Washington Housing Initiative Moves Forward

FC2 Membership Seen as a “Force Multiplier”

Accessory Dwelling Units: New D.C. Housing Option
“Affordable workforce housing is essential for any city to thrive, and a good idea merits sharing.”

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“If enough units are built, ADUs have the potential to increase the overall housing supply in the District.”

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Dear Trustees,

Woven throughout all of the work of the Federal City Council (FC2) is an enduring commitment to civic improvement and sustained economic growth to ensure a vital and thriving District of Columbia.

As the city has prospered, we have worked to increase the regional supply of affordable workforce housing. Our new and increasing focus on housing has energized many of our partners and members, while broadening the relevance and importance of our initiatives. You’ll read a great deal in this 2018 Fall / Winter Catalyst about the solutions we have formulated to address the affordable housing quandary.

In this issue, we share additional details about the inventive Washington Housing Initiative (p. 2). This partnership between the FC2 and JBG SMITH, a leading national real estate developer, creates the groundbreaking Impact Pool and the Washington Housing Conservancy.

The interplay between the Impact Pool and the Conservancy promises to become a national model for other cities. Our laudable and achievable goal is to create or preserve 2,000 to 3,000 new units of affordable workforce housing in the next decade.

In our TONYTalks conversation with JBG SMITH CEO Matt Kelly (p. 4), you’ll get a sense of the dynamic relationship we have forged and how far-reaching this Initiative could be in providing affordable housing in the District.

A story about accessory dwelling units, or ADUs, in this issue outlines another avenue the FC2 is exploring to develop supplementary affordable housing options in the District—providing additional value for D.C. homeowners and new housing options for those who are displaced (p. 8).

We brought our impressive FC2 membership team together for a conversation about recruiting new Trustees and retaining veteran Trustees (p. 6). We hope you’ll gain insights into the important service of your colleagues to support you and the organization.

Finally, we highlight the work of the D.C. Policy Center’s Education Initiative, which continues to provide data-driven analysis that explores the student-learning environment in the District and offers a strong voice for policies that promote socially responsible education programs and initiatives (p. 9).

We appreciate that the FC2 has the respect and confidence of our community, thanks to our reputation and record of achievement. We believe our latest work on affordable workforce housing and education reform have laid the groundwork for transformation—today and into the future.

Sincerely,

Anthony A. Williams
The transformative, market-driven Washington Housing Initiative is drawing attention from regional and national investors intrigued by the effort to create 2,000 to 3,000 new units of affordable workforce housing in the Washington, D.C., region over the next decade.

A partnership between the Federal City Council (FC2) and JBG SMITH, the largest real estate developer in this region, the Initiative will deliver significant returns and benefits to investors and residents while strengthening the D.C. economy for the longer term.

The goal is to secure $100 million to $150 million in investments, with half or more of the capital invested in the District. The initial effort to attract investors will be completed by the end of 2018, with hopes of raising between $40 million and $50 million in early capital.

“This innovative financing model will draw the required capital to increase the availability of affordable workforce housing here,” said Anthony Williams, FC2 Chief Executive Officer and Executive Director. “We want to help our residents who live and work here to afford to stay here and enjoy our city.”

Launched in July 2018, the Initiative has three distinct components—the Impact Pool, the Washington Housing Conservancy and a Stakeholder’s Council. Managed by JBG SMITH, the Impact Pool offers long-term, lower-cost financing for owners and developers.

“For a long time, we have felt there was a missing component in the market for what we call affordable workforce housing,” said Matt Kelly, CEO of JBG SMITH. “You have a lot of organizations that are oriented toward addressing the needy at the lowest end of the income spectrum. A lot of folks like JBG SMITH are building market-rate housing. But that in-between segment has not gotten as much attention as it needs.”

Capital from the Impact Pool will bridge the gap between traditional mortgage financing and charitable contributions with mezzanine investments that provide
competitive, risk-adjusted returns for investors, with returns capped at 7 percent. Excess earnings will be allotted for services for tenants and to maintain the overall affordability of Conservancy units.

The Conservancy, an independent 501(c)3, is designed to acquire and own the real estate, sponsor private activity bonds and fund neighborhood services. The Conservancy will purchase properties in high-impact locations—neighborhoods that are still affordable but will be less so in five to 10 years. The Conservancy’s first project is a mixed-use parcel in D.C.’s Shaw neighborhood.

The FC2 has tapped a group of regional real estate and philanthropic executives to guide the Conservancy’s initial work. Board members will be Joshua B. Bernstein of Bernstein Management Corp.; Carol Thompson Cole of Venture Philanthropy Partners; Tamara Lucas Copeland of the Washington Regional Association of Grantmakers; Charlene Drew Jarvis of The University of District of Columbia; Deborah Ratner Salzberg of Forest City Washington; Robert Stewart of JBG SMITH; and W. Christopher Smith of WC Smith. Mark M. Katz of Arent Fox will be the General Counsel, and FC2 Chief Operating Officer Kevin Clinton will serve in the role of Interim Executive Director.

A critical feature of the Conservancy’s mission will be its charge to partner with providers who will deliver neighborhood-focused amenities, such as transportation and childcare services, near its affordable housing developments.

The final component, the Stakeholder’s Council, will consist of government, real estate, financial, foundation and service provider experts who will help knit together the overall Initiative by offering strategic guidance and input.

One of the benefits of the Initiative is the likelihood it will serve as a model for other communities facing similar housing challenges. “There was a shared goal and understanding that the Initiative could be a model that can be scaled and replicated in D.C. and nationally,” says Williams. “Affordable workforce housing is essential for any city to thrive, and a good idea merits sharing.”
W. Matthew “Matt” Kelly, Chief Executive Officer of JBG SMITH, has been instrumental in the creation of the Washington Housing Initiative in partnership with the Federal City Council (FC2). The innovative model offers a market-driven approach to funding affordable workforce housing while also delivering significant social benefits.

Prior to joining the JBG Companies in 2004, Kelly was a co-founder of ODAC Inc., a media software company, and worked in investment banking and private equity with Goldman Sachs & Co. in New York and Thomas H. Lee Partners in Boston.

The FC2’s Anthony Williams recently spoke with Kelly about the Housing Initiative and its potential for preserving and building a substantial number of affordable workforce housing units in Washington, D.C. and the region.

**AW:** Why is JBG SMITH so committed to partnering with the FC2 on the Housing Initiative?

**MK:** “For a long time, we have felt there was a missing component in the market for what we call middle-income affordable housing. You have organizations that are oriented toward addressing the needy at the lowest end of the income spectrum, which are still an underfunded and underserved population, by the way. A lot of folks like JBG SMITH are building market-rate housing, but that in-between segment of middle-income renters has not received as much attention as it needs.

“When you look at the issues of homelessness and the shortage of low-income housing, they really are a drag on economic growth. When we think about housing, and where we at JBG SMITH could move the needle, we look to identify the areas of need in the market where we could have an outsized impact on the overall risk of homelessness and of actual homelessness.”

**AW:** Why is it important to take a regional view with the Housing Initiative rather than focusing exclusively on D.C.?

**MK:** “When you look at where people live and where people work, employers and employees don’t think of us as two states and one city. They think of us as one region. JBG SMITH is based in Chevy Chase, and we have a lot of employees who live in D.C., Maryland and Virginia. It’s impossible to really address any economic, housing and related issue in this metro area without addressing the whole metropolitan region. Our solutions can’t be limited to one jurisdiction. If they are, we’ll be missing out as an entire region.”

**AW:** Can you talk to us about how serious a problem affordable housing is in the region today and why that matters?

**MK:** “This is something a lot of business people don’t fully appreciate. Employers focus on education, job skills and whether a city has the right kind of trained workforce when deciding where to place their businesses. Without those elements, you can’t fill jobs. But if employees don’t have housing that is affordable and close enough to job centers, then they have to move so far from the job center that you won’t be able to keep that employee in that job. You won’t be able to grow your business or grow our economy. Employers tend to follow labor. If you have people leaving your market because they can’t afford housing, you will have employers leaving the market, too.”

**AW:** How has the Housing Initiative been structured in relationship to the Housing Conversancy to create value?

**MK:** “The Housing Conservancy is a 501(c)3, and it is set up to own and control the housing. It will be the owner of these many thousands of units we hope to finance through this structure. The entity is independent from JBG SMITH. It’s an entity formed by working with the Federal City Council, and it has an independent board. The Housing Conservancy will be raising nonprofit funds.”
donations, and it will be the owner and provide some of the capital to acquire or build these units.

“The Impact Pool, operated by JBG SMITH, is managing and raising capital that will pay a rate of return and is intended to be returned to investors over time. It’s viewed more as an investment that’s structured to add value for investors and to provide benefits to the residents of these units. The limit on returns is set at 7 percent, and anything over and above that goes back into the Washington Housing Conservancy. What is unique about this model is its focus on services. We want to make sure we have the right kinds of assistance, childcare and transportation assistance for the housing units, so this is the full package you need for a holistic solution to all the things that can put pressure on a working family.”

AW: What types of investors do you think will be attracted to this type of investment that leverages patient, lower-cost capital?

MK: “We’ve had interest from some of the large institutions that are active in the housing world. A lot of the big banks expressed a high level of interest. There are provisions in the structure we set up that allow for the dollars to qualify as community reinvestment dollars, so that has drawn interest. High-net-worth investors—local investors who are committed to doing good but also like the fact that it will help the local economy and have a meaningful, social pay back—are interested. A number of professional services firms are interested in this housing or see it as an extension of their corporate social responsibility, not only in the Impact Pool but also through the Washington Housing Conservancy.

“Some of our investors will likely be charitable foundations that can take advantage of provisions in the tax law that make it possible to make investments with relatively low rates of return provided the investments are aligned with their program needs.”

AW: The Housing Initiative doesn’t look for public subsidies.

MK: “The model basically exists almost entirely on private-sector solutions. The first mortgage financing on the properties will come from Fannie or Freddie or one of the other government-sponsored enterprises, and the Impact Pool will provide the next layer. The Conservancy will provide the donor funding with no need for any public financing sources or public assistance. However, government can invest alongside or in partnership with the Initiative to leverage its impact.”

AW: The investment focus is on high-impact locations. How are those derived?

MK: “We have derived the high-impact locations by looking at where you have the highest proportions of naturally occurring affordable housing. They’re relatively close to the city or other job centers. Commute times are generally short. There’s a lot written about the longer the commute time, the harder it is to get the job. A lot of employers have a bias against people who have to commute. These locations have a reasonably high proportion of market-rate affordable housing, and this is where we see the path of growth heading. The housing there is at risk of being torn down and redeveloped, or having rental rates increase as housing supply tightens and employment grows. Those are the types of units that may be affordable today but not in five or 10 years. We want to target them for acquisition and preservation. They often have additional land around them, and we will be working with local jurisdictions to build new housing developments dedicated to serving a certain percentage of AMI renters and bringing new people into the workforce.”

AW: Will these be primarily rental units or targeted for homeownership?

MK: “They are primarily rental products because of what we’re targeting. We want to have the longest arc of impact in terms of what we’re targeting and the income segment we’re targeting. It’s hard when you build for-sale housing to have restrictions on what the next buyer can do with it. You may sell it to a certain targeted buyer, who turns around and sells it to someone else. It’s possible that it doesn’t stay in the workforce-affordable category long enough to have the impact we’re looking for.”

AW: Do you believe the Housing Initiative, with its combined elements of the Impact Pool and Conservancy, could prove to be a national model?

MK: “We’ve developed this in a way that is an open-source model. If other cities have the desire to implement something like this, we’d love to share the entire playbook with them because we think it will do a lot of good. It’s taken us several years to think through all the ins and outs of this. It’s not the first time anybody has ever done anything like it, but it is the first of its kind organized on this scale. Therefore, we’d like to believe it could be replicable in another city or even with somebody else in this market. The more we do this the better for everyone.”

Please visit federalcitycouncil.org for more TONYTalks conversations.
Federal City Council Membership Roundtable

A robust and diverse membership is essential to the Federal City Council (FC2) and its success. Our Trustees ensure our voice is amplified in ways that enhance our viability and help us achieve our goals.

In this roundtable with FC2 CEO and Executive Director Anthony Williams (AW), FC2’s Membership Committee Co-Chairs Margaret Dunning (MD) and David Lawson (DL), and Chair of the Membership Engagement Committee, Joshua Bernstein (JB), we discuss the role of Trustees and their important contributions to the organization’s mission.

The FC2 is comprised of distinguished leaders at the top of their professions—executives who focus their talents on the major challenges and opportunities facing our city. What are you seeking in Trustee candidates?

DL: “To become a Trustee, candidates must exhibit a commitment to the nation’s capital and a desire to work through the FC2 to improve it. Our Trustees work quietly to help public officials and nonprofit leaders achieve meaningful and lasting change today and in the future.”

AW: “Our trustees are accomplished individuals. They want to help create public value and public good. They believe we’re a great platform to do that by working with similar people and similar goals. They really see the FC2 as an ecosystem that’s a force multiplier.”

Our Trustees help develop and deploy our ambitious vision for Washington, D.C. They craft groundbreaking policy solutions to solve critical issues of the day. What differentiates our Trustees from members in other business-oriented organizations in D.C.?

JB: “What distinguishes us from other business groups is we’re not advocating on behalf of our members. This is not a business-networking group. If you want an advocate for your industry, there are other prominent D.C. groups that can help you.”

MD: “We want our membership to reflect all business sectors in the region, including health, technology, real estate, law, transportation, education and more, as well as emerging sectors. It is important to the success of FC2 that voices from a wide range of industries who value Washington are heard.”

By contributing their knowledge, experience and skills, our Trustees ensure a better quality of life for everyone who lives and works in the District of Columbia. How do our Trustees work with FC2 staff to safeguard our city’s economic vitality?

DL: “People who join the FC2 tend to be important stakeholders in the city who care about the long-term prospects of the city and region. They see the FC2 as a unique opportunity to engage with other like-minded individuals and to work in partnership with our outstanding professional staff.”

AW: “Trustees support the FC2’s efforts in many ways. Some support us with their names and their dues, and that’s wonderful. Others are called upon periodically to reach out to their networks of influencers to help with a particular project. Then you have people who are more involved on an ongoing basis with project and committee work. We welcome all of their contributions.”

Since 1954, the FC2, a non-profit, nonpartisan organization, has mobilized community action on the region’s most important economic and social issues. Through its civic stewardship, how has the FC2 promoted meaningful connections among leaders in business, education and government in the District?

MD: “The Federal City Council has built historically successful partnerships for the health and success of the city. We are fortunate the FC2 is led by one of the city’s amazing former mayors. Tony brings an extraordinary knowledge base and acumen to the critical work of the FC2, helping us achieve our goals more efficiently and effectively.”

The FC2’s Trustees have the insights, connections and access to key federal, state and local elected officials and civic stakeholders. They catalyze change and achieve much-needed policy and community outcomes, but how can they contribute in a meaningful way?

JB: “We are always looking for new avenues to engage our Trustees around our projects and initiatives. We
recognize that engagement can be broadly defined, and we want them to feel comfortable in whatever role they choose to take or not take. Many trustees work with the FC2 staff to develop ideas of their own or work in collaboration with the staff on specific projects that are already in motion.”

**DL:** “Our Trustees understand the power of the business community and how, with collective action, we can ready innovative initiatives to contribute to the District’s prosperity and to prepare our city for the future. By convening a network of civic and corporate leaders, the FC2 strives to make the District a more responsive, globally competitive city.”

**AW:** “The FC2 is obviously powered by our Trustees. They are the real energy and inspiration and special sauce. It’s important to have them engaged not only so they feel a part of the Federal City Council, but also so we make use of their valuable time in a way that contributes more fully to their own interests and the organization.”

**JB:** “I think the Washington Housing Initiative is a great example of our work. It was an idea that was hatched by members who partnered with the FC2 and that convened policymakers, nonprofit leaders and real estate practitioners to help refine and focus the Initiative and provide leadership. The FC2 has had a wonderful influence on it.”

Membership is by invitation only, with new Trustees designated privately for consideration. Through interviews with staff and current Trustees, our process of selection takes place without regard to gender, race, religion or age. All decisions with respect to membership and selection are at the discretion of the FC2 Board of Directors.

**MD:** “The charge of the Membership Committee is to identify industry leaders who wish to support the mission of the FC2. We are interested in different types of expertise from those in a variety of sectors so that collectively, with the support of these committed members, the FC2 can be more effective.”

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**How to Make Your FC2 Membership Even More Meaningful**

**To learn more about being a Trustee or to get information about how to recommend someone for FC2 membership:**

**Contact:**
- Margaret Dunning or David Lawson, Membership Committee Co-Chairs
- Josh Bernstein, Membership Engagement Chair
- Melissa Crawford, Director of Membership and Events, mcrawford@federalcitycouncil.org

**To learn more about the FC2 and its programs and initiatives:**
Attend the FC2 monthly meetings/events, read its publications, including Catalyst magazine and the Annual Report, and visit its social media platforms.

**To engage with the FC2’s projects and initiatives:**

**Contact:**
- Kevin Clinton, kclinton@federalcitycouncil.org
  Washington Housing Initiative, Education Reform and the Economy
- Emeka Moneme, emoneme@federalcitycouncil.org
  Langston Initiative, Metro Reform and Infrastructure DC projects
- Melissa Crawford, mcrawford@federalcitycouncil.org
  Membership, Events and Communications/Media
- Yesim Sayin Taylor, yesim@dcpolicycenter.org
  D.C. Policy Center

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In an effort to enlarge the District’s stock of housing, the Federal City Council (FC2), through its Infrastructure DC initiative, is working to reduce barriers to the development of accessory dwelling units (ADUs) in D.C.’s many residential neighborhoods.

Known by many names—granny flats, garage apartments and backyard cottages—ADUs are independent living quarters that share the same property as a single-family home. They are becoming more popular because they provide supplementary income for homeowners and are a housing solution for lower-income households.

“If enough units are built, ADUs have the potential to increase the overall housing supply in the District, driving housing prices down or at least slowing housing price increases,” said Maura Brophy, Associate Director of Transportation and Infrastructure at the FC2. “ADUs create density in otherwise low-density neighborhoods, and they do so without building a high-rise or a multi-family building and changing the character of a neighborhood.”

What is particularly appealing about the ADU project is that it could be a way to support affordable workforce housing needs without additional subsidies. A market-driven approach that tackles this issue could prove to be a national model for other jurisdictions.

ADUs gained traction in the District after the zoning code was changed in 2016 to allow homeowners in the lowest-density residential zones to build ADUs without special permission from the Board of Zoning Adjustment. About 106,000 lots are eligible for ADUs in the District.

Similar to historic carriage houses, ADUs provide some flexibility because they can be created from the conversion of an existing structure or by constructing a new building. ADUs have also proven to be helpful in keeping long-time residents and older adults in place in gentrifying neighborhoods.

Brophy said the FC2 is working with the DC ADU Working Group, which is looking to address hurdles that have slowed the adoption of ADUs in the District. Those barriers include connecting homeowners to the capital they need to build the ADUs and providing a network of technical experts that can help homeowners with the construction and maintenance of ADUs.

“It takes more than a policy change to develop this at scale,” said Brophy. “The work we’re doing is really focused on reducing some of the remaining barriers to the development of ADUs in the District.”

The working group recently traveled to Oregon to participate in a national program sponsored by the Institute for Sustainable Solutions at Portland State University. The program will provide support to the FC2, among other organizations, to investigate how to resolve financing challenges.

The FC2’s work on the ADU pilot project dovetails with the Washington Housing Initiative, the innovative partnership between the FC2 and JBG SMITH, the area’s largest real estate developer. The partnership plans to add between 2,000 and 3,000 new units of affordable workforce housing in the region over the next decade.

“Our ADU project reinforces the FC2’s focus and commitment on the issue of affordable housing in the District,” said Emeka Moneme, FC2 Deputy Executive Director.
Langston Initiative Lease Delayed

The U.S. Department of the Interior, citing discomfort with its proposed lease with the Federal City Council (FC2), has decided to run a competitive solicitation for its public golf courses and tennis facilities in the D.C. region.

As part of the Langston Initiative, FC2 officials had expected to sign a noncompetitive lease this fall with the National Park Service (NPS) to oversee its Langston, Rock Creek and East Potomac golf courses as well as the tennis facility at East Potomac Park.

Emeka Moneme, FC2 Deputy Executive Director, said the competitive solicitation will redirect the course of the Langston Initiative’s work but it won’t end the FC2’s efforts to secure a lease with the NPS.

“We believe that the FC2 would be competitive in a solicitation, and, ultimately, we are hopeful that the FC2 will have the ability to achieve the mission of the Langston Initiative,” said Moneme.

Metro Bus Project Taps Federal City Council, D.C. Policy Center

Changing commuter travel habits and a decline in ridership on Washington Metropolitan Area Transit Authority (WMATA) buses has prompted a review of how to best serve regional transit needs now and into the future.

The Washington Area Bus Transformation Project will study the current bus system and recommend ways to reorganize it over the next decade. The project is expected to issue its recommendations in the summer of 2019.

A key member of the project’s Executive Steering Committee, which provides leadership and oversight, is Deborah Ratner Salzberg, Federal City Council (FC2) Transportation Committee co-chair and trustee.

Additionally, the FC2 and the D.C. Policy Center sit on the Strategy Advisory Panel, a group of regional stakeholders offering their insights and advice to the project.

D.C. Policy Center’s Education Policy Initiative Celebrates First Anniversary

The Education Policy Initiative of the D.C. Policy Center (DCPC) continued its string of noteworthy reports this fall as it examined trends and analyzed data on everything from where Millennials will send their children to school to neighborhoods where enrollment is likely to grow in the District.

The Education Policy Initiative, which was launched in October 2017, has produced a series of reports and studies examining how the District’s schools can attract and retain students and families of all types. Chelsea Coffin is the director of the program.

“Schools are among the most important factors that attract families to the city or sometimes push them out. The Education Policy Initiative is exploring how a growing city is changing our public schools,” says Yesim Sayin Taylor, Executive Director of the DCPC.

The latest report, “Will Children of Current Millennials Become Future Public School Students?,” finds that D.C. families are choosing traditional public and public charter schools at higher rates. If the trend continues, there will be a large enrollment increase in the years ahead compared to the previous 10 years.

An earlier report, “Schools in the Neighborhood: Can Neighborhood Characteristics Explain Enrollment at In-Boundary Schools?,” studied the connections between neighborhood characteristics and boundary school enrollment rates among the District’s public school students. It identified commonalities across school neighborhoods that draw higher proportions of in-boundary students.