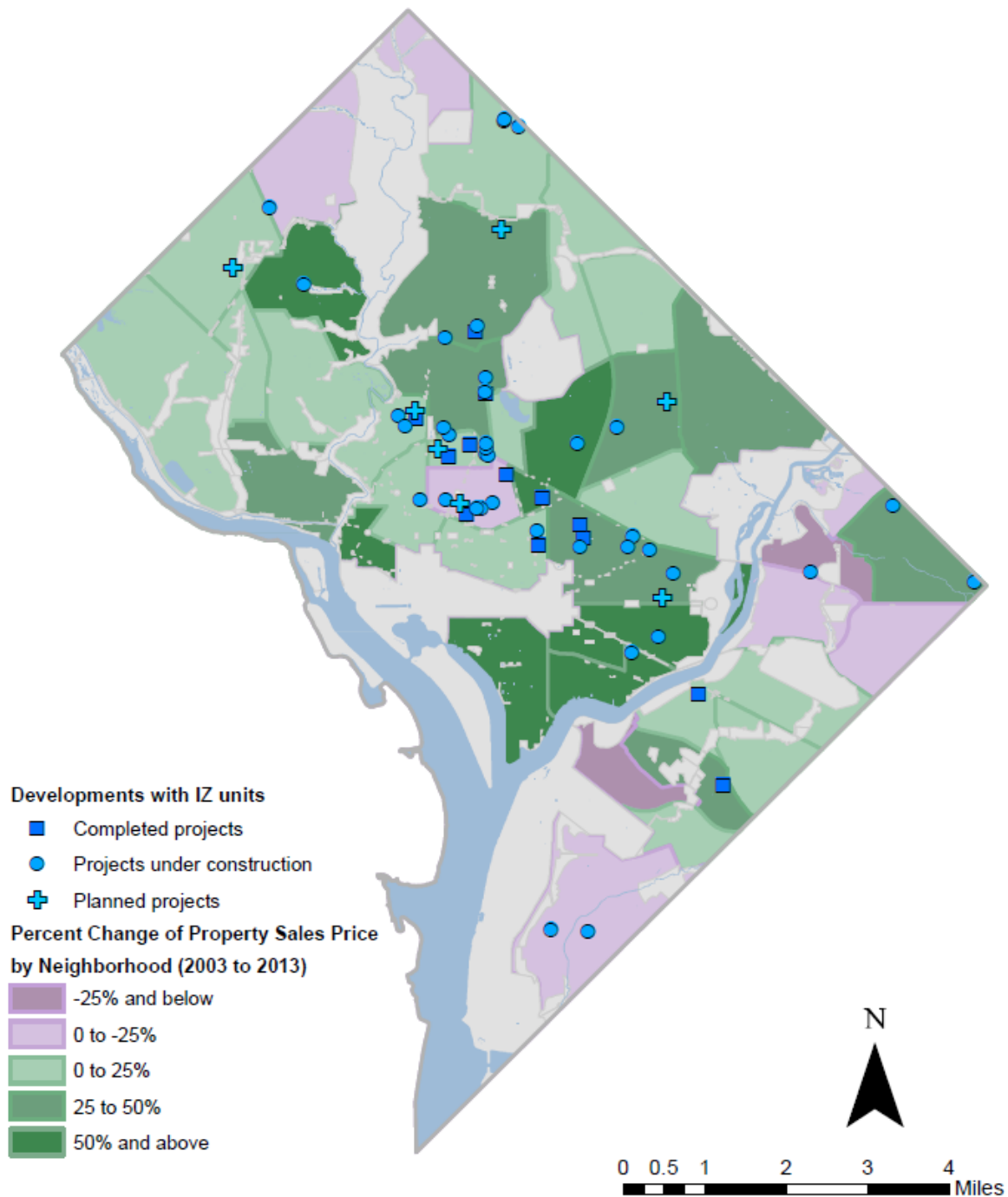


Source: Certificate of Inclusionary Zoning Compliance filings, Department of Consumer and Regulatory Affairs and Office of Planning, District of Columbia, May 2014.

FIGURE 4

Inclusionary Zoning Developments and Percent Change in Property Sales Price

Washington, DC, 2003 to 2013



Source: Certificate of Inclusionary Zoning Compliance filings, Department of Consumer and Regulatory Affairs and Office of Planning, District of Columbia, May 2014.

Program Challenges

The IZ program has great potential to help expand the city's supply of affordable housing, particularly in neighborhoods undergoing rapid development. Nevertheless, experience around the country with similar programs has shown that IZ policies have their own set of particular implementation challenges; because they depend on the market to produce housing, the program incentives for housing developers, homebuyers, and renters must be designed properly to achieve the desired results. The program parameters and implementation may need to be adjusted to changing housing market conditions, necessitating constant monitoring and flexibility.

To identify potential issues and challenges with DC's current IZ program, we interviewed 22 key informants from 13 organizations, including city agencies, affordable housing developers, marketers, community development organizations, and affordable housing advocacy groups who have had experience with the IZ program. Please see appendix C for the list of key informants and appendix D for the discussion guide. We also reviewed significant documents, including the current and proposed Inclusionary Zoning Administrative Regulations, the Zoning Code, and other relevant literature about the District of Columbia's IZ program. Lastly, we looked at IZ programs in cities that were comparable to the District of Columbia, including Montgomery County, San Francisco, and Boston.

The discussion that follows is based largely on the current regulations that govern the IZ program. Where appropriate, however, we have also indicated if the new proposed changes to the IZ regulations, which have not yet taken effect, also address any of these issues.

Program Design Challenges

This section discusses the most common issues raised by key informants regarding challenges with the IZ program's design.

ISSUE: ARE IZ PRICES TOO CLOSE TO MARKET-RATE UNITS?

Key informants have expressed concern that while the IZ program is creating affordable housing units, it has not been able to provide affordable housing for the population most housing burdened; that is, the lowest income households experiencing the widest gap between available supply and actual demand of affordable housing. The large majority—85 percent—of all created IZ units (rental and owner) are priced for 80 percent AMI. The remaining 15 percent are priced for households earning 50 percent AMI. The Comprehensive Housing Strategy Task Force conducted a Housing Cost Burden Analysis for 2008 to

2010, which found that households that are most burdened earned an income between 30 and 50 percent AMI, whether they were rental households, rental households with one or more full-time workers, or senior households. The 30 to 50 percent AMI households were also the most burdened in every household size.⁹ In 2014, the Urban Institute and the Metropolitan Washington Council of Governments found that households that earned an income at or below 30 percent AMI were the most burdened. DC needed approximately 22,100 rental units and 9,500 homeowner units to affordably house extremely low-income households (Hendey, Tatian, and MacDonald 2014).

Current regulations: Current regulations divide the allocation of units into the two AMI categories by the construction type and zoning district. The allocation for 50 percent AMI units is less in areas that are more expensive or when construction type (density and materials) increases the overall costs of development. This way, housing developers building or preserving in neighborhoods that are more expensive can offset some of their costs with a higher number of 80 percent AMI units, and the IZ program can still achieve one of their goals of having affordable housing dispersed throughout the city, including in neighborhoods that might have been very costly for the city to develop housing.

Proposed changes: The proposed changes do not adjust the AMI levels.

Discussion: Although it is true that affordability of IZ units is set at 50 percent or 80 percent AMI, which are not the lowest affordability levels, the program needs to be put in the proper context. The IZ (and ADU) program is very different from public housing or housing voucher programs, which provide direct rent subsidies to extremely low-income households (below 30 percent AMI). As noted, the IZ program leverages the strength of the local housing market by providing additional incentives for developers to create more affordable housing in the city. These incentives need to be appropriate to the number and level of affordable units being created. If the demands of the program are too onerous, it could reduce the economic viability of residential construction in the city and dampen the creation of new housing. Therefore, the program needs to set requirements that are achievable based on realistic market conditions.

As a comparison, table 6 compares the affordability levels for IZ or similar programs in several cities around the country. As can be seen, these comparison cities set the affordability levels for rental housing between 55 and 70 percent of AMI, and for owner housing between 70 and 90 percent AMI. The levels DC has set for its IZ program are roughly within these ranges, although 50 percent AMI seems to be at the bottom of the range for rental housing and comparatively low for owner housing. Nevertheless, the upper affordability limits for rental units in some other programs we looked at were

lower than DC's maximum of 80 percent AMI. For example, San Francisco's IZ program has a 55 percent AMI threshold for rental units and 70 percent AMI for off-site ownership units.

TABLE 6

Cities with Maximum Income Targets below 80 Percent AMI

Jurisdiction	Set aside	Maximum income target (Percentage of AMI)
Boston, MA	15%	For rent: 70%
Boulder, CO	20%	For rent: 60% Homeowner: 70%
Cambridge, MA	15%	For rent and homeowner: 65%
San Diego, CA	10% in most neighborhoods	For rent: 65%
San Francisco, CA	15% on site, 20% off-site	For rent: 55% Homeowner, offsite: 70% (90% AMI for on site)
Santa Fe, NM	15% for rental	For rent: 65% (1/3 of units)
District of Columbia	Greater of 8% or 10% of residential floor area ratio or 50% or 75%, depending on density, construction type, and zoning district	Split evenly between 50% and 80% AMI, or just 80% AMI, depending on density, construction type, and zoning district

Source: Puget Sound Sage, "A Comparison of Inclusionary Housing in U.S. Cities," 2013, accessed January 2013
<http://pugetsoundsage.org/downloads/IZ%20in%20other%20cities.pdf>.

Note: The table was produced by Puget Sound and updated by the Urban Institute.

ISSUE: DOES THE SIZE AND QUALITY OF IZ UNITS MEET THE NEEDS OF DIFFERENT HOUSEHOLD TYPES?

Key informants explained that households of more than one person, notably households with children, often do not find a sufficient number of IZ units that meet the needs of their families. That is, the informants believe that there are not enough multi-bedroom units to accommodate larger families who need more bedrooms, and the design and layout of some of the units are unappealing to larger families. As a result, even if these households have been selected from the lottery, they may decline to purchase the unit because they find it unsuitable.

Current regulations: The current regulations address the configuration of unit types by limiting the ratio of smaller inclusionary units (studio, efficiency, and one bedroom) to be no more than the ratio of market-rate units of those sizes. The current regulations also mandate standards for units of different sizes. The minimum unit size for a four-bedroom unit in a multifamily building is 1,050 square feet and 550 square feet for a one-bedroom unit. Current regulations also specify the minimum and maximum number of people who may occupy a unit of a given size. A three-bedroom unit has an occupancy standard of four to six people; a four-bedroom unit has an occupancy standard of six to eight people.

The current regulations do not address specifics about unit layout or quality standards, other than requiring that the inclusionary units have finishes and appliances that are comparable to market-rate units, although they may be less expensive.

Proposed changes: The proposed changes address occupancy standards by lowering the minimum number of people who can occupy an inclusionary unit of a given size as well as eliminating the maximum number of people entirely. Under the proposed standard, for example, a three-bedroom unit must have at least three people (instead of four), and a four-bedroom unit must have at least four people (instead of six). These changes would give more flexibility for households to choose units of different sizes and could potentially alleviate the space constraints of larger families by having fewer people in each unit.

The proposed regulations would not change the current regulations about the number of unit types in a development or the size (square footage) of units, nor do they impose additional requirements regarding unit quality or layout standards.

Discussion: The DC IZ program specifies that the bedroom sizes of affordable units must be in the same proportion as market-rate units in the same development. This means that the sizes of IZ units will be dictated by the sizes of units being produced to meet current market demand, which, at the moment in DC, is for studio and one-bedroom units suitable for smaller households. The proposed changes did remove the cap on the number of people living in a unit, which would allow for larger families to live in units. Nevertheless, since the minimum unit size in the proposed regulations have not changed, and larger families are already finding it difficult to find IZ units that meet their space needs (even once they have found an IZ unit with the desirable number of bedrooms), removing the cap may not alleviate the struggles of larger families to find suitable IZ units. Key informants identified high costs as a challenge to building unit types with multiple bedrooms, suggesting that an additional financial subsidy or incentive might be necessary to increase the number of larger units.

Most IZ programs have the same or similar stipulations as the District of Columbia's standards. One possibility to address this concern would be for DC to change the program rules to require the building of larger affordable units, and perhaps even larger market-rate units, in developments covered by IZ. We have not yet found any examples of such policies in other cities but are currently looking at municipalities that are addressing a shortage of affordable housing units for families through inclusionary zoning.

ISSUE: DO CONDOMINIUM FEES MAKE IZ UNITS UNAFFORDABLE?

Many key informants that we spoke to identified condominium and homeowner association fees as one of the biggest challenges facing affordable homeownership goals for the IZ and ADU programs.

Informants expressed concerns that developers may set initial condominium fees in new developments artificially low. In time, fees may rise substantially to meet the actual costs of operations and maintenance, as well as to pay for greater amenities or secure larger financial reserves. Alternatively, higher income owners occupying market-rate units might want to increase the fees to pay for higher levels of services or property investments than moderate-income owners, who are in the minority, might want. As a result, while the initial fees might have been affordable for moderate-income households, sharp increases can greatly diminish the affordability of the unit. Media reports suggest that some tenants in the ADU program, for example, might have seen their condominium fees increase from two to three times their initial price since they have moved in.¹⁰ Moreover, owners of inclusionary units may have a difficult time reselling their units since higher condominium fees might make the unit unaffordable to potential buyers within the target AMI range.

Current regulations: Condominium fees are calculated into the maximum IZ sale prices at a rate of \$0.60 per square foot, which is equivalent to \$375 per month for a 625 square foot, one-bedroom unit (Rodgers 2012). The rate was increased from \$0.50 per square foot in 2013 in an attempt to address the issue of potential future increases in condominium fees. Current regulations also protect potential purchasers of inclusionary units from “first risk.” That is, if the cost of the upfront or recurring costs of a For-Sale Inclusionary Unit (including condominium fees) is 10 percent or more than the maximum price in the Rent and Price Schedule, then DHCD may lower the initial maximum price to maintain the affordability standards. This provision is intended to assist owners who wish to resell units that are now more expensive because of increased fees. Since the IZ program is new, DHCD does not yet have any examples of this practice.

Proposed changes: There are no provisions in the current or proposed 2013 regulations that provide additional protections against rising condominium fees.

Discussion: While key informants supported the first risk provision in the current program regulations, some advocated for better protection of affordability levels against rising fees in future years for owners who wish to remain in their unit. Currently, DHCD recommends that developers use a par value approach that sets the condo fee using a number of dollars and points assigned to a unit, based on characteristics such as size, location of the unit within the development, and other features. Some key informants suggested that a par value approach be the *required* method to calculate condo fees.

Furthermore, the District of Columbia might consider controlling the rate increase of condo fees and special assessments, so that increases are not higher than the resale price of the unit.

Many inclusionary zoning programs in other cities are also struggling with the best way to address the issue of increasing condominium fees for affordable homeowners. For example, San Francisco's program offers inclusionary owners who have a difficult time reselling their unit to a buyer in the same income bracket three options: rent the unit for a year; sell the unit to someone who is not a first time homebuyer; or with approval, sell the unit to a purchaser that is not more than 20 percent above the AMI (Scruggs 2013). The District of Columbia might want to consider some of approaches used in other cities to address this issue.

ISSUE: DO THE IZ RESALE REQUIREMENTS BALANCE LONG-TERM AFFORDABILITY AND ALLOW HOMEBUYERS TO OBTAIN A RETURN ON THEIR INVESTMENT?

Public commentary and our conversations with key informants have made clear that the permanent affordability restrictions for homeownership units in the IZ program remain a point of contention for some DC housing market participants. (No key informants expressed objections to permanent affordability for rental units.) In testimony before the DC Council's Committee on Housing and Workforce Development, Jeffrey H. Gelman (2010), Chair of the Housing Committee of the District of Columbia Business Industry Association (DCBIA) said that long affordability periods, "deny the intended beneficiaries—low- and moderate-income families—from the valuable attribute of true homeownership," adding that "housing that does not provide the homeowner with equity appreciation is essentially a rental unit" (Gelman 2010). A report published by Manna, Inc., asserts that the IZ permanent resale restrictions "eliminate any return on investment related to property, neighborhood, and general real estate price improvements" (Scruggs 2013, 16). The report suggests an equity recapture model, where the initial subsidy would be recycled into the Housing Production Trust Fund at resale, as an alternative to the current IZ permanent affordability restrictions.

Several informants also expressed concern about the "disconnect" between the experiences of ADU and IZ homebuyers and ordinary market homebuyers, some of which they attributed to implementation of the affordability requirements. Some complained that the resale formula was difficult to understand, making it hard for homebuyers and homeowners to be able to assess what sale prices to expect. As one informant put it, IZ homeowners were completely dependent on DHCD to tell them what the resale price would be. Others commented on the fact that homeowners could not add closing costs and realtor fees to the sale price of their unit, a common practice in the real estate market,

which reduced their economic return by forcing them to pay such costs out of pocket or to forgo the assistance that a real estate professional might provide in completing a sale.

Interestingly, no key informants expressed strong support for the time-limited affordability common in the ADU program. Those who did comment on it noted the inherent arbitrary nature of the limits, creating an unfair situation where a second buyer could obtain a big windfall from the resale if the original buyer cannot hold onto the unit for the entire affordability period. One informant suggested adopting a shorter, five-year affordability period in neighborhoods with rapid price appreciation to prevent those homebuyers from feeling “trapped” in their units. Others thought that ADUs should instead adopt the permanent affordability approach of the IZ program.

Current regulations: One of the main goals of both the ADU and IZ programs is to increase the supply of affordable housing in DC.¹¹ To accomplish this goal, both programs impose affordability restrictions on units that fall under the respective program requirements. However, the details of these restrictions are different across the two programs. In the ADU program, restrictions have varied from project to project but there is an affordability period,¹² which can range from 12 to 40 years, during which the housing unit must remain affordable at the designated income level. For rental units, this means that the amount of rent charged must be affordable to people in the appropriate income level, usually 50 or 80 percent of the area median income (AMI) set by HUD. For homeowner units, the initial sales price is set so that the monthly mortgage payment and other allowed owner costs are affordable to a buyer at the designated income level. For any subsequent sales of the unit to a new owner during the affordability period, the price is set based on a resale formula specified in the covenant attached to the property at the original sale, which remains in force for any future sales during the affordability period. For all units during the affordability period, the renters and buyers must be certified as having incomes at or below the designated AMI level. At the end of the affordability period, however, the restrictions are lifted and the unit may be rented or sold at current market rates to any renter or buyer, regardless of income.

The IZ program has similar restrictions to ADUs, but there is more uniformity in the requirements for IZ units and the affordability restrictions are permanent, that is, they are in force for the life of the unit. As with ADUs, IZ units have rents or initial sales prices that are set based on what is affordable for a household at the designated income level, either 50 or 80 percent of AMI, and renters and buyers must have their incomes certified as being at or below that level. Resale of owner units are subject to maximum price limits set by the program rules (explained further below), which are intended to keep IZ units affordable in perpetuity. All these provisions remain in force for any subsequent renters or owners; they do not terminate at the end of a fixed period of time as with ADUs.

Proposed regulations: The proposed IZ regulations appear to offer no changes to the IZ pricing and resale formula for ownership units.

Discussion: In this report, we do not take a position on whether the city should retain permanent affordability in the IZ program. Such a decision depends on an assessment of the current policy relative to the objectives for the program, as we will discuss in the rest of this section. We do note, however, that although not the norm for affordable housing programs, permanent affordability restrictions are neither particularly novel nor unusual at this point. A number of jurisdictions around the country have incorporated permanent affordability provisions into local housing programs. The Urban Institute conducted a detailed review of seven shared equity programs¹³ in different US housing markets that provide permanent affordability and assessed them relative to the goals of preserving affordability; personal wealth creation; security of tenure; and providing mobility (Temkin, Theodos, and Price 2010). The researchers concluded that the programs were “successful in creating homeownership opportunities for lower income families that allow purchasers to accumulate assets, while, at the same time, creating a stock of affordable housing that remains within the financial reach of subsequent lower income homebuyers (Temkin, Theodos, and Price 2010, iii).”

We therefore see no reason permanent affordability, in principle, should not be a viable policy option for Washington, DC. Nevertheless, we assessed the permanent affordability restrictions of the current IZ program on three dimensions.

DOES THE IZ PROGRAM PROVIDE AFFORDABLE HOME PURCHASE OPPORTUNITIES FOR BUYERS AT THE DESIGNATED INCOME LEVELS, BOTH AT INITIAL SALE AND AT RESALE?

DOES THE PROGRAM PROVIDE AN OPPORTUNITY FOR OWNERS OF IZ UNITS TO RESELL THEIR HOMES AND OBTAIN A REASONABLE RETURN ON THEIR INITIAL INVESTMENT?

HOW WELL HAVE THE IZ AFFORDABILITY REQUIREMENTS BEEN IMPLEMENTED THUS FAR AND COULD IMPLEMENTATION BE IMPROVED?

Because very few (four) IZ homeowner units have been sold to date, and because no units have yet been resold, it is difficult to answer these questions definitively. To examine these issues, we used data on maximum sales price and resale limits for IZ, as well as historical data on area median incomes (AMIs) and market sale prices, to conduct a “what if” analysis that examines what the experience would have been for homebuyers had the IZ program been in effect 10 years ago. For simplicity, we have based our analysis on a *one-bedroom condominium unit affordable for households at 80 percent AMI*. Most of the

IZ homeowner units built or planned to date have been condominium units, rather than single family homes, and the large majority of units (85 percent) have been affordable at 80 percent AMI. In addition, one bedroom has been the most common size for condominium units sold in DC in recent years.

To be able to assess the relative merits and possible shortcomings of permanent affordability restrictions, it is important to understand how the policy has been implemented in the current IZ program. Two key components are the maximum initial sale prices and the maximum subsequent resale prices for homeowner units. In DC's IZ program, the initial sale prices are set based on a determination of the maximum monthly payment that is affordable to households at the specified income levels, based on AMI. The affordability standard applied by the IZ program specifies that the monthly mortgage payment (principal plus interest), condominium/homeowner association fees, taxes, and insurance should be no more than 30 percent of the maximum household income. For example, in 2012, 80 percent of AMI for a two-person household was \$68,800, which means that the total monthly owner costs for an IZ unit can be no more than \$1,720. The program uses standard assumptions regarding the purchaser having a 30-year, fixed-rate mortgage at prevailing interest rates¹⁴ and also specifies that homebuyers make a 5 percent down payment. For a one-bedroom condominium unit affordable at 80 percent AMI in 2012, this translates to a maximum sales price (with down payment) of \$253,800.

Table 7 on the following page shows the maximum initial sales prices for a one-bedroom condominium unit at 50 and 80 percent of area median income for each of the first four years of the IZ program. The table also shows the median sales price for one-bedroom condominium units based on actual market sales in the District of Columbia. As can be seen, even for moderate-income buyers, the IZ program provides a substantial discount over the median market price. This discount represents the affordability benefit that the program provides to the buyer.

The second major component is the resale price at which homeownership units can be sold after the initial purchase. Nationally, housing programs with affordability restrictions use a variety of methods to set the resale price, including changes in the HUD area median income, real estate indices, a percentage of market price appreciation, the consumer price index, increases by prime rate, and preset dollar increments. For its IZ program, the District of Columbia uses an appreciation formula based on a compounding of 10-year changes in the AMI over the period between the unit purchase and unit sale.

TABLE 7

Median Market Sale Prices and IZ Maximum Initial Sale Prices*One-bedroom condominium units, 2009–12*

Year	Median market sale price	50% AMI		80% AMI	
		IZ maximum Initial price	Discount	IZ maximum Initial price	Discount
2009	340,000	117,700	65%	212,800	37%
2010	345,000	122,300	65%	220,800	36%
2011	340,000	130,400	62%	234,600	31%
2012	349,000	141,300	60%	253,800	27%

Source: Urban Institute analysis of DC real property data and published IZ maximum initial sale prices.

The maximum resale prices are based on the original purchase price, times an appreciation factor (F). The seller can also add 100 percent of the value of any eligible capital improvements and 50 percent of eligible replacement and repair costs, as determined by DHCD, to the maximum resale price.

Maximum resale price =
 (Original purchase price X F) +
 Eligible capital improvements, replacement, and repair costs

The appreciation, F , is defined by this formula.

$$F = \left(1 + \frac{1}{n} \sum_{y=m}^k \left[\left(\frac{AMI_y}{AMI_{y-10}} \right)^{1/10} - 1 \right] \right)^n$$

Where AMI_y and AMI_{y-10} are the HUD area median income in years y and $y-10$, respectively; m is the year of original purchase; k is the year of the subsequent resale; and n is the number of years, or $(k - m) + 1$.

While the formula is somewhat tedious to calculate, essentially it is the smoothed average of AMI changes over the period that the current owner has held the unit. Table 8 translates the calculation of F into the cumulative percentage increases in resale prices under the IZ program for units purchased in each of the first four years of the program. For example, an IZ unit purchased in 2009 and sold in 2012 would have a maximum resale price 9 percent higher than the original purchase price, with any allowed capital improvements added to this amount.

As a comparison with other possible measures, table 8 also shows values of the straight change in area median income, and the IZ maximum initial sales price and the median market sale price of a one-bedroom condominium unit. As can be seen, AMI actually went down between 2012 and 2013, but because the resale formula uses 10-year changes in AMI, the IZ resale price was 4 percent higher than

the purchase price. Similarly, even though three of the four IZ maximum initial sale price changes were negative and the median market sale price changes were only slightly positive or even negative, the current IZ resale formula results in consistent positive price increases.

TABLE 8

Cumulative Percent Change in IZ Units Purchased in 2009–12 and Resold in 2010–13

Comparison measures of change

Year sold	Year purchased			
	2009	2010	2011	2012 ^a
2010	5.0	-	-	-
2011	7.3	4.5	-	-
2012	9.0	6.2	3.8	-
2013	11.6	8.7	6.3	4.0
Pct. change from purchase year to 2013				
Area median income	4.5	3.7	1.1	-0.2
IZ maximum initial sale price ^b	3.4	-0.3	-6.2	-13.3
Median market sale price ^b	1.5	0.0	1.5	-1.1

Source: Urban Institute analysis of HUD AMI, published IZ maximum initial sale prices, and DC real property data.

^a The 2012 Maximum Price and Rent Schedule decreased the price to due changes in the interest rate buffer and condo fees.

^b One-bedroom condominium unit.

But, does the current resale formula maintain affordability of IZ homeowner units in subsequent sales? Again, there have been no actual sales of IZ units to date but we can look at what might have happened had the IZ program been in place over the past decade. Table 9 shows results for hypothetical IZ units purchased 10 and 5 years earlier. We calculated the initial IZ maximum sales price of a one-bedroom condominium unit for a household at 80 percent AMI using the current program rules and historical data on AMI, FHA mortgage interest rates, and property taxes. The resulting analysis, presented in table 9, shows what would have happened to units purchased at the maximum initial sale price if they were subsequently sold at the maximum resale price in the past three years.

Since the initial sale price maximums are set so that the unit will be affordable at the specified income level, comparing the resale price to the initial sale price in the same year provides a benchmark as to whether the resold units remain affordable. The analysis shows that, for units hypothetically purchased in 2003 and 2008, subsequent resale prices in 2009 through 2013 remain 1.8 to 13.1 percent below the affordability level set by the initial sale price maximums in those years. Based on this

analysis, one could conclude that the IZ resale formula is able to maintain affordability of homeowner units for future buyers.

TABLE 9

Difference between IZ Maximum Initial Sale and Resale Prices

One-bedroom condominium unit affordable at 80 percent AMI purchased in 2003 and 2008

	IZ maximum initial sale price	IZ maximum resale price	Difference
For a unit purchased in			
2003	159,900	-	-
And later resold sold in			
2009	212,800	198,757	-6.6%
2011	234,600	207,667	-11.5%
2013	220,100	216,084	-1.8%
For a unit purchased in			
2008	184,100	-	-
And later resold sold in			
2009	212,800	195,054	-8.3%
2011	234,600	203,789	-13.1%
2013	220,100	212,039	-3.7%

Source: Urban Institute analysis of HUD AMI and published IZ maximum initial sale prices.

Note: Bold numbers track the price of a given unit from 2003/2008 to 2013. Because the bold prices are always lower than the initial sale prices (in lightface), the unit remains affordable at 80 percent AMI.

To examine whether the IZ program provides an opportunity for owners to resell their units and obtain a reasonable return on their initial investment, we looked again at scenarios of hypothetical IZ units purchased in 2003 and 2008 (tables 9, 10, and 11) and calculated the average annual rate of return based on the maximum allowed resale prices in subsequent years. For 2003, the maximum initial purchase price, based on current IZ rules, would be \$159,900, including a 5 percent down payment of \$7,995. If the unit were resold in 2013 the maximum resale price would be \$216,084 excluding any approved capital improvements. At the time of sale, the unpaid principal balance of the mortgage on the property would be \$125,914, yielding a net return to the first homeowner of \$82,175, or an annual rate of return of 26.2 percent. For a unit purchased in 2008 and sold five years later in 2013, the net return would be \$40,806, an annual rate of return of 16.1 percent. The annual rates of return are comparable to those calculated by the Urban Institute for seven shared equity programs nationally, which varied from 6.5 to 59.6 percent (Temkin et al. 2010, 21).

TABLE 10

Net Return and Annual Rate of Return to IZ and Equity Recapture Homeowners*One-bedroom condominium unit purchased in 2003 and resold in 2013*

	IZ (current policy)
Maximum initial purchase price (2003)	159,900
Down payment (5%)	7,995
Maximum resale price (2013)	216,084
Unpaid principal balance	125,914
Net return to first homeowner	82,175
Annual rate of return	26.2%

Source: Urban Institute analysis of HUD AMI, published IZ maximum initial sale prices, and DC real property data.

TABLE 11

Net Return and Annual Rate of Return to IZ and Equity Recapture Homeowners*One-bedroom condominium unit purchased in 2008 and resold in 2013*

	IZ (current policy)
Maximum initial purchase price (2008)	184,100
Down payment (5%)	9,205
Maximum resale price (2013)	212,039
Unpaid principal balance	162,027
Net return to first homeowner	40,806
Annual rate of return	16.1%

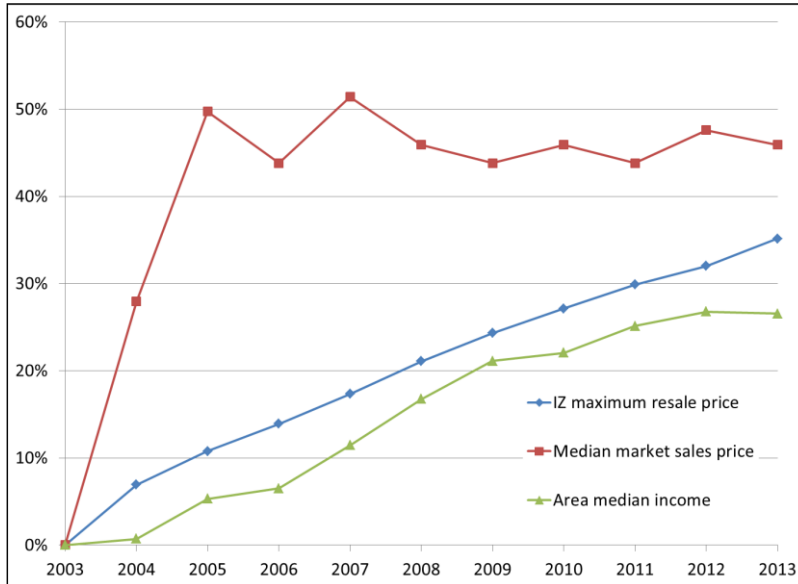
Source: Urban Institute analysis of HUD AMI, published IZ maximum initial sale prices, and DC real property data.

Figures 5 and 6 provide additional perspectives on the IZ resale formula by showing the cumulative price increases for units purchased in 2003 and 2008, and cumulative increases in the median market sale price of a one-bedroom condominium. (For comparison, the change in AMI is also shown.) Condominium prices in DC have essentially been flat since 2005. As a result, for the unit purchased in 2003 all of the appreciation in market value was realized in the first two years; the unit purchased in 2008 had essentially no appreciation in market value by 2013. In the shorter term, therefore, the current IZ program formula would yield a higher return than if resale were tied to increases in market prices.

FIGURE 5

Cumulative Percent Change in IZ Resale Prices, Market Prices, and Incomes

One-bedroom condominium unit, 2003–13

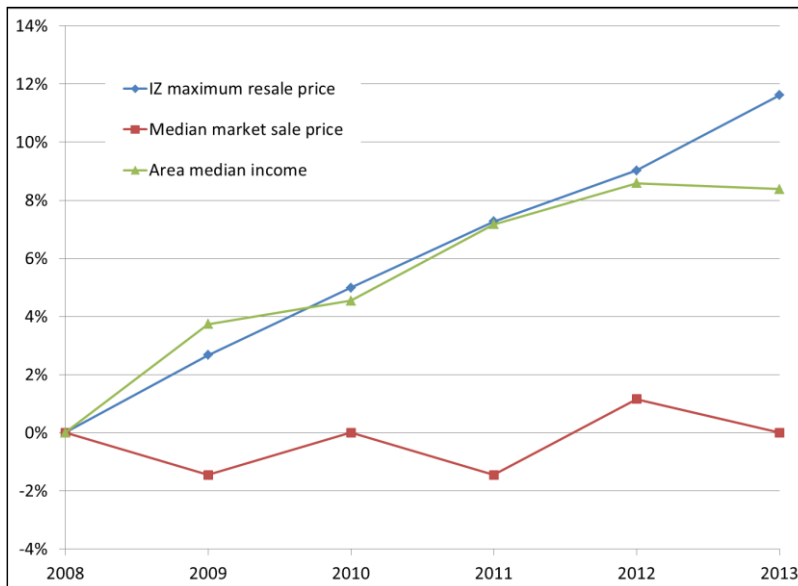


Source: Urban Institute analysis of HUD AMI, published IZ maximum initial sale prices, and DC real property data

FIGURE 6

Cumulative Percent Change in IZ Maximum Resale Price, Median Market Sale Price, and Area Median Income

One-bedroom condominium unit, 2008–13



Source: Urban Institute analysis of HUD AMI, published IZ maximum initial sale prices, and DC real property data.

As the above analysis demonstrates, and contrary to some of the commentary noted earlier, tying the resale price of IZ units to current market prices is not a necessary condition for IZ homebuyers to be able to build equity in their homes and realize a return when they later sell them. Equity building results from an increasing sales price of the property (resulting from the formula) as well as the homeowner paying down mortgage principal over time. While these results represent only two possible scenarios, and while there is no guarantee that market prices will go up or down in the future relative to area median incomes, these examples suggest that the current IZ program configuration is capable of producing good rates of return for homebuyers while maintaining affordability of units over the long term. Nevertheless, we do recommend that the city monitor and track the actual returns to homeowners on the resale of IZ units to ensure that such benefits are, in fact, being realized.

DC adopted permanent affordability restrictions for the IZ program based on the realization that there is a large and growing need for more affordable housing in the city but also on the understanding that the density bonuses represent a permanent benefit granted to developers and, therefore, it is reasonable to expect a permanent benefit to the city (i.e., permanent affordability) in return. Analysis conducted by Brett Theodos (2013) indicates that the current IZ program would be expected to result in a larger supply of affordable units over the long term than two other alternatives (equity recapture and traditional development). And while equity recapture would result in funds that could be used to create additional affordable housing, it is difficult to see how additional units could be produced as economically as the current IZ program, especially in the same rapidly developing neighborhoods where many IZ units are expected to be built in the next few years.

In adopting the current IZ rules, DC attempted to balance the need to create more affordable units with the desire for homebuyers to be able to benefit from the purchase and eventual resale of units in the program. Homebuyers receive the benefits of being able to acquire IZ units at a substantial discount over market prices as well as being able to live in neighborhoods and housing developments that would likely be well out of reach otherwise. Limiting the financial return that homebuyers can receive on resale would seem to be a reasonable trade-off given those benefits. Furthermore, given our analysis and the experiences of similar programs elsewhere, we see no reason why this policy could not be successful in DC.

However, housing markets are very dynamic, so it is crucial that the program be able to respond—within the confines of the objectives set forth for the policy—to changing conditions. We recommend that DC develop, collect, and report on additional metrics, including return on investment for IZ and ADU homebuyers, so that it can monitor the functioning of these programs and better assess whether they are achieving the positive results that are expected for homebuyers.

ISSUE: SHOULD THE PROGRAM ALLOW FOR MORE FLEXIBILITY WITH VACANT UNITS OR UNITS THAT ARE DIFFICULT TO RESELL?

Only 10 ownership inclusionary units have been constructed thus far. Nevertheless, some key informants are concerned about the flexibility of DC's program with regard to units that remain vacant for longer than average. An affordable housing developer sued the District of Columbia after its inclusionary units remained vacant for at least 18 months, after the housing lottery search was unable to find any households that were interested and willing to purchase the unit.

Current regulations: Current regulations state that DHCD *may* permit the rental or sale of an inclusionary unit to a household that is not registered for the lottery if more than six months have passed since the Notice of Availability was issued, *and* at least two lotteries have been conducted. The first Inclusionary unit that was sold in DC was not through a housing lottery but with the help of a marketing firm.

Owners of resale units must register the IZ unit in the Housing Locator website, and DHCD notifies the owner of the maximum resale price within 17 days of receiving notice from the owner. For owners who may need to move quickly and/or cannot sell their home under the time constraints, DHCD may allow at their discretion for the owner to temporarily lease the IZ unit for 12 months, maximum, unless DHCD grants an extension based on substantial hardship of the owner, such as military service, Peace Corps service, or another reason where the owner must leave the city temporarily. Such a temporary rental may only occur once during a five-month period.

New regulations: New regulations codify that, in lieu of a lottery, affordable housing developers can find households through a marketing plan that has been approved by DHCD. Households must still meet the eligibility requirements of the IZ program. In addition, the proposed regulations would reduce the amount of time that an unregistered household may be given the chance to purchase or rent a unit. If more than three months have passed since the Notice of Availability was issued, *or* at least one housing lottery had been conducted, then unregistered households who meet the eligibility requirements of the IZ program may, at DHCD's sole discretion, rent or purchase the unit.

For IZ owners, the new regulations have removed the stipulation that temporary one-year leases can only occur once during a five-year period. In addition, DHCD must notify owners reselling the IZ unit of the maximum resale price within seven days from notice of availability of the unit, expediting the resale process for the owner.

Discussion: Some of the concerns relating to IZ units not being able to be sold in a timely manner may relate to administrative issues, such as the efficiency of the lottery system for selecting potential

buyers, and may be addressed by improvements in those processes. Nevertheless, there may be cases where additional flexibility is needed to provide options for units that cannot be readily sold or resold, such as those steps introduced in the new regulations. DC should carefully monitor the length of the resale process of its IZ and ADU units so that it can judge whether additional steps are needed. One key informant also suggested that a city agency or city-approved nonprofit entity with the administrative and financial capacity, as well as expertise, be responsible for buying the unit; and either land-bank it for resale or lease it to an income eligible household, with the option to buy, so that the original owner is not “trapped.” Another strategy is to improve the marketing and sale of IZ units, so that there is a significant pool of potential purchasers cultivated and maintained.

Before being sold through the Fairfax County’s First-Time Homebuyer’s Program, Fairfax County Redevelopment and Housing Authority (FCRHA) can buy up to one-third of the for-sale affordable units (including workforce development units). In Montgomery County, at the discretion of the Department of Housing and Community Development, inclusionary development owners may sell units to households outside of the target income range if the owner has a difficult time finding a buyer in the targeted income range. San Francisco also has multiple options for sellers who cannot find a household within the targeted income range.

ISSUE: DOES THE IZ PROGRAM NEED MORE POST-PURCHASE SUPPORT FOR HOMEBUYERS?

Some key informants said that there was a strong need for more post-purchase support for IZ homeowners, which might include training on basic responsibilities of housing maintenance, financial planning, and preparing for a unit resale. Post-purchase counseling such as financial planning would also help households manage their budgets, including mortgage payments, and mitigate foreclosure risk.

Current regulations: There is no formal post-purchase support built into the IZ program.

Proposed regulations: The proposed regulations also do not contain provisions for such support.

Discussion: Post-purchase support is not required in the program regulations, although DHCD is currently looking into incorporating formal post-purchase support as part of the IZ program. According to key informants, in practice, DHCD’s hiring of community-based organizations actually includes pre- and post-purchase counseling for for-sale IZ units.

In other cities, the local government has contracted with outside providers for these services. Burlington, Vermont, for instance, has contracted the Champlain Housing Trust (CHT), a community land trust, to administer the city’s inclusionary zoning program. CHT offers pre- and post-purchase courses and individual counseling to renters, homebuyers, and homeowners. The Home Education

program includes a home repair workshop where participants learn about electrical repairs, energy efficiency upgrades, plumbing and other basics, and hiring contractors for your home. A community land trust, Community Home Trust, administers the homeownership program in Chapel Hill, North Carolina, and offers post-purchase educational classes and financial counseling. A stewardship fund financed by monthly contributions from homeowners helps owners pay for repairs and maintenance. Chicago's Community Land Trust, which administers the city's homeownership program, also requires a \$25 monthly stewardship fee; inability to pay the fee is flagged as a warning that the owner is facing potential financial hardship. In addition to sponsoring post-purchase educational classes and financial counseling, Chicago's program administrators also sponsor annual events with homeowners in the program to foster a relationship between homeowners and the organization so that homeowners feel comfortable contacting staff in times of hardship. Community Land Trust also conducts annual outreach with homeowners to confirm compliance with the program.

Program Implementation Challenges

This section addresses issues raised by key informants regarding the implementation of the IZ program.

ISSUE: DOES THE PROCESS FOR SELECTING ELIGIBLE IZ PARTICIPANTS WORK EFFECTIVELY?

Many key informants expressed concerns about the current process for selecting potential renters and buyers of IZ units.

1. The households populating the lottery list do not actually meet the eligibility requirements of the IZ program.
2. The process of selecting households from the lottery list should be expedited.
3. The program's marketing should improve to reach a broader population of households throughout the city.

Some key informants criticized the pace of the lottery system. When housing lotteries are held, a minimum of four households is chosen. If only four or so households are chosen, and they ultimately decide that they do not want to lease or purchase the house after using the full duration of allowable time to make the decision, another lottery must be conducted. At least two lotteries must be conducted, and the unit must have been vacant for at least six months, before DHCD permits someone who is not registered for the lottery to buy or rent the unit.

Inefficiencies in the selection process may lengthen the time it takes to find an eligible tenant or buyer for an IZ unit, which can create delays that are costly to building and unit owners. One affordable housing developer actually sued the District of Columbia because the city was unable to find households willing to purchase the units from the lottery system, and the inclusionary units sat vacant for at least 18 months.¹⁵ In addition, several key informants expressed concern that the outreach about the IZ program has been limited. If the outreach is not reaching a broad audience then it may be more time-consuming to find eligible buyers and renters.

Several key informants also noted that because households are certified *after* they have been selected from the lottery, the list of registered IZ households that the lottery draws from include many households who ultimately cannot verify their income, are not creditworthy, or cannot actually afford to purchase the inclusionary unit.

Current regulations: Under the current system, households who are interested in participating in the IZ program must first attend a two-hour IZ training class, conducted by local community-based organizations (CBOs), which provides a broad overview of the program. Households then register with the IZ program on the DC Housing Search website (www.DChousingsearch.org), self-certifying their income and listing their preference for rental or ownership opportunities, or both. When an inclusionary unit becomes available, a lottery is held. After the household has been selected in a lottery, the household must notify the inclusionary development owner of its intent to rent or lease the unit, and then get certified to confirm the household's income, household size, creditworthiness, and ability to purchase the house.

The main tools for promoting the IZ program have been the annual Housing Fair, the DC Housing Search website, the DHCD website, and through the CBOs hired by DHCD.

Proposed changes: Key informants have stated that the DHCD is seeking changes to the current administrative requirements for the lottery. These changes would require that before registering for the lottery list applicants must be prequalified and demonstrate their creditworthiness.

In October 2013, DHCD updated their registration list for the IZ lottery. All registered participants had to retake a counseling course within a time frame. In addition, the updated list divided the households into those who are seeking to buy a home, lease a home, or both. DHCD also has plans to continually update the list, once they have increased staff capacity. As explained below, DHCD will be hiring new staff in the near future. Furthermore, DHCD is also recommending that developers select *more* than four households when conducting the lottery so as to minimize the wait time needed to find an eligible and interested household.

There are no proposals or plans to increase outreach efforts.

Discussion: Timely and efficient selection of eligible tenants and buyers is a critical component for the success of the IZ and ADU programs. The widespread conclusion of key informants we spoke to was that the current selection process could be greatly improved. While the DHCD website and DC Housing Search have served as a valuable resource, key informants recommended better leveraging the District's CBOs, nonprofits, and church groups to promote the program to residents, as well as reaching out directly to city agencies to advertise to city employees such as firefighters, teachers, and policemen. Another key informant suggested that the city consider contracting with a third-party vendor to market the IZ units, build and maintain the lottery list, conduct the lottery, and coordinate the closings on sales. In Burlington, Vermont, the Champlain Housing Trust markets the homeownership units and conducts the closing between all the parties.

Requiring potential homebuyers to prequalify for mortgage financing before they can enter a lottery to purchase a home would be another step that the city could take that would conform to best practices. Montgomery County requires that program participants receive certification of eligibility, including income, household size, and lender certification, to be placed on the registration list for the IZ lottery. Since participants may be on the lottery list for an unknown period of time before being selected for a property they are interested in, another key informant recommended homebuyer education as a requirement before entering the lottery, followed by prequalification after selection for a purchase opportunity.

ISSUE: DO PARTICIPANTS UNDERSTAND PROGRAM RULES?

Another concern expressed by many key informants was that households often do not understand the rules and restrictions of the IZ program before they apply, or even when they get to the point of purchasing a unit. Applicants are provided with legal documents; however, many applicants need information about restrictions, requirements, and regulations in plain, nonlegalese. This information should be presented at various stages throughout the IZ and ADU process, including the beginning stages of the housing search (the DHCD and DC Housing Search websites), the education training, during the one-on-one counseling session, and again during the formal transaction process of lease signing or home purchase.

Key informants believe that the initial education program provided by DHCD and CBOs is too limited. The education program is a broad overview of the inclusionary zoning program, and is open to households who are interested in renting and owning inclusionary units, as well as owners of inclusionary zoning units who need to lease or sell their units. The few administrators of the program

feel that they have insufficient time and opportunity to explain the restrictions and requirements of the inclusionary program, particularly for homeownership units.

Current requirements: Households must attend a two-hour course providing an overview of the IZ program before registration. Households must also attend a homeownership-counseling course if they wish to purchase a unit.

Proposed requirements: DHCD has contracted with Urban Pace and Mi Casa to provide an in-depth, eight-hour long homeownership course so that homeowners receive more in-depth information about the program, including resale restrictions. One key informant suggested a written manual be offered so that program applicants have a document that they may easily refer to for guidance.

Discussion: While there is a fair amount of information on the IZ and ADU programs on the DHCD website, it could be organized to include sections specifically for potential renters and potential homebuyers. For instance, the fact that the IZ affordability restrictions are permanent and apply not only to the first but all subsequent purchasers of IZ units is not explained or even stated clearly on the website. This is critical information that potential IZ homebuyers need to understand, so it should be communicated in multiple ways.

In addition, the selection process should be explained more clearly. According to key informants, many people appear to be confused about the process, even after they attend a workshop. For example, some people believe that they have “won a house,” if they are selected through the lottery, rather than having been given the opportunity to buy or rent a unit. In fact, to minimize such confusion in their own programs, Montgomery County and Fairfax County both call the selection process a “random selection drawing” or just a “drawing,” instead of a lottery.

Like the District of Columbia, many jurisdictions require that participants of IZ programs complete counseling courses providing program overview. For example, Burlington, Vermont, and Montgomery County, both require program participants to complete intense training to ensure that they fully understand the implications of the IZ program.

Finally, DC should actively seek feedback from IZ program participants to understand better what aspects of the program work well and what need further improvement. A satisfaction survey of participants, for example, could provide useful feedback as to whether the program is meeting expectations.

San Francisco requires participants in its homeownership program to complete an eight-hour, one-on-one homebuyer education training session as well as program orientation. In Chicago, on top of the

required eight hours of pre-purchase homebuyer education that all potential homebuyers must complete, potential condo buyers must complete condominium ownership training. Chicago's program participants must also meet with staff to learn about the resale formula.

ISSUE: DOES THE IZ PROGRAM ADMINISTRATION HAVE SUFFICIENT CAPACITY?

Key informants believe that the city needs additional administrative capacity for the IZ program. Developers, tenants, contractors, and other stakeholders expressed frustration with response times from staff regarding key concerns and questions about program requirements. In addition, as development increases in the District of Columbia, the responsibilities that DHCD staff must undertake reviewing documents, overseeing the lotteries, and other program responsibilities will increase.

Another specific problem that could be addressed with increased staff is enforcement. For example, developers of scattered sites may get building permits for developments separately, which might make it less apparent that they are subject to IZ requirements. The Office of Planning currently assists DHCD and DCRA by tracking the development pipeline, looking at building permits that have been issued and whether CIZCs have been filed for developments that meet the IZ threshold. Having increased staff capacity would assist with making sure that all developments are in compliance. In addition, increased capacity at DCRA to identify IZ applicable projects would also be beneficial.

Lastly, lack of capacity as well as additional staff to support the IZ program administrator affects the District's ability to track, measure, analyze, and report the outcomes of the IZ program. Key informants expressed a desire to see more regular updates about the IZ program, including the quantity, location, and type of units being produced and type of households being served, as well as updating the preferences of households registered for the IZ program's lottery list. Other key informants have expressed a desire to analyze the outcome of the IZ program properly or develop programs that would quickly calculate the number of IZ units that's required based on density or gross floor area.

Current regulations: There are no specific regulations stipulating a minimum or maximum number of staff devoted to the IZ program. DHCD currently has two official IZ specialists: a program manager and a housing regulations specialist. The housing regulations specialist must also fulfill the DHCD's responsibilities for the ADU program. At DCRA, the IZ responsibilities are divided among 10 staff members, 6 of whom review building permits and the Certificate of Inclusionary Zoning Compliance.

Proposed changes: During staff shortages, staff from the Office of Planning has assisted with the IZ program. DHCD has hired a new manager for the IZ program, although the department is still seeking

additional staff to support the administrator. Furthermore, DCRA will be adding staff to assist with the IZ program; the agency is also looking to expand capacity in fiscal year (FY) 2015.

Discussion: Adequate support for the administration of the IZ and ADU programs is essential to their success. While these programs require no direct outlays from the city for housing subsidies, they do need resources for administration, enforcement, and monitoring to make sure that the programs are accomplishing their goals effectively.

One option may be to consider outsourcing more program responsibilities. Burlington, Vermont, contracts with a nonprofit organization, the Champlain Housing Trust (CHT), a community land trust, to administer the inclusionary zoning program so as to minimize the amount of time city must devote to running the program. In fact, the city has budgeted for only 10 percent of one full-time city employee to its inclusionary zoning program.

Conclusion

The District of Columbia adopted the IZ program in 2006, during a time of rapid population growth and increasing housing costs. Policymakers wanted to leverage private residential development to produce long-term affordable housing; increase economic diversity and integration; and provide homeownership opportunities for low- and moderate-income households. Since then, the city's population has continued to grow and housing costs are once again rising making the District of Columbia one of the most expensive housing markets in the country. The program has enormous potential to create affordable housing units, particularly in high-cost neighborhoods.

Indeed, IZ policies seem to have fully taken hold in the Washington, DC, region, as many neighboring jurisdictions employ some form of the program, including Montgomery County, Fairfax County, Arlington County, the City of Alexandria, the City of Rockville, the City of Falls Church, Loudoun County, and the City of Gaithersburg (Hendey, Tatian, MacDonald 2014). In Montgomery County and Fairfax County, where IZ has been in existence for several decades, developers consider IZ as an accepted development cost of doing business in these areas (Levy et al. 2012).

Based on discussions with key informants and analysis for this report, the overall design of DC's IZ program appears to be sound, incorporating features of successful programs in other municipalities. DC's low- and moderately priced IZ units are located throughout the city, with the majority—76 percent—located in the northwest quadrant. **The geographic dispersion of the IZ units is a promising indicator of the program's potential to ensure that affordable housing opportunities are available in areas with access to transit, jobs, and other opportunities.** Many of the neighborhoods where IZ construction has taken place have seen rising real estate costs; the IZ program has the potential to mitigate the negative impact of market-rate units and gentrification by helping produce affordable housing in these areas for current and future residents. **This program ultimately guarantees that, as long as construction continues, permanently affordable housing will be built in the future without requiring any budgetary resources from the District, beyond staffing and website maintenance.** Inclusionary zoning is a strategy that generates the most affordable housing units during “hot” housing markets when developers have an incentive to construct or redevelop more market-rate housing, triggering the IZ requirement (Hickey 2014). This means that during weaker housing markets when market-rate units are difficult to sell or rent, the bonus density used to create more market-rate housing may not be able to offset the cost of building the IZ units.

Nonetheless, there appear to be important challenges to implementing the program in a manner that will produce all the results intended when it was first put in place. As is the case with IZ programs in many other places, DC's IZ program must have the flexibility to address changes in the housing market and deal with issues such as units that cannot be sold quickly, and increasing condominium and homeowner association fees, that threaten to chip away at affordability. Information provided to participants needs to fully inform them of important details of the program, including eligibility requirements and permanent affordability restrictions. Lastly, enhanced post-purchase support would likely benefit many new IZ homeowners and help prevent further difficulties down the road.

The District of Columbia has proposed regulatory changes or made plans that would address many of the implementation issues identified in this report. **The Inclusionary Zoning Administrative Regulations proposed in August 2013 would shorten the length of time that an IZ unit would remain in the market, and potentially cast a wider net of potential program participants by enabling developers to develop their own marketing plan from the beginning of the process.** Additional planned changes would ensure that anyone who is enrolled on the registration list for the lottery system is certified up front, further expediting the process.

It is important to remember that the IZ program is still very much in its infancy. Actual construction of IZ units did not begin until 2010, because of delayed program implementation and the economic downturn. The first inclusionary ownership unit was only sold in 2013. As a result, it is too soon to draw firm conclusions about the success of the program. More time and review will be needed to fully understand whether the program is accomplishing its original goals. The city needs to devote adequate resources for effective administration of the program and **more data about the IZ program should be collected, tracked, and monitored regularly.** Program participants, such as households selected from the lottery and are eligible but choose *not* to lease or purchase an IZ unit, and households who *do* ultimately reside in IZ units, should be surveyed so that administrators and policymakers gain a better understanding of how the program is benefitting them, and how the program may be improved to better serve DC's low- and moderate-income residents. This data can be used to confirm and help resolve the issues most commonly identified by key stakeholders, and pinpoint new challenges that may not yet have been uncovered.

Appendix A. History of Inclusionary Zoning in the District of Columbia

2002—The DC Council adopts the Housing Act of 2002, which provides a regular stream of funding to the Housing Production Trust Fund from real estate recordation and taxes. The DC Affordable Housing Alliance, a coalition of housing-related stakeholders, formed a working group that advocates for inclusionary zoning (IZ).

2003—The DC Office of Planning forms a task force analyzing the adoption of voluntary IZ. The Campaign for Mandatory Inclusionary Zoning, a group of housing advocates, is formed.

2005—The Zoning Commission holds series of hearings about IZ. The hearings address program design, applicable locations, and interaction of IZ requirements with existing zoning overlays.

December 2006—Inclusionary Zoning Implementation Act of 2006 (Law 16-275) is assigned Bill No. 16-779. The Bill is adopted on December 5, 2006 and December 19, 2006. Mayor Anthony Williams signs the Bill on December 28, 2006 (Act No. 16-632). Both Houses of Congress reviews the Bill.

March 14, 2007—Inclusionary Zoning Implementation Act of 2006 becomes effective (DC Law 16-275; DC Official Code § 6-1041.07).

April 2, 2008—Mayor Adrian Fenty issues the Mayor's Order (2008-59). The Mayor's Order and the Inclusionary Zoning Implementation Amendment Act mandated a new Chapter in the District of Columbia Municipal Regulations (DCMR) on "Inclusionary Zoning Implementation", in Chapter 22 of Title 14 (Housing).

December 26, 2008—Revised notice of proposed rulemaking is issued, proposing amendments to the Inclusionary Zoning Administrative regulations. (55 DCR 12923).

May 15, 2009—Inclusionary Development Covenant is issued (56 DCR 3907).

August 14, 2009—Responses indicated that changes were necessary to fully implement the IZ program. Emergency rulemaking adopted on August 14, 2009. On August 28, 2009, the Notice of Emergency and Proposed Rulemaking for Inclusionary Zoning Implementation Rules was published (30 DCR 7120).

December 11, 2009—Revised Inclusionary Development Covenant becomes effective. In addition, Mayor Fenty’s Administration passes revised IZ regulations.

May 2010—The first Certificate of Inclusionary Zoning Compliance is filed for two for sale inclusionary units in the northwest quadrant. The two units were marketed to the public in May 2011.

March 9, 2012—Notice of request for comments published on DC Register at 59 DCR 2021 to amend Inclusionary Zoning Administrative Regulations.

July 2013—The first for sale inclusionary unit is sold.

August 9, 2013—DMPED provides notice of amendments to the Inclusionary Zoning Administrative Regulations, Chapter 22 entitled “Inclusionary Zoning Implementation of Title 14 (Housing) of the District of Columbia Municipal Regulations (DCMR).

Appendix B. Chronology of the Inclusionary Zoning Administrative and Implementation Process

District of Columbia Departments that Oversee Inclusionary Zoning

Department of Housing and Community Development (DHCD)

- Receives Notice of Availability from developer for IZ and ADU units
- Maintains the Housing Locator Registration
- Administers the Lottery Registration and Selection
- Provides training about IZ program through third-party providers (Community-Based Organizations)
- Markets the IZ program, lottery, and available IZ rental units (and the initial sale of the for-sale unit)
- Facilitates with closing procedures
- Reports on program requirements and progress in IZ Annual Reports

Department of Consumer and Regulatory Affairs (DCRA)

- Approves the Certificate of Inclusionary Zoning Compliance
- Issues the Building Permit
- Issues the Certificate of Occupancy
- With DHCD, reports on program requirements and progress

Office of Planning (OP)

- Reports on program requirements and progress in IZ Annual Reports
- Tracks development pipeline
- Analyzes policy

Office of Zoning

- As part of the Certificate of Inclusionary Zoning Compliance Process, reviews the proposed finish schedule to ensure that the development complies with regulations, and that the finishes and appliances in IZ units are comparable to market-rate units.

Board of Zoning Adjustment (BZA)

- Can approve offsite compliance for another Inclusionary Development, per a Board of Zoning Adjustment order

Inclusionary Zoning Administrative and Implementation Process as of August 2014

Stage in the inclusionary zoning program	Lead DC agency
Households sign up for inclusionary zoning program	
<p>1. Households complete a registration form with DHCD. The applicant self-certifies the information on the form including AMI, household size, and District of Columbia preferences (resident or employee in the District of Columbia). Households must attend an IZ introduction course before registering for the program. Registration is active after DHCD has reviewed the application, and it expires after two years unless renewed. Full-time students in college or university are eligible as long as he/she provides the annual income of his/her parent or guardian.</p> <p><i>2013 PROPOSED REGULATIONS:</i></p> <p><i>In addition to completing a registration form, households must also be actively prequalified with a letter from a first trust lender proving the household is creditworthy and able to afford the purchase price.</i></p> <p><i>Registration is active after DHCD determines the household has completed the requirements. Registration expires <u>one</u> year thereafter, unless renewed.</i></p> <p><i>Full-time students in college or university are <u>not</u> eligible, unless they are dependents of parents or guardians of households that qualify for the IZ program.</i></p>	DHCD manages the registration and training of applicants to the IZ program
<p>2. Registered households are placed on two lists: The <i>District list</i> that contains households where one member lives or works in the District of Columbia, and the <i>Miscellaneous list</i>, which comprises households ineligible to lease or purchase Inclusionary units.</p>	DHCD maintains lists of households eligible for the IZ program.
Inclusionary development owner gets Certificate of Inclusionary Zoning Compliance (CIZC), inclusionary covenant, and building permit	
<p>3. Owner of development must apply for a Certificate of Inclusionary Zoning Compliance (CIZC) with DCRA.</p> <p>CIZC confirms that the Inclusionary Development will meet the requirements of the IZ program. The CIZC application must be filed before the first above-grade building permit for the development is filed. DCRA notifies the developer if he/she is not in compliance with the Inclusionary Zoning Program or if DCRA needs more information. The developer has a “reasonable period of time” to amend the problems or provide the information. If the developer does not address DCRA’s issues, then DCRA may deny the CIZC application.</p>	DCRA reviews and issues the CIZC.
<p>4. DHCD must approve Inclusionary Development Covenant with the owner of the development.</p> <p>The Covenant legally binds all stakeholders with a property interest in the Inclusionary Development (including assignees, lenders, purchasers, and other successors) to the Inclusionary Zoning program and CIZC requirements, including the</p>	<p>DHCD executes the Inclusionary Development Covenant.</p> <p>Office of the Attorney</p>

construction and maintenance of IZ units that meet affordability, size, and quality standards. Present and future owners of the IZ unit are bound to the Covenant. Covenant also contains provisions for resale.	General declares legality of the Covenant.
5. Owner of development must file the Inclusionary Development Covenant with the District of Columbia Recorder of Deeds.	DC Recorder of Deeds files the Inclusionary Development Covenant.
6. Owner of development gets building permit only after the CIZC and the Inclusionary Development Covenant have been filed. A building permit authorizes building projects according to the scope of work under approved plans. Projects include new construction as well as additions, alterations, or repairs of existing buildings.	DCRA authorizes construction of a building through a building permit.
Inclusionary development owner provides notice of availability	
7. Owner must file the initial Notice of Availability with DHCD before the Certificate of Occupancy final inspection. <i>2013 PROPOSED REGULATIONS: The owner must file the initial notice before submitting the application for the Certificate of Occupancy.</i>	DHCD receives initial file for Notice of Availability of Inclusionary Unit.
Inclusionary development owner obtains Certificate of Occupancy for inclusionary units	
8. Owner of development updates information in the CIZC if there have been any changes.	DCRA receives updates of information in CIZC.
9. Owner of development applies for Certificate of Occupancy for each Inclusionary Unit in the Inclusionary Development. A Certificate of Occupancy certifies that the use of the building complies with zoning regulations and building codes, including allowable uses, occupancy load, address, and lot size.	DCRA receives the application for Certificate of Occupancy.
10. Inclusionary Development is inspected for compliance with the CIZC and the IZ Program within 17 days (in good faith effort) of receiving the application for Certificate of Occupancy. DCRA may conduct the inspection or hire a third party.	DCRA inspects the property, or hires a third party to perform the inspection.
Selecting households for inclusionary units	
11. DHCD will hold a lottery within 17 days of receiving the Notice of Availability of a for-sale or rental Inclusionary unit. Lottery will be with households on the District list that meet the size and annual income lists required for the available unit.	DHCD conducts the housing lottery.

<p><i>2013 PROPOSED REGULATIONS:</i></p> <p><i>The proposed regulations provide a new selection process: The housing opportunity is marketed to the District list. The lottery is conducted only with households who have expressed interest in the available housing opportunity. In addition to the lottery, the households for a rental or for-sale unit may be selected in two ways:</i></p> <p><i>For developers—Through a marketing plan that DHCD has approved, or,</i></p> <p><i>For IZ unit owners—Through a District-licensed real estate broker. (This only applies to IZ unit owners, not to IZ developers.)</i></p>	
<p>12. DHCD randomly selects four households per Inclusionary Unit. Households are selected from the District list through the lottery.</p> <p>If less than four households meet the household size and annual income standards, the DHCD will conduct a lottery using the Miscellaneous list to find at least four households that meet the household size and annual income standards.</p>	<p>DHCD selects four households from lottery.</p>
<p>13. DHCD ranks the households selected from the lottery:</p> <ul style="list-style-type: none"> i. Households residing in the District of Columbia, and then the length of time on the District list ii. Households with at least one member employed by the District of Columbia, and then length of time on the District list iii. Households on the Miscellaneous list, and then the length of time on the Owner's list <p><i>2013 Proposed Regulations: The proposed regulations do not rank the households that were selected through the lottery.</i></p>	<p>DHCD ranks households.</p>
<p>14. If none of the households selected from the lottery chooses to lease or purchase the Inclusionary unit, DHCD will continue to conduct lotteries until a household has rented or bought the unit.</p> <p>If the unit remains unsold or unleased for more than six months after the Notice of Availability was submitted, <u>and</u> at least two lotteries have been conducted, DHCD may permit a household that is not registered for the lottery to buy or rent the Inclusionary unit.</p> <p><i>2013 Proposed Regulations: The proposed regulations potentially reduce the amount of time that the Inclusionary unit is vacant.</i></p> <p><i>If more than three month have passed after the Notice of Availability has been submitted, <u>or</u> at least one lottery had been conducted, DHCD may permit, at its sole and absolute discretion, a household that is not registered for the lottery to rent or purchase the Inclusionary unit. The new regulations specify that the unregistered households must still meet the eligibility requirements of the IZ program.</i></p>	<p>DHCD continues lottery, OR permits sale to a household outside the District list</p>

<p><i>Alternatively, the owner can <u>at any time</u> propose a marketing plan to DHCD, as long as a household that has been selected through the lottery is still qualified and interested in renting or leasing the unit.</i></p>	
<p>15. DHCD provides owner of inclusionary development with list of households selected from the lottery within 17 days of DHCD conducting the lottery.</p> <p><i>2013 Proposed Regulations: The proposed regulations reduce the time period to 7 days.</i></p>	<p>DHCD notifies owner of lottery selection.</p>
<p>16. DHCD notifies households that have been selected from the lottery of their selection, ranking, and information about the available unit (address, unit type, and maximum rent or purchase) within 17 days of DHCD conducting the lottery.</p> <p><i>2013 Proposed Regulations: The proposed regulations reduce the time period to 7 days.</i></p>	<p>DHCD notifies households of lottery selection.</p>
<p>17. Selected households who are interested in renting or purchasing a house must complete a housing counseling class for homebuyers and renters. Regulations do not specify whether the head of household or every member of the household must complete the course.</p> <p><i>2013 Proposed Regulations: The proposed regulations specify that members of the households who are over 18 must attend an Inclusionary Zoning Program counseling class.</i></p>	<p>DCHD or its contractor provides housing counseling class for potential homebuyers and renters in the IZ program.</p>
<p>18. Certifying Entity verifies the interested households income, affordability, and household size.</p> <p>DHCD must approve of the Certifying Entity before the application process.</p>	<p>DHCD must approve the Certifying Entity.</p> <p>Certifying Entity such as Housing Counseling Services must verify household information.</p>
<p>19. Owner of the inclusionary unit must market the unit to households that were selected from the lottery and has confirmed interest in renting or purchasing the unit. The owner may not sell or lease the unit before 45 days after the households selected from the lottery had been notified, unless the highest-ranked household is renting or buying the unit. After 45 days, the owner may sell or lease the unit to any Interested household from the housing lottery selection, using the ranking criteria if there is more than one Interested household.</p> <p><i>2013 Proposed Regulations: The proposed regulations expedite the process by which the owner may sell or lease the inclusionary unit. The owner may sell or lease the unit to the first household referred to the owner from the lottery and/or the DHCD approved marketing plan, provided the household is ready and eligible.</i></p> <p><i>If more than one household is interested, the household who has been on the Registration List for the longest period of time is given priority.</i></p>	<p>Owner of unit must market to households selected from lottery.</p>

<p>20. Households selected from the lottery have 17 days after the notice of lottery selection to inform the owner of the inclusionary unit that the household is interested, and 45 days to provide the following materials:</p> <ul style="list-style-type: none"> ■ Declaration of Eligibility ■ Certification of Income, Affordability, and Housing Size by certifying agency such as Housing Counseling Services ■ Prequalification letter indicating creditworthiness and ability to pay the purchase price (for sale units) ■ Proof of completion of housing counseling class. <p>Households who decide to rent or lease the inclusionary unit have 60 days after the notice of lottery selection to execute the pre-sale contract or lease.</p> <p><i>2013 Proposed Regulations: The proposed regulations significantly expedite the transaction process. In addition to the Declaration of Eligibility and Certification of Income, Affordability, and Housing Size, they must also provide the documents listed below.</i></p> <p><i>For Sale Units: Households have a total of 30 days after date of lottery selection to provide a Mortgage preapproval letter (for sale units) and an executed sales contract.</i></p> <p><i>Rental Units: Households have a total of 15 days after date of lottery selection to provide an executed lease.</i></p>	<p>DHCD receives documentation from owner of inclusionary unit about households interested in purchasing and leasing the unit.</p>
<p>21. Owner writes an Inclusionary Zoning Covenant and a deed.</p> <p>The deed includes the Declaration of Eligibility and Certification of Income, Affordability, and Household size in the deed.</p> <p><i>2013 Proposed Regulations: The deed does not need to include the Certification.</i></p>	<p>Owner and purchaser execute the covenant.</p>
<p>22. Within 17 days after closing, the new owner of Inclusionary Unit must provide DHCD with an executed copy of the US Housing and Urban Development Settlement Statement and a copy of the deed, including the Declaration of Eligibility.</p>	<p>DHCD receives copy of the deed and settlement.</p>
<p>Updating information with DHCD</p>	
<p>23. FOR SALE: Every year, owners who are occupying inclusionary units must provide DHCD with certification that the unit is its primary residence.</p> <p>RENTAL: Every year, the owner of rental inclusionary unit must submit to DHCD the following information:</p> <ul style="list-style-type: none"> ■ Number of rental Inclusionary units by bedroom count that are occupied ■ Number of rental Inclusionary units by bedroom count that were vacated in past 12 months, and the number of days the unit was vacant 	<p>DHCD receives verification from owner of inclusionary unit that unit is primary residence.</p>

<ul style="list-style-type: none"> Information about occupied units Statement testifying the veracity of the eligibility of the inclusionary units tenants to the IZ program Copy of new and revised Certifications of Income, Affordability, and Housing size <p><i>2013 Proposed Regulations: In addition to the above documents, the owner of the rental unit must also provide a certification that new tenants of the rental Inclusionary units that were leased in the previous 12 months were found through a DHCD approved marketing plan.</i></p>	
Renting an inclusionary unit to a new tenant	
<p>24. Before 60 days of the anniversary of the first day of the lease, the renter of the Inclusionary unit must notify the owner of the Inclusionary unit whether or not the household will renew the lease. The renter must still meet the income and household size requirements of the IZ program.</p> <p>If the tenant renews, household must provide the following:</p> <ul style="list-style-type: none"> Names of each person who will be living in the unit Certification of Income, Affordability, and Household size from a Certifying Agency Declaration of Eligibility Certification that the inclusionary unit will be the primary residence <p><i>2013 Proposed Regulations: The new regulations state that the renter must <u>annually</u> confirm its eligibility for the rental unit based on the income requirements.</i></p>	<p>Renters update information with owner of unit.</p>
<p>25. Within 17 days after a tenant gives notice of intent to vacate the unit, or when owner becomes aware that owner has vacate or intends to vacate the unit, whichever is earlier, owners of rental inclusionary Units must file Notice of Availability.</p>	<p>DHCD receives subsequent file(s) for Notice of Availability of all Inclusionary Units.</p>
<p>26. Owner of Inclusionary Unit must register the Inclusionary Unit in the Housing Locator website within five days of filing the Notice of Availability.</p>	<p>DHCD maintains DC Housing Search website.</p> <p>Owner of development lists units on website and updates listing.</p>
<p>27. Rental units: Owner may have a selection list or waiting list that is open to the general public. The list will include all the same information as DHCD's Registered Households list.</p>	<p>Owner of development</p>

<p>Owner may market the Inclusionary Unit to the first four Households on the Owner's waiting list, based on the household's size and income.</p> <p>Household is ranked by:</p> <ol style="list-style-type: none"> 1. Households residing in the District of Columbia, and then the length of time on the Owner's list 2. Households employed by the District of Columbia, and then the length of time on the Owner's list 3. Other households, and then the length of time on the Owner's list <p>During first 30 days after Notice of Availability, the owner may lease to the highest-ranked household. After 30 days, owner may lease to any of the first four households selected from the Owner list. If none of the first four households are interested within a reasonable time period, the owner may market the unit to the next four Households using the same ranking.</p> <p><i>2013 PROPOSED REGULATIONS: There is no information about an Owner's List.</i></p>	
<p>28. Selected Households have 17 days to indicate interest to the owner.</p>	
<p>Reselling an inclusionary for sale unit</p>	
<p>29. Owner of Inclusionary Unit must register the Inclusionary Unit in the Housing Locator website within five days of filing the Notice of Availability.</p>	<p>DHCD administers and updates the DC Housing Search website.</p>
<p>30. DHCD notifies the Owner of the Inclusionary Unit of the maximum purchase price or rent for reach Inclusionary Unit listed in the Notice of Availability within 17 days of receipt of the Notice.</p> <p>Maximum resale price (MRP) is $(P \times (F) + V)$, where</p> <p>P = price the Owner paid for the unit</p> <p>V = sum of value of eligible capital improvements and replacement and repair costs, per DHCD</p> <p>F = sum of 10-Year Compound Annual Growth Rate of AMI</p> <p><i>2013 Proposed Regulations: DHCD has seven days after receipt of the Notice of Availability to notify the owner of the maximum purchase price or rent.</i></p> <p><i>The revised MRP formula is $MRP_n = (MRP_{n-1} \times F_n)$ where</i></p> <p><i>n = current AMI year</i></p> <p><i>F_n = rate of appreciation of current AMI of any given year, calculated by determining the 10-year compounded annual growth rate of AMI</i></p>	<p>DHCD calculates the maximum purchase price or rent of Inclusionary Unit, and notifies owner.</p>

31. DHCD may request to inspect the unit to verify existence and value of improvements.	DHCD inspects unit for improvements.
<p>32. Owners of the Inclusionary units must file a notice at least 45 days before the owner markets the unit or 25 days before the lottery.</p> <p>Notice will have list of upfront or recurring fees and costs. Notice must also include an itemized list of all capital improvements and upgrades, along with documentation of the cost and value (with receipts, contracts, and other documents) for DHCD to include in the Maximum Resale Price calculation.</p> <p><i>2013 Proposed Regulations: Owner of a For-Sale Unit must file Notices of Availability before marketing the For-Sale Inclusionary unit. (No longer includes time requirement, and only applies to For-Sale Inclusionary Units. One Notice of Availability is sufficient for one or more Inclusionary Units at a time.)</i></p>	<p>DHCD will use information from Notice of Availability when calculating Maximum Resale Price of For-Sale Unit to be resold to the market.</p>
<p>33. The Maximum Resale Price (MRP) will not include an allowance for payment of real estate brokerage fees associated with sale.</p> <p><i>2013 Proposed Regulations: An allowance may be made in MRP for payment with legal fees associated with transaction of the Inclusionary unit, with DHCD approval.</i></p>	<p>DHCD approves of allowance for legal services used to sell Inclusionary services</p>
<p>34. With approval from DHCD, and at DHCD's sole discretion, owner may temporarily lease a For Sale inclusionary unit.</p> <p>Lease term may not exceed 12 months, and only one temporary rental may occur during a 5-year period.</p> <p><i>2013 Proposed Regulations: The restriction that one temporary rental may occur over a 5-year period no longer exists.</i></p>	<p>DHCD determines whether owner may lease a for sale inclusionary unit.</p>

Appendix C. Interviews for Inclusionary Zoning Analysis

- District of Columbia Department of Housing and Community Development: Marshall Cusaac
- District of Columbia Deputy Mayor for Planning and Economic Development: Anna Shapiro and Gilles Stucker
- District of Columbia Office of Planning: Art Rodgers
- District of Columbia Department of Consumer and Regulatory Affairs: Matthew LeGrant
- Capital Impact Partners: Anne Geggie
- Capital One: Leila Finucane
- Coalition for Nonprofit Housing and Economic Development: Bob Pohlman
- Coalition for Smarter Growth: Cheryl Cort
- Enterprise Community Partners: David Bowers
- Housing Counseling Services, Inc.: Marian Siegel, Ronald Clarkson, Charlotte Knott, and Su Cheng
- Manna, Inc.: Jim Dickerson, Sarah Scruggs, and Frank Demarais
- Montgomery County Department of Housing and Community Affairs: Christopher Anderson and Stephanie Killian
- The Bozzuto Group: David Raley
- Urban Pace: Lynn Hackney and Suzanne Desmarais

Appendix D. Discussion Guide for Inclusionary Zoning Interviews

Priority Questions (all interviewees)

1. What are the benefits for lower-income households from IZ? What are the disadvantages for lower-income households?
2. What are the strengths of DC's current IZ program? What are the weaknesses?
3. What changes, if any, should the city make to its IZ program and why?
4. What changes to the IZ or ADU policies would developers be interested in seeing, so as to ease the process or make ADU building more financially amenable?
5. What administrative challenges are there to the IZ or ADU programs?
6. Should ADU requirements be applied to homeownership units?
7. What do homeowners and renters think of the IZ or ADU programs? That is, what have their experiences been on the process (e.g., lottery system, application, etc.) as well as the requirements (beneficial, easy to understand, etc.)?

Additional Questions for Office of Planning, Developers, and Investors

1. Who builds under IZ (e.g., developer characteristics) and what is the effect of IZ incentives on housing production?
2. Have the IZ and ADU policies impacted the location decisions of developers? If so, how?
3. Have the incentives in the IZ and ADU policies affected any business decisions, including the size of the building, income mix, etc.?
4. How does the IZ program interact with other housing and development programs and policies—both housing and zoning?
5. Through what agreements, and with what agencies, have the developers built ADUs?
6. How are prices set for affordable units, who determines eligibility, and who manages units?
7. How effective is affordability monitoring and enforcement?

Notes

1. Inclusionary zoning units and affordable dwelling units are also in mixed-use developments, which contain residential properties and commercial uses.
2. Department of Housing and Community Development, District of Columbia. "Inclusionary Zoning Affordable Housing Program," accessed December 16, 2013, <http://dhcd.DC.gov/service/inclusionary-zoning-affordable-housing-program>.
3. DC Municipal Regulations and DC Register, "General Provisions," Chapter 11–26: Inclusionary Zoning.
4. Department of Housing and Community Development, District of Columbia, "FAQs- Inclusionary Zoning," accessed February 1, 2014, <http://dhcd.DC.gov/page/faqs-inclusionary-zoning>.
5. Areas where the IZ program does not apply include the Downtown Development or Southeast Federal Center Overlay Districts; Downtown East, New Downtown, North Capital, Southwest, or Capital South Receiving Zones; W-2 zoned portions of Georgetown Historic District; R-3 zoned portions of Anacostia Historic District C-2-A zone portion of the Naval Observatory Precinct District, and the Eighth Street Overlay.
6. According to the Office of Planning, 3 of the 40 projects do not have a CIZC filing date and they must be reviewed, as these 3 projects do trigger the IZ requirement.
7. Other forms of subsidized housing include: Multifamily Assistance and Section 8 Contracts (as of 1/10/14); Insured Multifamily Mortgages (as of 2/15/13); Low-income Housing Tax Credits (as of 9/22/11, reflecting projects placed in service through 2009); Active 202/811 Loans (as of 10/8/10) and Active 236 Projects (downloaded 8/08); HOME (as of 3/31/07); Affordable Housing Pipeline (February 2008) and Housing Data Report (May 2008); DCHFA Multifamily Project Pipeline Status Report (1/2/08); project-based rental assistance from DC Housing Authority (received summer 2007); Public Housing (retrieved from the DCHA website on 4/17/07 and correspondence with staff in 11/08); DCHA Document (2/8/2011); and REAC Scores (published by HUD on 11/27/13); Terminated Multifamily Mortgages (12/31/11).
8. Some key informants suggested that developers may not pursue a bonus density simply because the extra density is not a viable or profitable investment.
9. 2008–10 American Community Survey PUMS, DC Office of Planning
10. Aaron Weiner, "Housing Complex: Fee Cycle," *Housing Complex, Washington City Paper*, October 3, 2013, accessed on February 10, 2014 <http://www.washingtoncitypaper.com/blogs/housingcomplex/2013/10/03/fee-cycle/>
11. "The most important general goals of the Inclusionary Zoning Program include the following: "to create a stock of housing that will be affordable to low- and moderate-income residents over a long term..." (DC Official Code § 11-2600.3).
12. The affordability period is also referred to as the "control period."
13. The programs assessed were in a diverse set of markets— Atlanta, Georgia; Burlington, Vermont; Duluth, Minnesota; Boulder, Colorado; Davis, California; King County, Washington; and San Francisco, California.
14. National average mortgage rate as published by the Federal Housing Finance Agency.
15. Aaron Weiner, "Housing Complex: Georgia Avenue Developer Sues City Over Inclusionary Zoning," *Housing Complex, Washington City Paper* December 14, 2012, accessed on February 10, 2014 <http://www.washingtoncitypaper.com/blogs/housingcomplex/2012/12/14/georgia-avenue-developer-sues-city-over-inclusionary-zoning/>

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About the Authors



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Elizabeth Oo is a research associate in the Metropolitan Housing and Communities Policy Center at the Urban Institute, where she has been part of a team providing technical assistance on data collection and management to grantees of the US Department of Education's Promise Neighborhoods program. She has also been involved in projects assessing housing affordability and security in the Washington, DC, metropolitan region; an evaluation of Rebuild by Design, a post-Hurricane Sandy design competition; and the Innovations in Infrastructure program, where she helped organize workshops on green stormwater infrastructure. Before joining Urban in 2013, Oo worked as a public policy research fellow at the National Housing Trust, where she helped manage a sustainable communities research grant on the Low-Income Housing Tax Credit program and transit-oriented development. As part of that project, she conducted over 100 in-depth interviews with leading officials in the affordable housing, sustainability, and transportation industries. Oo is a board member of the Refugee Center Online, a nonprofit online resource for refugees and asylees in the United States. She holds a BA in economics and community health from Tufts University and a master's of regional planning from Cornell University.



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