

# Analysis of Potential Impact of the Development Proposed for 1329 5th Street, N.E., Washington, D.C., on Displacement, Rents, Property Values, and Gentrification

Prepared for Gables Residential | November 25, 2019



## Memorandum

DATE: November 25, 2019

TO: Gables Residential

FROM: Leonard Bogorad, Managing Director, RCLCO

SUBJECT: Analysis of Potential Impact of the Development Proposed for 1329 5<sup>th</sup> Street, N.E. on Displacement, Rents, Property Values, and Gentrification

RCLCO (Robert Charles Lesser & Co.) was retained by Gables Residential on behalf of Clarion Gables Multifamily Trust, L.P. (“Gables”) and EAJ 1309 5<sup>th</sup> Street LLC (“EDENS”) to evaluate whether the development proposed for 1329 5<sup>th</sup> Street, N.E. (the “Development Site”), also known as the North Parcel (the “Development”), will have any adverse impact with respect to, among other things, displacement of neighborhood residents or businesses, the availability of housing and affordable housing, the destabilization of land values, and/or “gentrification” in the surrounding neighborhoods.

The Development, located in Square 3591 in the Union Market District, is within the boundaries of the first-stage PUD approved as part of Z.C. Case No. 14-12. The Development is proposed to include approximately 317,950 gross square feet in an eleven-story mixed-use building. Key uses in the Development include approximately:

- 300 rental apartments with a mix of studio, junior one-bedrooms, one-bedrooms, one-bedrooms with dens, two-bedrooms, and, potentially, two-bedrooms with dens, of which approximately 25,878 square feet of GFA (i.e., at least 9% of the total residential GFA of 287,530 square feet, excluding penthouse and projections into public space) will comply with the District’s Inclusionary Zoning regulations; and
- 23,053 square feet of non-residential GFA, at least one-half of which will be constructed to PDR<sup>1</sup>/"Maker use" specifications; 5% of the total non-residential GFA will be reserved for PDR/Maker users for five years.

RCLCO has extensive experience conducting fiscal and economic impact analyses for public and private sector clients, and has worked on engagements for public, BID, and private clients throughout the District, including projects in the NoMa, Union Market, and H Street, N.E. areas. The author of this report, Leonard Bogorad, is a Managing Director of RCLCO. He is an expert in housing and other real estate markets, and in neighborhood change, and has been advising developers, investors, property owners, local government agencies, and business improvement districts on real estate market issues for over 35 years. More particularly, the author has been accepted as an expert by the District of Columbia Zoning Commission, which has previously accepted and reviewed reports analyzing the potential economic impacts of other development projects in the District. The author has a master’s degree in City and Regional Planning from the University of Pennsylvania, and a bachelor’s degree from Harvard University.

### Overall Conclusions

- The Development is located on the Development Site, an underdeveloped predominantly vacant warehouse site, and will not result in any direct displacement of residents.

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<sup>1</sup> Production, distribution, and repair.

- New housing in all price ranges helps to mitigate increasing prices and rents, as recognized by the Mayor in a recent Executive Order, as shown in RCLCO’s analysis, and as concluded in an increasing number of sophisticated economic studies.
- The amount of new apartment unit construction at a District-wide level has had a measurable—and, from the perspective of District renters, favorable—impact on rent growth. That is, without the construction and additional supply of new rental housing in buildings similar to the Development, rents in the District would likely be much higher. In a healthy real estate market, rents typically increase at roughly the rate of overall inflation. In part due to a substantial rate of new apartment unit deliveries in recent years, the annual rent increases in the District have stayed within this range, with slower increases in years with higher deliveries.
- The Development adds approximately 300 new housing units, including approximately 25,878 square feet of GFA to be reserved for Inclusionary Zoning units (“IZ Units”), the latter of which is a direct benefit to the residents of the District who are seeking income-restricted and rent-capped housing. None of the approximately 300 new housing units included as part of the Development would be feasible at the Development Site without the construction of the Development because the underlying zoning of the Development Site does not allow for any residential uses.
- The Development’s new housing is within approximately one-third mile from the planned new entrance to the NoMa-Gallaudet U Metro Station, offering environmental and other benefits.
- The neighborhoods surrounding the Development Site have been and are currently experiencing increases in property values and rents that will likely continue whether or not the Development occurs. The Development will not set in motion any adverse impacts to home prices, rents, and/or land value destabilization in the vicinity of the Development Site; rather, the existing trends have long been occurring without any impetus from the Development. There is no reason to conclude that the Development will have any meaningful impact on this established trend of home price and rent increases.
- Despite the ongoing changes in home prices, rents, and land values in the neighborhoods surrounding the Development Site, and the construction of many new rental apartments in the past decade or longer, the surrounding neighborhoods nevertheless include apartments available at a wide range of monthly rents. For example, the absolute number of occupied rental apartments with gross rents of less than \$1,500 decreased by only about 90 units between 2007-2011 (1,083 units) and 2013-2017 (995 units), which would be less of a decrease than would be expected with even a healthy 2% annual rent increase during this period. (For reference, a gross rent of \$1,500 per month is slightly below the mean maximum rent for units at 60 percent of Median Family Income, under DHCD’s “Inclusionary Zoning: 2019 Maximum Income, Rent and Purchase Price Schedule” effective June 28, 2019.)
- The Development will not result in any meaningful adverse impact with respect to displacement of businesses, and it will provide benefits to local businesses and the economic and urban vitality of the Union Market District.
- The Development will provide other benefits for neighborhood residents, including: non-residential/retail space, including PDR/Maker space; an environmentally sustainable building located in close proximity to transit and bicycle lanes; a new urban plaza that will be a centerpiece for Union Market; and below-grade parking spaces integrated with bicycle storage.

Overall, not only will the Development not add in any meaningful way to the increases in housing costs that have already been occurring in the surrounding neighborhoods, it instead will help to mitigate negative impacts of such increases and deliver many other positive impacts. The Development will provide: a significant increase in the total number of housing units, which will help to correct the imbalance between

housing demand and supply; IZ Units; and other neighborhood benefits. These are exactly the types of benefits that are vital to offsetting the negative impacts of increases in apartment rents occurring in D.C.

## **The Development Will Not Result in Any Direct Displacement of Neighborhood Residents**

The Development Site is currently underdeveloped with a predominantly vacant warehouse. This means that there are no residents living on the site, and there will be no displacement of residents of any income level as a result of the Development.

## **One of the Causes of Higher Housing Prices and Rents Is an Imbalance between Demand and Supply, so the Construction of New Rental Housing Is Critical to Avoiding and Mitigating Rapid Increases in Housing Prices and Rents**

The construction of new rental housing is very important for the District, which has generally experienced a net increase in population and jobs in recent years. The Development adds approximately 300 new housing units to the District and the Union Market/NoMa area. No housing can be built on the site under current zoning.

RCLCO's analysis found that the beneficial effects of new housing production on housing affordability can be seen in the District in the past few years. The amount of apartment construction at a District-wide level has had a measurable relationship to rent growth. As the amount of new apartment construction increased, average annual rent growth trended down. In 2010 to 2012, a period during which only 2,153 rental apartments were delivered, rents grew between 2.3% and 6.0% annually. In the five years that followed, 2013 through 2017, an additional 18,038 apartments were delivered, and rents only grew by 1.0% in 2016 and they declined by 0.4% in 2017, the year with the most deliveries. As all of the new buildings competed for leases, the market became more price-competitive. With a slower pace of deliveries in 2018 and year-to-date in 2019, rents began to increase again (Exhibit 1).<sup>2</sup>

The data observed in the District over the past decade supports widely understood policy and theoretical conclusions. Government-led reports and initiatives, academic studies, and articles in the popular press, including those written from a wide range of political perspectives, conclude that the addition of new housing of all types and price ranges is one of the key steps that can be taken to mitigate rising housing prices and rents.

Mayor Bowser, in an order to the executive branch of the District's government dated May 10, 2019, wrote:

The population [of the District since 2010] has grown by more than 100,000, while 36,000 new housing unit permits were issued. Yet our housing production has not met the growing demand, as housing costs have continued to rise.... [I]ncreasing supply can help to slow housing cost increases, and affordable set-asides can help to ensure our communities remain inclusive to a wide range of income levels.<sup>3</sup>

Further afield, the Legislative Analyst's Office ("LAO") of the California Legislature has conducted extensive research and analysis on this topic, and concluded:

As market-rate housing construction tends to slow the growth in prices and rents, it can make it easier for low-income households to afford their existing homes. This can help to lessen the displacement of low-income households. Our analysis of low-income

<sup>2</sup> In a healthy real estate market, rents typically increase at roughly the rate of overall inflation. In part due to a substantial rate of new apartment unit deliveries in recent years, the annual rent increases in the District have stayed within this range, with slower increases in years with higher deliveries.

<sup>3</sup> Office of the Mayor (2019), Mayor's Order 2019-036 re Housing Initiative.

neighborhoods in the Bay Area suggests a link between increased construction of market-rate housing and reduced displacement.<sup>4</sup>

The LAO explains the causes of this phenomenon as follows:

- Lack of supply drives high housing costs.
- Building new housing indirectly adds to the supply of housing at the lower end of the market in multiple ways.
- Housing generally becomes less desirable, and therefore less expensive, over time, with some middle-income households typically moving out of older housing, thereby making it available for lower-income households.
- But lack of new construction can slow this process.
- New housing construction eases competition between middle- and low-income households.
- More supply places downward pressure on prices and rents.

Richard Florida, a leading urban planner at the University of Toronto, states that “We’ve long known ... that restrictive land use and building codes in cities limit housing construction (and therefore housing supply), leading to increased costs, worse affordability problems, and deepened inequality in urban centers.”<sup>5</sup>

And Jason Furman, the chairman of President Obama’s White House Council of Economic Advisors, stated:

Basic economic theory predicts—and many empirical studies confirm—that housing markets in which supply cannot keep up with demand will see housing prices rise.<sup>6</sup>

Other economists making the same point range from Edward Glaeser of Harvard University writing for the Cato Online Forum<sup>7</sup> to liberal economist Paul Krugman. Krugman poses the question of why gentrification is happening so much in iconic U.S. cities, and one of his key answers is:

Rising demand for urban living by the elite could be met largely by increasing supply. There’s still room to build, even in New York.... Yet while there is something of a building boom in the city, it’s far smaller than the soaring prices warrant, mainly because land use restrictions are in the way.<sup>8</sup>

John Mangin, writing in the Stanford Law and Policy Review, summarizes what he describes as “uncontroversial among urban economists”:

Underlying both of these phenomena—high housing costs in the suburbs and high housing costs in the cities—is a relatively straightforward problem of supply and demand. As demand to live in a particular suburb or city outstrips the existing housing stock, two things can happen: more housing gets built to meet the demand, or prices get bid up to ration the existing stock.<sup>9</sup>

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<sup>4</sup> Legislative Analyst’s Office (2016). Perspectives on Helping Low-Income Californians Afford Housing.

<sup>5</sup> Florida, R. (2016). How Zoning Restrictions Make Segregation Worse. *The Atlantic Citylab*.

<sup>6</sup> Furman, J. (2015). Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents. Remarks to the Urban Institute.

<sup>7</sup> Glaeser, E. (2014). Land Use Restrictions and Other Barriers to Growth. *Cato Online Forum*.

<sup>8</sup> Krugman, P. (2015). Inequality and the City. *New York Times*.

<sup>9</sup> Mangin, J. (2014). The New Exclusionary Zoning. *Stanford Law & Policy Review*.



As Matthew Yglesias explains in an article titled “Halting Construction Is a Terrible Way to Fight Gentrification”:

When you have enough construction, you get filtering rather than gentrification. Lower-income people move into dwellings that used to house rich people but that aren't shiny and new any more and don't have the most up-to-date fashions. When you don't have enough construction, you get rich people moving into poor people's houses and installing granite countertops.<sup>10</sup>

A study published in July 2019 by economist Evan Mast of the W.E Upjohn Institute used “big data” for 12 major metropolitan areas, including Washington, D.C., to determine who actually moves into new rental apartments, who moves into the units vacated by residents of the new rental apartments, and so on.<sup>11</sup> Mast summarizes his methodology and results as follows:

I stud[ied] the short-run effect of new [market-rate, luxury] housing construction on housing affordability using individual address history data. Because most new construction is expensive, its effect on the market for more affordable housing is unclear, since these could be effectively separate submarkets. I first show that new construction and low-income neighborhoods are connected by a short series of common moves—individuals frequently move to census tract[s] two to four income deciles higher than their origin. I then identify residents of new luxury multifamily buildings in large central cities, their previous address, the current residents of those previous addresses [developments], and so on for six rounds. This sequence of previous addresses steadily adds more diverse neighborhoods, suggesting strong connections between new construction and affordable neighborhoods. Lastly, I quantify these descriptive patterns with a simple simulation model. Building 100 new luxury units leads 65 [people to move out of below-median income neighborhoods and 34 people to move out of bottom-quintile income neighborhoods], reducing demand and loosening the housing market in such areas. These results suggest that increasing housing supply improves housing affordability in the short run [defined as less than five years in the full Mast study].<sup>12</sup>

Similarly, a study by Quentin Brummet and Davin Reed, published in July 2019 by the Federal Reserve Bank of Philadelphia, states:

A growing recent literature [of economic studies] suggests that building new housing (whether market-rate or affordable) is a promising way of maintaining and expanding housing affordability.<sup>13</sup>

The Brummet-Reed study uses confidential Census microdata on residents of low-income, central city neighborhoods in the 100 largest metropolitan areas in the U.S. in 2000; uses the Census microdata to determine where the same people lived in 2010-2014; and analyzes whether people were better or worse off if in 2000 they lived in a neighborhood that “gentrified” (as defined in this study) by 2010-2014. The numerous low-income households who were able to stay in the neighborhood despite more affluent people moving in were considerably better off.<sup>14</sup> Adults who were able to stay in the neighborhoods the study defined as “gentrified” benefited from declining exposure to poverty, which has been shown to improve mental and physical health; and rising house values. Children who were able to stay in “gentrified” neighborhoods benefited from decreased exposure to neighborhood poverty and increased exposure to

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<sup>10</sup> *Slate Moneybox*, April 4, 2013.

<sup>11</sup> Mast, E. (2019). The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market. *W.E. Upjohn Institute for Employment Research, Working Paper*.

<sup>12</sup> Quoted summary at <https://capturedeconomy.com/the-effect-of-new-luxury-housing-on-regional-housing-affordability/>

<sup>13</sup> Brummet, Q. and Reed, D. (2019). The Effects of Gentrification on the Well-Being and Opportunity of Original Resident Adults and Children. Federal Reserve Bank of Philadelphia.

<sup>14</sup> The study also found that though gentrification increased outmigration to other neighborhoods by four to six percentage points for less-educated renters and by slightly less for other groups, this was somewhat modest relative to the 70-80% of renters and 40% of owners who moved out of neighborhoods that didn't gentrify.





higher neighborhood education and employment levels, all of which have been shown to be correlated with greater economic opportunity, and some were more likely to attend and complete college. At the same time, residents who did leave the gentrifying neighborhoods were found to not move to less desirable neighborhoods or to experience negative changes to employment, income, or commuting distance. The authors conclude that:

Accommodating rising demand for central urban neighborhoods, such as through building more housing [whether market-rate or affordable], could maximize the integrative benefits we find, minimize the out-migration effects we find, minimize gentrification pressures in nearby neighborhoods, and minimize aggregate rent increases that dampen future in-migration.

In sum, insufficient supply of rental housing units is a key cause of rents that increase at above-healthy levels. Construction of new rental units is necessary to mitigate such rent increases.

### **The Development's New Housing Will Be Proximate to Metrorail**

The Development's new market-rate units and IZ Units will be approximately one-third of a mile from the planned new entrance to the NoMa-Gallaudet U Metro Station, which will be highly desirable from environmental, market, traffic, and urban planning perspectives.

### **The Development's Provision of IZ Units Will Also Help Mitigate Rent Increases**

Over and above the benefits of creating new housing at all price levels, development of new IZ Units directly helps to mitigate increasing rents, potential decreases in affordable housing supply, and potential displacement of residents in surrounding neighborhoods.

The Development's IZ Units will be reserved for the life of the project for households earning incomes at or below thresholds established by the Zoning Commission and administered by the District's Department of Housing and Community Development and reserved at rents determined to be appropriately affordable to those households. These IZ Units are part of a District-wide strategy to mitigate any potential adverse impact of market-rate residential development on the availability and cost of housing available and affordable to households of modest means.

An Urban Institute study that involved case studies of six efforts to mitigate displacement in the face of gentrification found that production of affordable housing was "the key approach to addressing affordable housing needs in each of the six sites, regardless of the stage of the local housing market." The Urban Institute study also found that land availability was a significant issue, particularly in neighborhoods that already had strengthening or strong housing markets. (As discussed below, the neighborhoods surrounding the Development already have strong housing markets.) The report noted that one approach was for for-profit developers to include affordable units in their projects,<sup>15</sup> as is required by D.C. IZ provisions and will occur at the Development.

### **The Development's Mixed-Income Housing Will Be Particularly Beneficial for Its Low- and Moderate-Income Households**

Numerous studies have found that living in neighborhoods with a diverse range of incomes is particularly beneficial for lower-income residents, including "improving the mental and physical health of adults and increasing the long-term educational attainment and earnings of children."<sup>16</sup> The mix of affordable and market-rate housing in the Development and in the many other rental apartment developments planned or

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<sup>15</sup> Levy, D. et al. (2006), p. 4. In the Face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement, p. 77. Urban Institute: Washington, D.C.

<sup>16</sup> Brummet and Reed (2019), p. 1, citing multiple studies.

proposed for the Union Market District will help make the area, which currently has very little housing, a diverse neighborhood that offers these benefits to its lower income residents.

## **The Surrounding Neighborhoods Have Been and Are Experiencing Home Price and Rent Increases, and the Development Will Not Have a Meaningful Impact on this Established Trend**

RCLCO's analysis determined that the neighborhoods surrounding the Development have been experiencing home price and rent increases for years. The Development will not set destabilized rents, home prices, and property values in motion. Rather, these trends have long been occurring without any impetus from the Development (and, as stated, the Development could help address these trends). We have defined the "Relevant Census Tracts" as essentially NoMa; Eckington; the area east of North Capitol between Florida Avenue, N.E., and H Street, N.E.; and Tract 88.03, which includes the Union Market District (including the site of the Development), Gallaudet University, and Ivy City.<sup>17</sup> (See map on Exhibit 2.) On some of the exhibits, we have shown separate data for each of the five Relevant Census Tracts.

- **Home prices in the Relevant Census Tracts have been increasing faster than in other neighborhoods.** As shown on Exhibit 3, data from the U.S. Census Bureau American Community Survey shows that the median owner-occupied home values (as estimated by residents to the Census Bureau) in the relevant Census tracts increased much faster than in the District overall, based on a comparison between home values in 2007-2011 with values in 2013-2017. (The only exception is Tract 88.03, which has virtually no owner-occupied units—fewer than 90). Exhibit 4 shows the substantial decrease in homes valued under \$300,000, and the rapid increase in homes valued \$500,000 and over, in the Relevant Census Tracts between 2007-2011 and 2013-2017.
- **Median rents in the Relevant Census Tracts are increasing.** As shown on Exhibit 5, the median rent in four of the five Relevant Census Tracts increased considerably faster than in the District as a whole between 2007-2011 and 2013-2017. The one exception is Tract 106, which comprises NoMa and much of the area east of North Capitol between Florida Avenue, N.E., and H Street, N.E. Most of the rental units in this area were built during this period, and the competitive market caused by so much new development probably helped to keep rent increases somewhat below the rate of increase in the District as a whole. Exhibit 6 shows the striking change in the distribution of rents in the Relevant Census Tracts between 2007-2011 and 2013-2017. For example, the percentage of renter households with gross rents of under \$1,500 in the area decreased from 62% in 2007-2011 to 24% in 2013-2017, primarily because of the development of approximately 6,700 new units with generally higher rents between 2007 and 2017 (according to CoStar and Axiometrics), rather than the loss of units with lower rents (according to the Census data, the number of units with rents of less than \$1,500 decreased by only about 90 units between 2007-2011 and 2013-2017).

These findings regarding home price and rent increases in the neighborhoods surrounding the Development make it clear that the Development will not set destabilization of home prices, rents, or land value in motion; rather, gentrification has been a long-established trend without any impetus from the Development.

This is consistent with several studies that examined changes in the District's relative incomes, home values, and educational attainment by Census tract, using a range of methodologies and definitions, to come to the same conclusion: that "gentrification" is already occurring in the area surrounding the Development Site and began before the approval of the first-stage PUD pursuant to which the Development is being constructed.

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<sup>17</sup> Tract 91.02, north of New York Avenue and east of the railroad tracks, has not been included because the residential portion of the tract is separated from the Relevant Census Tracts by railroad yards, the U.S. Post Office, and other predominantly industrial uses.



- A study by *Governing* magazine found that the Relevant Census Tracts, other than Tract 88.03 with very little population other than Gallaudet students and no households in the Union Market District during the study period, “gentrified” between 2000 and 2013 (see Exhibit 7 for map).<sup>18</sup> The study’s methodology, as described in the footnote, was adapted from a widely cited gentrification paper by Columbia University professor Lance Freeman.<sup>19</sup>
- The 2019 gentrification study by Brummet and Reed published by the Federal Reserve Bank of Philadelphia similarly determined that the Relevant Census Tracts, other than Tract 88.03, gentrified between 2000 and 2010-2014.<sup>20</sup> This study measured the extent of gentrification by the increase in individuals age 25+ with bachelor’s degrees during this period, divided by the number of persons living in the tract in 2000. A tract was considered to have gentrified during this period if it had a gentrification measure in the top decile of all tracts.
- A 2013 study by researchers at Bowie State University and George Washington University, and the D.C. Office of the Chief Financial Officer, concluded that the area surrounding the Development Site gentrified during the 2001 to 2010 period (see Exhibit 9 for map).<sup>21</sup> This study used a slightly different methodology in which gentrification status was based on change in the indexed median income by Census tract, in addition to increases in indexed property values by property type.<sup>22</sup>
- A 2019 study by the University of Minnesota Law School’s Institute on Metropolitan Opportunity identified similar Census tracts as having experienced economic growth with decreasing low-income population.<sup>23</sup>
- A 2019 study by the National Community Reinvestment Coalition (NCRC) also identified similar Census tracts as having gentrified between 2000 and 2009-2013, using a methodology adopted from the *Governing* magazine study cited above.<sup>24</sup>

Furthermore, with gentrification so far underway in the surrounding neighborhoods because of continuing District-wide growth and change, and housing demand relative to supply that have no relationship to the Development, there is no reason to conclude that this development will have a meaningful impact on this established trend of home price and rent increases. A comprehensive 76-page review of the scholarly literature regarding gentrification and displacement in 2015 discussed numerous causes of gentrification that were identified in many different studies, and none of these attributed gentrification to projects such as the Development, or larger projects.<sup>25</sup> A study by Jeremy Jackson in 2008 cited in the literature review

<sup>18</sup> Study available here: <http://www.governing.com/gov-data/washington-dc-gentrification-maps-demographic-data.html> based on Census data for 2009-2013.

<sup>19</sup> A Census tract was determined to have “gentrified” according to three criteria: first, only the Census tracts with a median household income and median home value in the bottom 40<sup>th</sup> percentile of the metro area at the beginning of the decade were “eligible” to gentrify. Gentrification was determined to have occurred if an eligible Census tract’s percentage increase in the inflation-adjusted median home value over the course of the period was in the top third percentile for the metro area, and if the share of residents over age 25 holding a bachelor’s degree at the end of the period was also in the top third percentile.

<sup>20</sup> Brummet and Reed (2019).

<sup>21</sup> Brown-Roberston, L. and Muhammad, D. (2013). “Identifying the District of Columbia’s Gentrified Neighborhoods.”

<sup>22</sup> Household income and home values for 2001 and 2010 were indexed to the District-wide median household income and home value for those time periods, respectively. Home values were compared among like property types, which were categorized as one of the following: single-family homes, condominiums, small multifamily buildings, medium multifamily buildings, and large multifamily buildings.

<sup>23</sup> American Neighborhood Change in the 21<sup>st</sup> Century (2019). University of Minnesota Law School Institute on Metropolitan Opportunity. Using Census data for 2000 and 2012-2016, the study identified Census tracts where the low-income share of population fell more than 5%, the absolute number of non-low-income residents increased more than 10%, and the absolute number of low-income residents fell.

Report: [https://www.law.umn.edu/sites/law.umn.edu/files/metro-files/american\\_neighborhood\\_change\\_in\\_the\\_21st\\_century\\_-\\_full\\_report\\_-\\_4-1-2019.pdf](https://www.law.umn.edu/sites/law.umn.edu/files/metro-files/american_neighborhood_change_in_the_21st_century_-_full_report_-_4-1-2019.pdf) Interactive map: <https://myottetm.github.io/USMapBoxIMO/USLwDispConc.html>

<sup>24</sup> Shifting Neighborhoods: Gentrification and Cultural Displacement in American Cities (2019). [file:///C:/Users/lbogorad/Downloads/NCRC-Research-Gentrification-FINAL3%20\(1\).pdf](file:///C:/Users/lbogorad/Downloads/NCRC-Research-Gentrification-FINAL3%20(1).pdf)

<sup>25</sup> Zuk, M. et al. (2015). Gentrification, Displacement and the Role of Public Investment: A Literature Review.



observed no relationship between large-scale neighborhood investment projects and changes in nearby rents.<sup>26</sup>

In any case, even if development of new market-rate housing could be a cause of gentrification—which ample evidence and analysis proves is not the case—the approximately 300 new units, with 9% of the GFA set aside for affordable housing, planned for the Development could not conceivably have such an effect. The Development would hardly be starting a new trend. As shown on Exhibits 9 and 10, according to real estate industry data sources CoStar and Axiometrics, 8,444 new rental apartment units were completed in the Relevant Census Tracts between 2007 and the present, 2,767 units are under construction, and another 7,891 units are planned or proposed (including the Development).

### **Despite the Long-Ongoing Increases in Home Prices, Rents, and Land Values in the Neighborhoods Surrounding the Development Site, Such Neighborhoods Have Housing that Serves a Wide Range of Income Levels**

Although increasing home prices, rents, and land values are well-established trends in the neighborhoods surrounding the Development Site, and many market-rate rental apartments have been delivered in the past 13 years in the Relevant Census Tracts, these Census Tracts continue to have housing that serves a wide range of income levels. For example, the absolute number of occupied rental apartments with gross rents of less than \$1,500 decreased by only about 90 units between 2007-2011 (1,083 units) and 2013-2017 (995 units), which would be less of a decrease than would be expected with even a healthy 2% annual rent increase during this period.

### **The Homeowners in the Neighborhoods Surrounding the Development Site Benefit from Increasing Home Values**

Although the Development alone is unlikely to have any meaningful negative impact on the aggregate housing market of surrounding neighborhoods, the general trend of increasing real estate values has benefits for the homeowners in these neighborhoods. The homeowners in the Relevant Census Tracts have benefitted from the increase in home values that has been occurring, and will likely continue with or without the Development. Owners accounted for 52% of Relevant Census Tract households in 2007-2011, before many of the recently built rental apartments were delivered.<sup>27</sup>

Furthermore, the risk that neighborhood homeowners will be forced to sell involuntarily because of rising property taxes will be greatly mitigated by a range of District programs, including but not limited to:

- Homestead Deduction: For owner-occupant homeowners, deducts \$74,580 from the property's assessed value when calculating the amount of property tax that must be paid.
- Senior Citizen or Disabled Property Owner Tax Relief: For homeowners 65 and over, or who are disabled, with total federal adjusted gross incomes of residents (other than tenants) of less than \$133,100, the property tax is reduced by 50%.
- Tax Deferral for Low-Income Senior Property Owners:
  - For any homeowners with total federal adjusted gross incomes of residents less than \$50,000, any property taxes owed can be deferred with a 6% interest rate.
  - For seniors 75 and over with federal adjusted gross incomes of residents of less than \$50,000 and interest and dividend income less than \$12,500, who have lived in the

<sup>26</sup> Zuk, p. 54; and Jackson, Jeremy (2008). Agent-Based Simulation of Urban Residential Dynamics: A Case Study of Gentrifying Areas in Boston. Thesis submitted to McGill University.

<sup>27</sup> U.S. Census Bureau, American Community Survey, 2007-2011.



District and owned a principal place of residence in the District for at least the past 25 years, any property taxes owed can be deferred with a 0% interest rate.

- Tax Deferral for Low-Income Property Owners: For any homeowners with incomes of residents less than \$50,000, any property taxes owed can be deferred with a 6% interest rate.
- Assessment Cap Credit: Provides that a property may not be taxed on more than a 10% increase in the property's assessed value every year.
- Accessory Apartments: Owner-occupied homes are allowed to have accessory apartments subject to various rules. This provision was adopted in part to help homeowners stay in their homes even as property taxes and other housing costs increase.

### **The Development Will Not Result in the Meaningful Direct Displacement of Businesses, and Will Provide Benefits to Local Businesses**

The Development will not result in significant direct displacement of commercial establishments as the site has only a predominantly vacant warehouse. In place of the existing warehouse structure, the Development adds ground floor retail and space for PDR/Maker uses that will provide opportunities for new local businesses.

The approximately 300 new households will add to the market support for businesses in the area and contribute to the evolution of the Union Market District as a thriving economic area.

### **The Development Will Provide Other Benefits to Residents and Businesses**

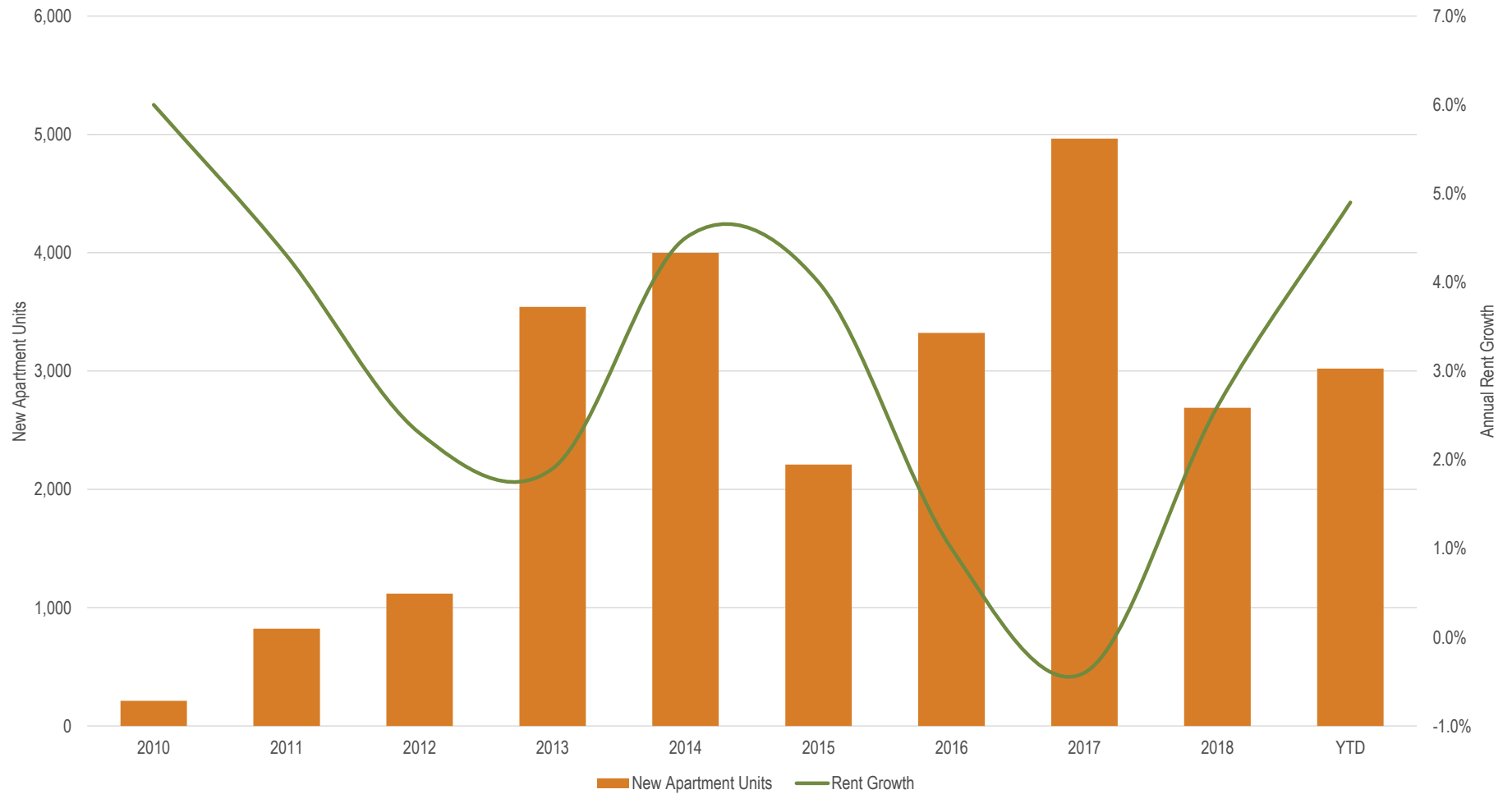
The Development will provide a number of other benefits to current and future residents of the Union Market District and surrounding neighborhoods. These include, among others:

- Non-residential/retail space, including PDR/Maker space, provides employment opportunities for area residents and space for start-up businesses and other entrepreneurial activity.
- Construction of a plaza that will be a centerpiece for Union Market.
- Up to approximately 310 below-grade parking spaces (+/- 10%) will accommodate residents, retail patrons, and retail and other users in the greater Union Market area, along with integration of bicycle usage into the design of the project.
- Sustainable architecture and improved, activated public space surrounding the building.

## SUPPORTING EXHIBITS

**Exhibit 1**

Post-Recession Class-A Apartment Deliveries and Rent Growth  
Washington, D.C.  
2010-2019 YTD

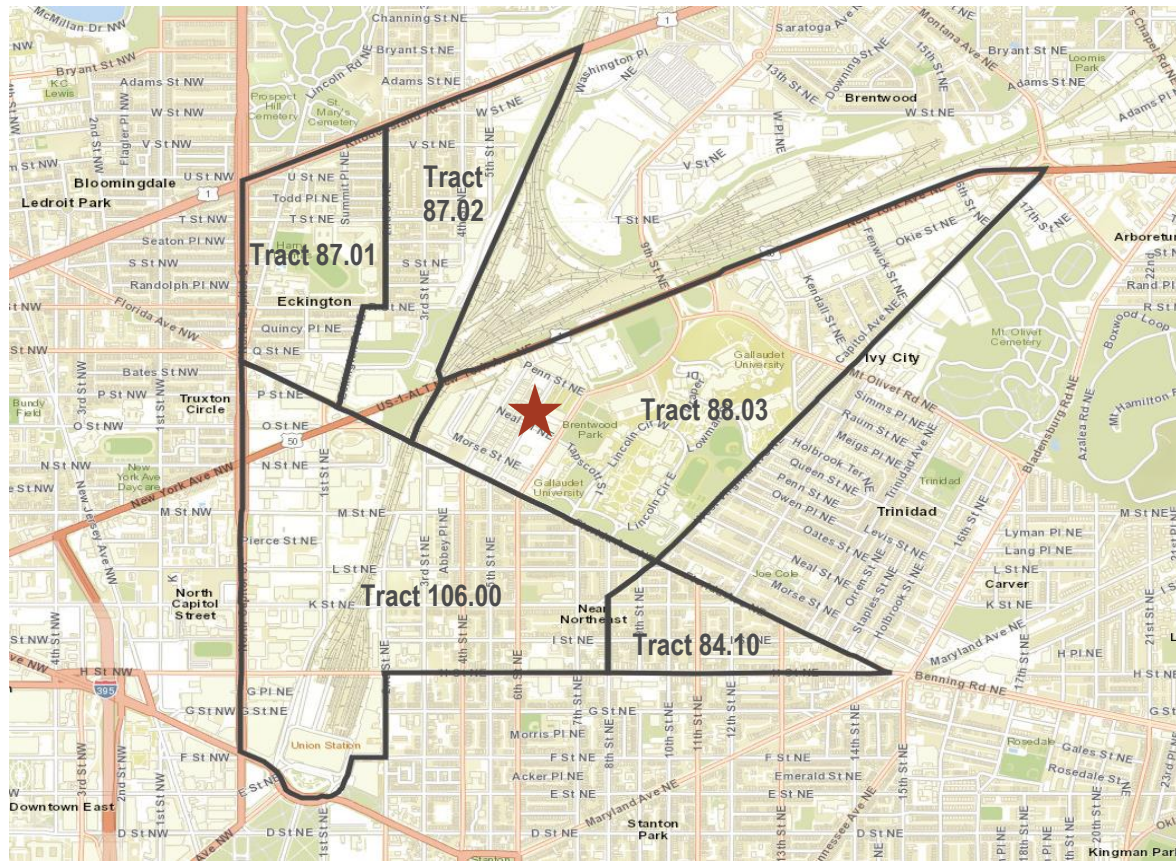


*Note: Rent growth is calculated net of any rent concessions; YTD through July 2019*  
*Source: CoStar*



## Exhibit 2

### Relevant Census Tracts Map Washington, D.C. August 2019



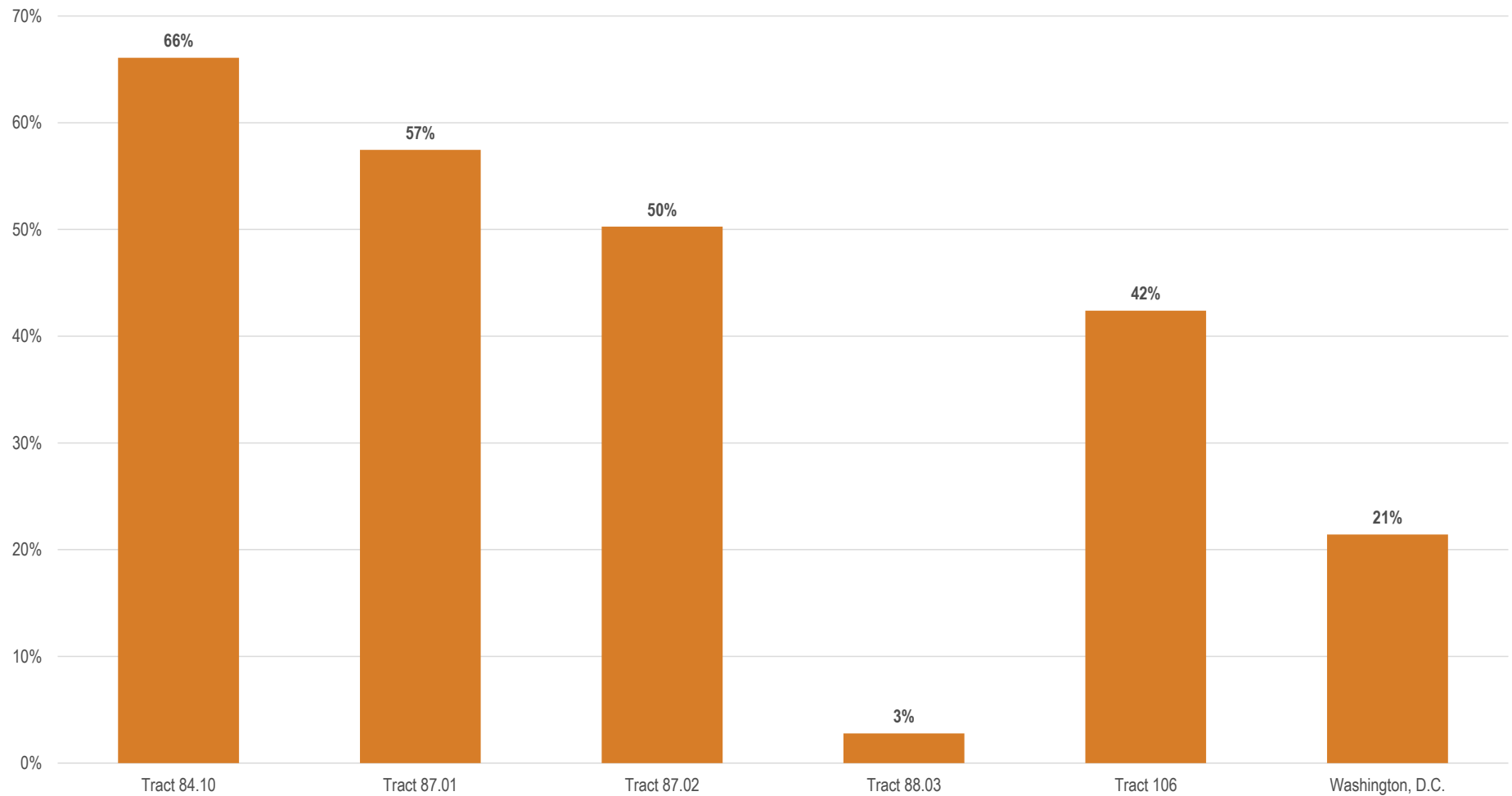
Note: Includes the following census tracts: 84.10, 88.03, 87.01, 87.02, 106.00

Source: ESRI



### Exhibit 3

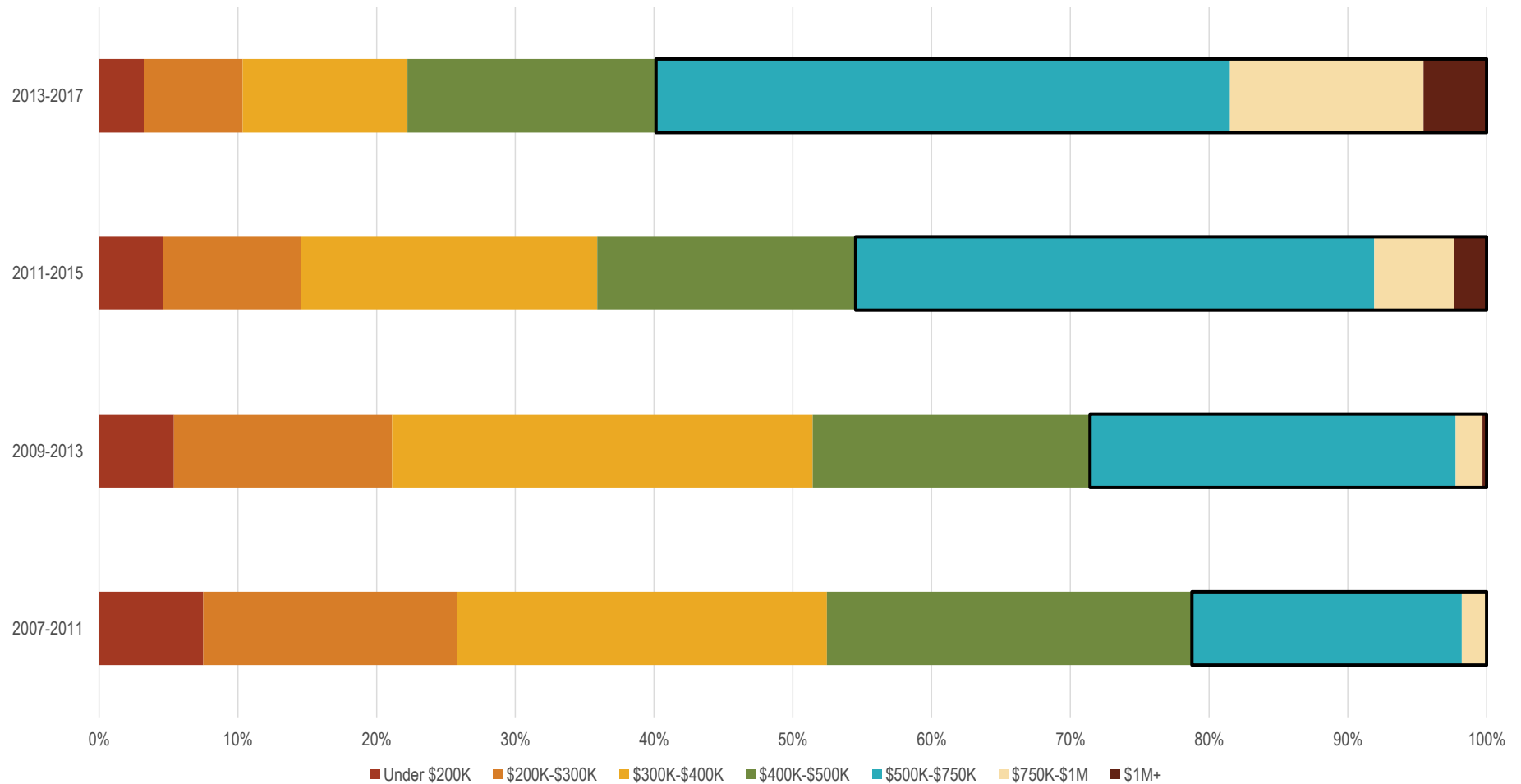
Change in Median Owner-Occupied Home Value  
Relevant Census Tracts and Washington, D.C.  
2007-2011 to 2013-2017



Source: American Community Survey 2011 and 2017 5-Year Estimates

## Exhibit 4

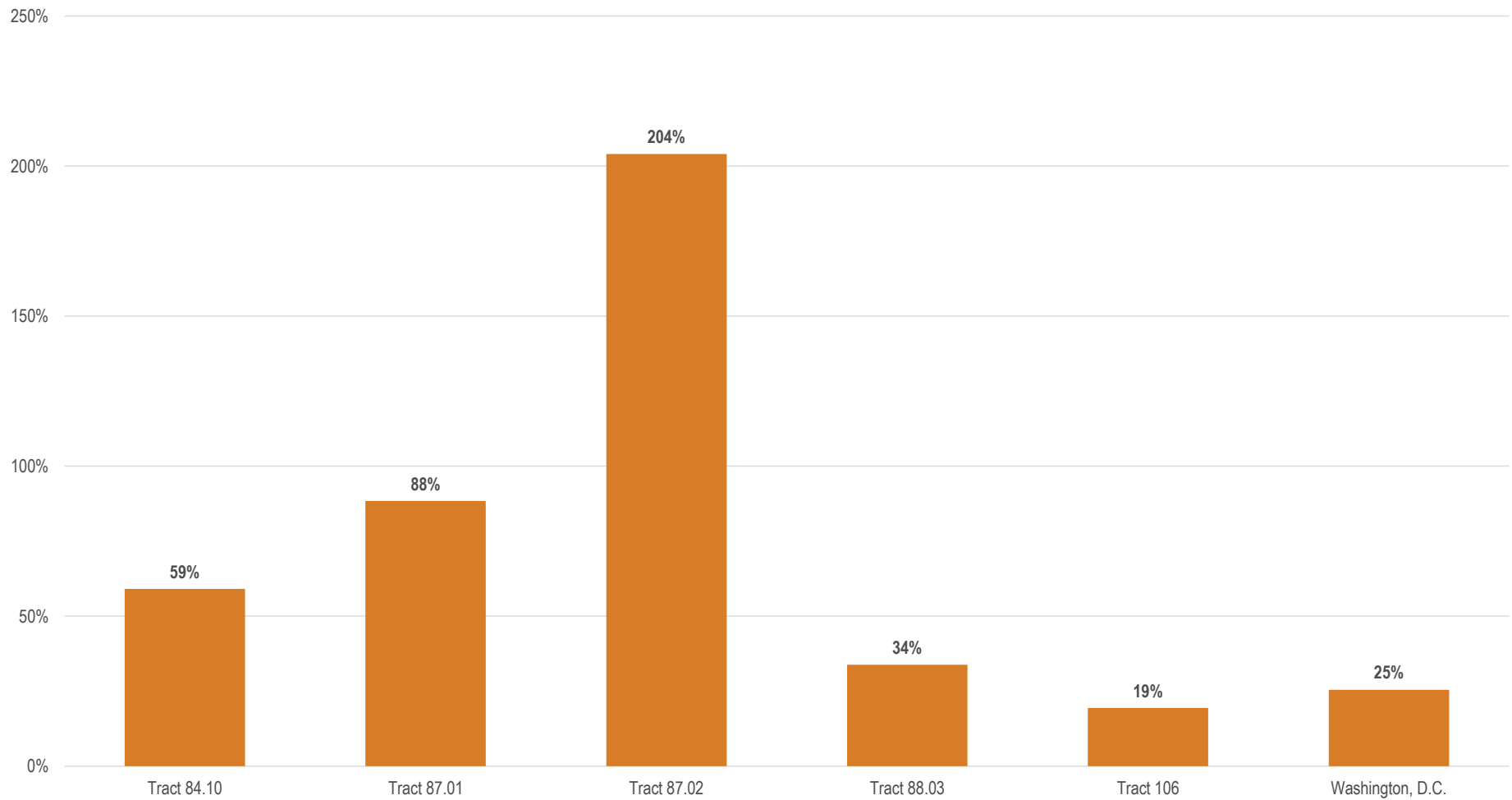
Owner-Occupied Home Value by Price Band  
Relevant Census Tracts  
2011, 2013, 2015, and 2017 American Community Survey 5-Year Estimates



Source: American Community Survey 2011, 2013, 2015, and 2017 5-Year Estimates

## Exhibit 5

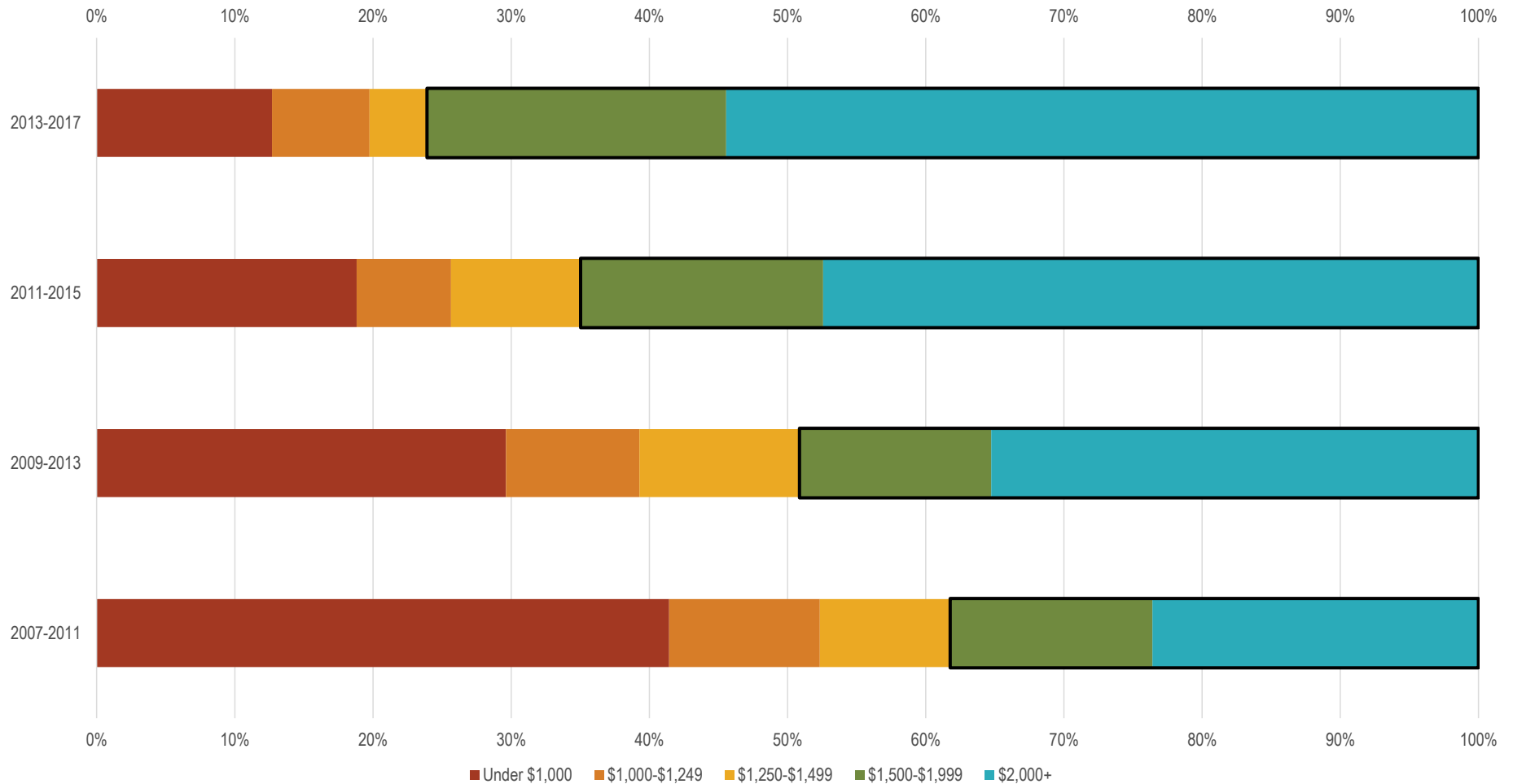
Increase in Median Monthly Gross Rent  
Relevant Census Tracts and Washington, D.C.  
2007-2011 to 2013-2017



Source: American Community Survey 2011 and 2017 5-Year Estimates

**Exhibit 6**

Monthly Gross Rent by Price Band  
Relevant Census Tracts  
2011, 2013, 2015, and 2017 American Community Survey 5-Year Estimates

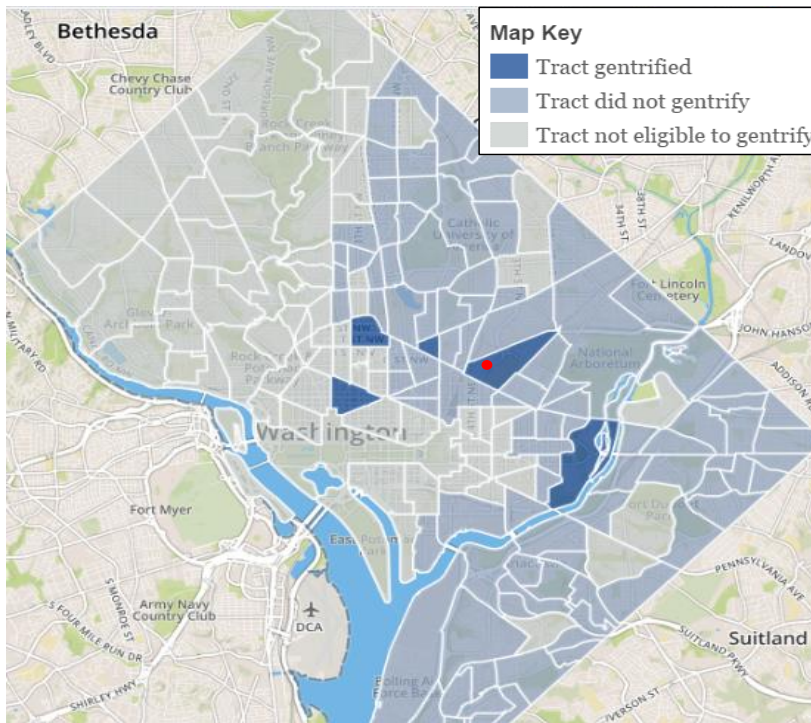


Source: American Community Survey 2011, 2012, 2013, 2014, 2015, 2016, and 2017 5-Year Estimates

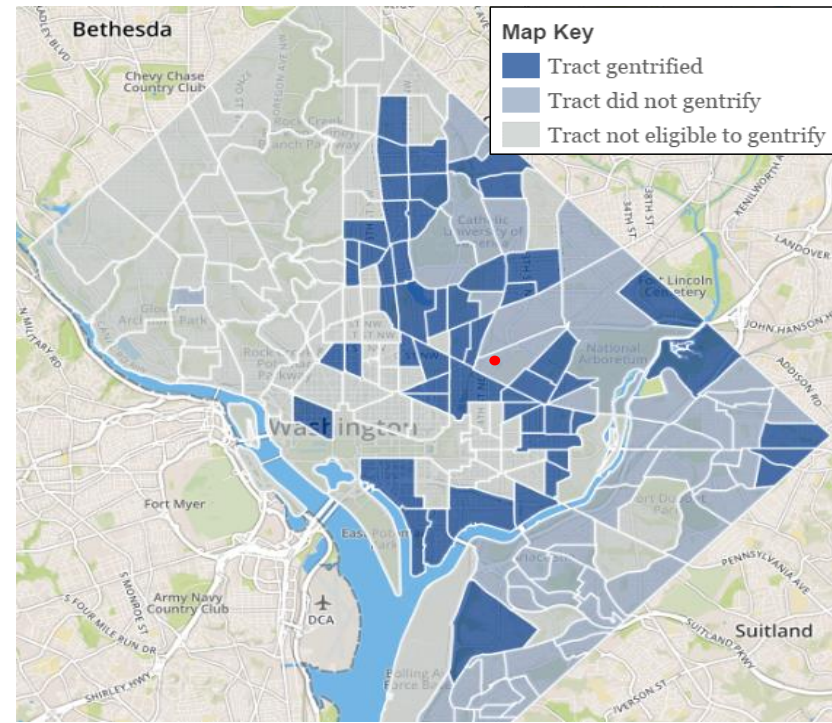
## Exhibit 7

Census Tracts That Gentrified  
Governing Gentrification Study; Washington, D.C.  
1990-2000 and 2000-2013

GENTRIFICATION MAP: 1990-2000



GENTRIFICATION MAP: 2000-2013



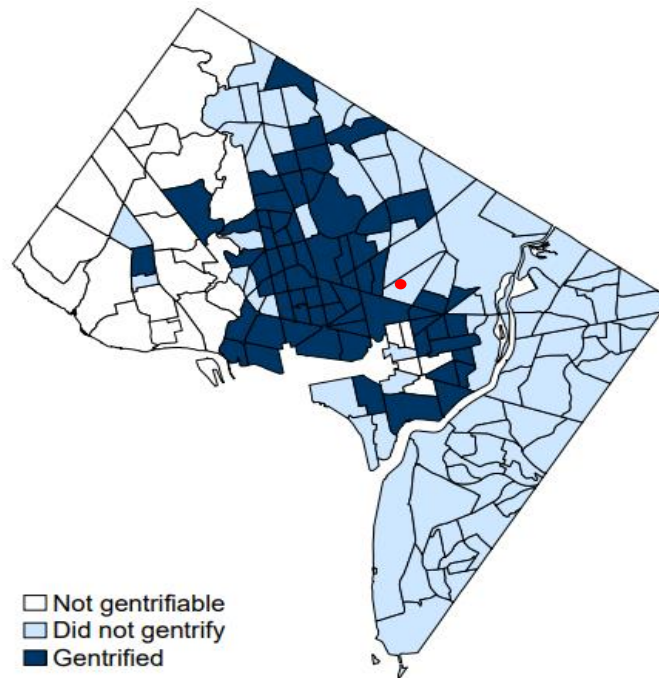
● = Subject Site

Source: Governing; Data Sourced from 2009-2013 American Community Survey and 1990 and 2000 U.S. Census

## Exhibit 8

Census Tracts That Gentrified  
*Brummet, Q. and Reed, D. Gentrification Study; Washington, D.C.  
2000 to 2010-2014*

GENTRIFICATION MAP: 2000 to 2010-2014



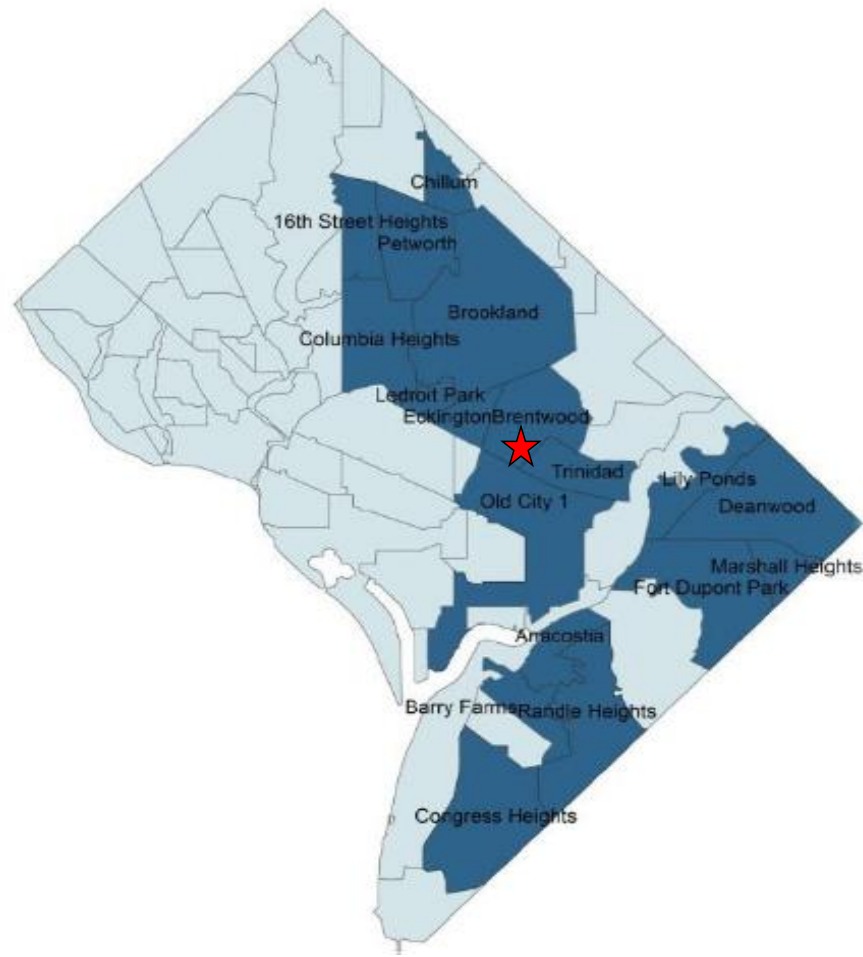
● = Subject Site

Source: Brummet, Q. and Reed, D. (2019). "The Effects of Gentrification on the Well-Being and Opportunity of Original Resident Adults and Children."



## Exhibit 9

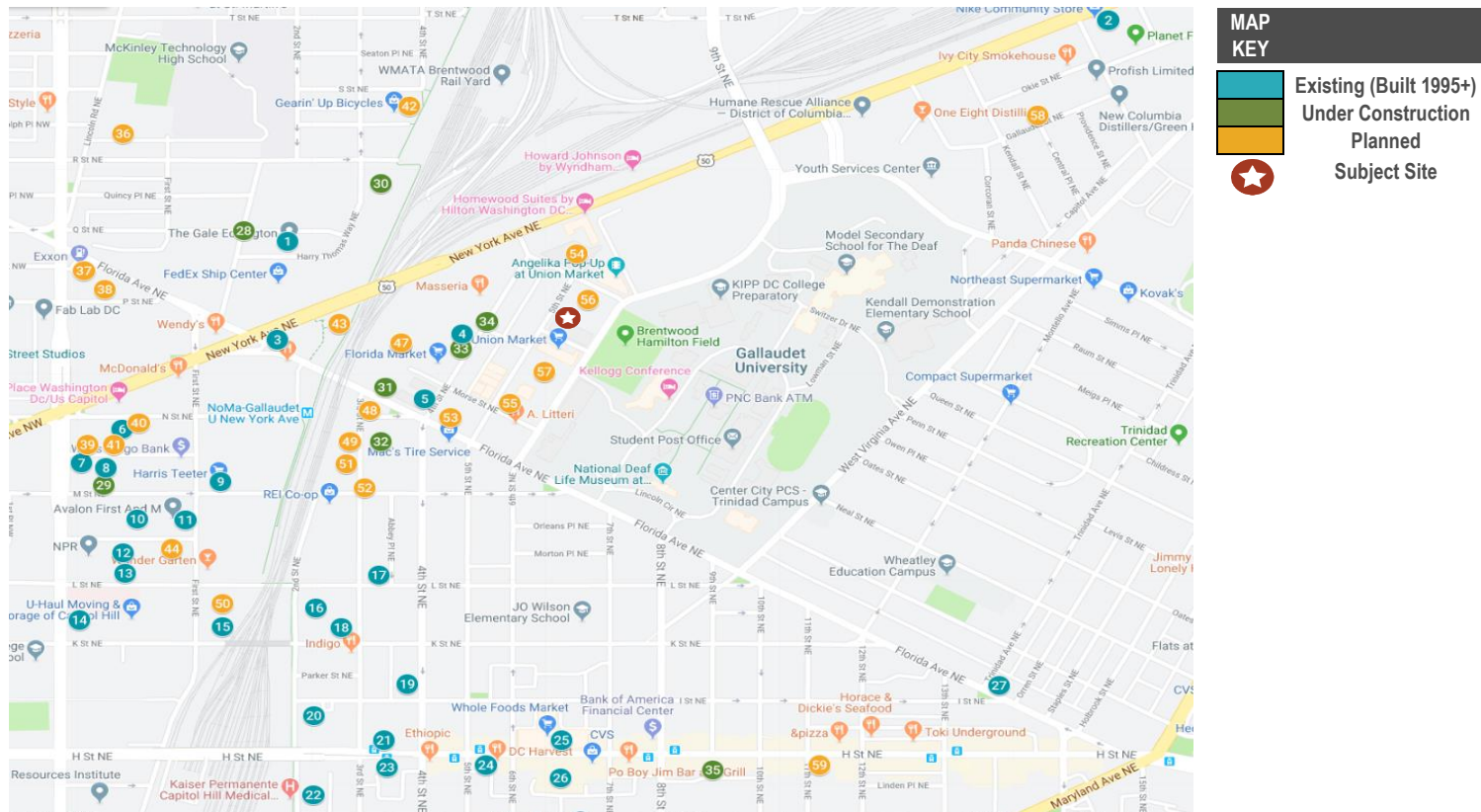
Map of Neighborhoods that Gentrified  
Bowie State University and District of Columbia Government Gentrification Study; Washington, D.C.  
2001-2010



Source: Brown-Roberston, L. and Muhammad, D. (2013). "Identifying the District of Columbia's Gentrified Neighborhoods."

## Exhibit 10

Map of Apartment Supply & Development Pipeline  
Relevant Census Tracts  
August 2019



Source: CoStar; Axiometrics; RCLCO

## Exhibit 11

### Apartment Supply & Development Pipeline Relevant Census Tracts August 2019

MAP KEY	PROJECT	DEVELOPER	YEAR BUILT/EST. OPENING	TOTAL UNITS
<b>EXISTING (BUILT 1995 AND AFTER)</b>				
1	The Gale Eckington	Mill Creek Residential Trust LLC	2013	603
2	The Hecht Warehouse at Ivy City	Douglas Development Corporation	2015	335
3	Elevation at Washington Gateway	MRP Realty, Inc.	2014	400
4	The Baffey	Level 2 Development, LLC	2019	432
5	The Edison at Union Market District	Sang OH Development LLC	2017	187
6	The Belgard	Wood Partners	2018	346
7	2M Street	WC Smith	2014	315
8	RESA	Skanska	2019	326
9	Flats 130 at Constitution Square	Clark Construction Group, LLC	2010	643
10	AVA NoMa	AvalonBay Communities, Inc.	2017	436
11	Avalon First and M	AvalonBay Communities, Inc.	2012	469
12	Camden NoMa - Phase II	Camden Property Trust	2017	405
13	Camden NoMa	Camden Property Trust	2013	321
14	John and Jill Ker Conway Residence	McCormack Baron Salazar	2016	124
15	100K Apartments	Equity Residential	2018	222
16	Union Place	Toll Brothers, Inc.	2019	525
17	Aria on L	Elliedale Construction	2013	58
18	The Loree Grand at Union Place	Cohen Siegel Investors	2010	212
19	AVA H Street	AvalonBay Communities, Inc.	2012	138
20	Senate Square	LaSalle Investment Management/LPF North Loop, LLC	2007	432
21	360H Street	Steuart Investment Company	2013	215
22	Station House	Fisher Brothers Management Co.	2015	378
23	CODA on H	MRP Realty, Inc.	2018	112
24	501H Street	Douglas Development Corporation	2017	28
25	The Apollo	Insight Property Group LLC	2016	431
26	Anthology	Jair Lynch Real Estate Partners	2016	306
27	Hendrix	Dito Residential LLC	2017	45
				<b>8,444</b>
<b>UNDER CONSTRUCTION</b>				
28	Eckington Yards	Boundary Companies	2021	457
29	RESA NoMa	Skanska	2020	326
30	Eckington Park	Foulger-Pratt	2021	325
31	Highline Union Market	Eden Realty Inc.	2019	318
32	Press House At Union District	Foulger-Pratt	2021	355
33	The Baffey I	Not Available	2019	432
34	1300 4th Street Northeast	Not Available	2020	134
35	Avec on H Street	Rappaport Companies	2020	420
				<b>2,767</b>
<b>PLANNED/PROPOSED</b>				
36	23-44 R St NE	Nextgen Construction & Renovation	2021	31
37	1 Florida Ave NE	Not Available	2020	150
38	21-27 Florida Ave NE	Aria Development Group	2021	150
39	2 Patterson Street Northeast	Not Available	Not Available	400
40	51N	The JBG Companies	2020	208
41	40 Patterson Street Northeast	Monument Realty	2022	310
42	Eckington Park	Foulger-Pratt	2020	328
43	Washington Gateway North	Not Available	Not Available	372
44	1150 1st St NE	Carmel Partners	2021	100
45	Market Terminal Building A1	CARMEL PARTNERS	2022	451
46	Market Terminal Building B	NAI Michael	Not Available	105
47	Market Terminal Building D	CARMEL PARTNERS	Not Available	256
48	301 Florida Avenue Northeast	Dito Residential	2021	56
49	Armature Works DC	Trammell Crow Company	2020	450
50	Storey Park Flats	Perseus Realty	2022	460
51	Armature Works	TRAMMELL CROW COMPANY	2022	465
52	300 M Street Northeast	The Wilkes Company	2022	425
53	400 Florida Avenue Northeast	Ranger Properties LLC	2021	110
54	Former Maurice Electric Warehouse	UDR, Inc.	2020	325
55	500 Morse Street Northeast	LCOR Residential	2021	280
56	6th Street Northeast & Penn Street Northeast	Gallaudet, JBG Smith	Not Available	775
57	Neal Place Northeast & 6th Street Northeast	Gallaudet, JBG Smith	Not Available	900
58	Former Crummell School	The Jarvis Company	2022	434
59	1101-1107 H St NE	Not Available	2023	50
★	1329 5th Street NE (Subject Site)	Gables	2021	300
				<b>7,891</b>

Source: CoStar, Axiometrics; RCLCO