INCLUSIONARY CONVERSIONS

A NEW TOOL FOR PUBLICLY SUBSIDIZED HOUSING

D.C. POLICY CENTER

An important characteristic of the rent-controlled housing is that rent-controlled units are everywhere, especially in parts of the city where building affordable units has been difficult. Another important characteristic is that their rents are lower, as rent control laws have, over time, created a sizeable difference in rents of rent-controlled and uncontrolled units.

The D.C. Policy Center report, *Appraising the District's rentals*, proposes a new policy tool to take advantage of these characteristics in order to create designated affordable units. Because this tool uses the existing stock to create affordability and inclusion, it is referred to as the Inclusionary Conversions.

How would Inclusionary Conversions work?

The District would convert a portion of existing rent-controlled units into designated affordable units with covenants. Once the conversion takes place, the converted unit would operate in the same way as Inclusionary Zoning: its rents would be capped at the desired affordability target for the duration of the covenants, and the unit would be made available only for income-eligible tenants. In return, the landlord would receive financing support from the District that is the equivalent of the difference between the rent-controlled rent and the capped-rent.

How many units can the District create?

The number of Inclusionary Conversions depends on the share of units converted in each rental apartment building, and the level of rent caps. Higher rent caps (for example making units affordable at 80 percent of Area Median Income) would result in more units than lower rent cap (for example, making units affordable at 50 percent of Area Median Income. If the District converted 10 percent of units in rent-controlled apartments and capped the rents at 50 percent of Area Median Income, the program could create up to 5,200 Inclusionary Conversion Units.

Where would the Inclusionary Conversion units be created?

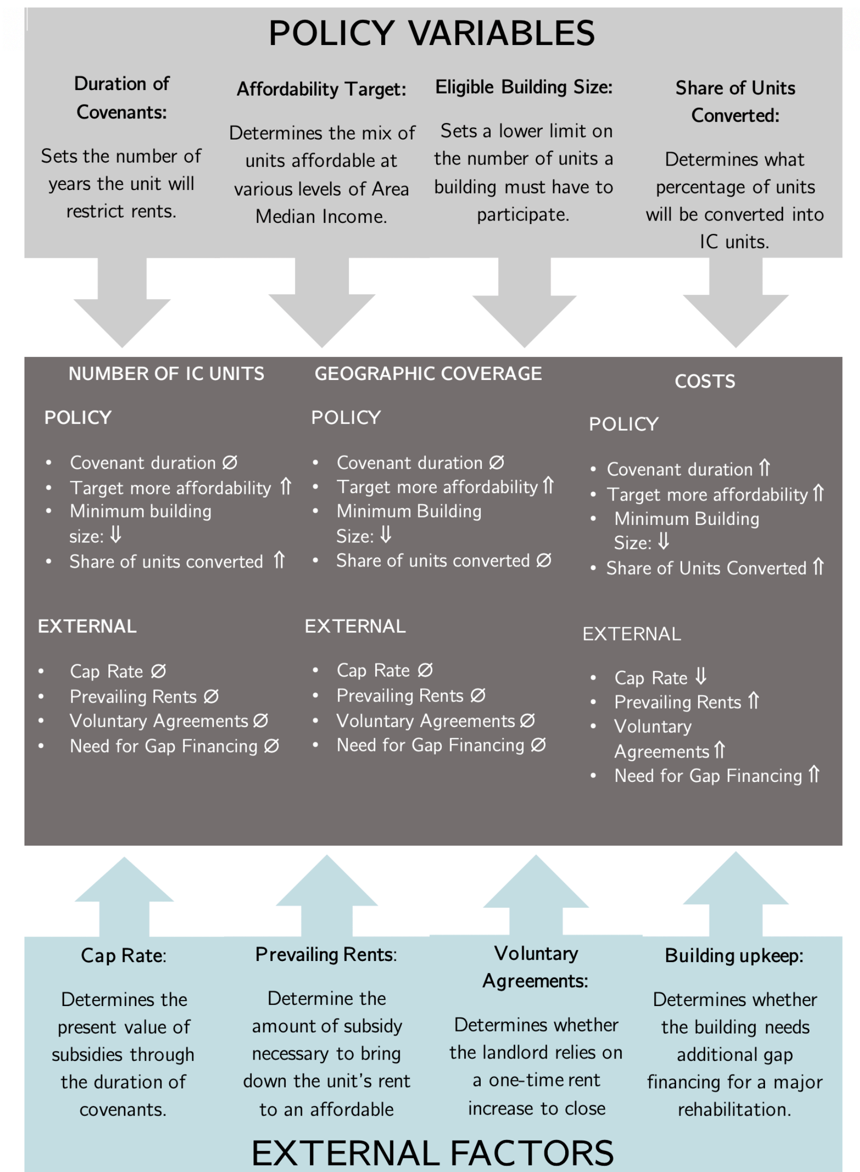
Because of where rent-controlled units are, the highest number of Inclusionary Conversion units can be in parts of the city where existing affordable housing programs have not been successful. 80 percent or more of the inclusionary Conversions would be created in Wards 1, 2, and 3.

How could the District pay for Inclusionary Conversions?

The District can finance Inclusionary Conversions with a one-time cash infusion, similar to a Housing Production Trust Fund loan, or with annual operating subsidies similar to the Local Rent Supplement Program. If funded as an annual subsidy, the support for each unit would be equivalent to the difference between the prevailing rent and the maximum rent the landlord can charge. If funded as a one-time cash infusion, the support would be equivalent to the present value of the annual operating subsidy over the lifetime of the covenants and can potentially be incorporated during a capital event such as refinancing.

Because the model relies on financing the gap between a subsidized unit and the lower rents in rent-controlled buildings, Inclusionary Conversions would require a much smaller public subsidy than needed under current affordability programs. For example, the unit cost of conversion under the one-time cash infusion approach is estimated at $96,000 for 15-year covenants, and at $154,000 for 40-year covenants.

Figure: How the Inclusionary Conversion policy model works



Read the full report: [***dcpolicycenter.org/publications/appraising-the-districts-rentals***](dcpolicycenter.org/publications/appraising-the-districts-rentals)