RCLCO
REAL ESTATE CONSULTING

MEMORANDUM

DATE: December 9, 2021

TO: EDENS

FROM: Charlie Hewlett, Managing Director; RCLCO
Jacob Ross, Principal; RCLCO

SUBJECT: Analysis of Potential Impact of Proposed Development in Union Market on Displacement, Rents, Property Values, and Gentrification

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BACKGROUND AND OBJECTIVES

EDENS engaged RCLCO (Robert Charles Lesser & Co.) to evaluate the extent to which the "Proposed Development" at 1346-1348 4th Street, NE, will have any adverse impact with respect to the displacement of neighborhood residents or businesses, availability of market-rate or affordable housing units, destabilization of land values, and/or gentrification of surrounding neighborhoods. RCLCO has extensive experience conducting fiscal and economic impact analyses for public and private sector clients, and it has worked on such projects as DC USA, developments in the Capitol Riverfront area, developments in the NoMa area, and developments within the boundaries of ANC 5D.

The Proposed Development is located within Lots 3 and 7 in Square 3587 in the Union Market/Gallaudet University neighborhood. Current plans for the Proposed Development feature approximately 375,387 square feet of residential space and approximately 45,477 square feet of commercial space. The residential component of the Proposed Development includes approximately 379 rental apartment units, with 11% of the gross residential floor area being set aside for households earning at or below 60% of Median Family Income ("MFI") and 2% being set aside for households earning at or below 50% of MFI.

OVERALL CONCLUSIONS

1. The Proposed Development will not result in the direct displacement of any residents, as the site on which it is located is largely vacant apart from two small commercial buildings.
2. A range of District programs will greatly reduce the likelihood that the residents of neighborhoods surrounding the Proposed Development will be forced to sell their homes or move involuntarily.
3. The development of new housing, generally, is important given that imbalances between supply and demand can lead to increases in housing prices and rents. Historically, the amount of new rental apartment construction in the District has had a measurable—and, from the perspective of renters, favorable—impact on rent growth.
4. The development of income-restricted housing, specifically, will help to mitigate adverse effects of rent increases in the neighborhood. Plans for the Proposed Development include approximately 49 affordable housing units, which will provide housing opportunities for low- and moderate-income households.
5. The mixed-income nature of the Proposed Development will be particularly beneficial for its low- and moderate-income households.
6. The neighborhoods around the Proposed Development have been experiencing increases in housing prices and rents for years, and there is little reason to believe that the Proposed Development will have an adverse impact on this established trend. In fact, there is strong evidence to suggest the Proposed Development can help mitigate such increases in housing prices and rents.
7. Despite the ongoing changes in home prices, rents, and land values in the neighborhoods surrounding the Proposed Development, these neighborhoods continue to offer apartments available at a wide range of monthly rents.
8. Similar to increasing home prices and rents, demographic changes are long underway in the neighborhoods surrounding the Proposed Development. In fact, there is strong evidence to suggest the Proposed Development can help mitigate threats to racial equity.

9. There is no reason to believe the Proposed Development will lead to displacement in the surrounding neighborhood. While the change in the relative proportion of minority populations can be used as an indicator of racial inequity, it is important to note that, given the rapid growth of the neighborhoods surrounding the Proposed Development, these changes do not necessarily imply displacement of minority populations.
10. The Proposed Development will feature ground-floor retail and space for PDR/Maker uses that will provide opportunities for new local businesses. The Proposed Development also includes a strategy to relocate the PNC Bank of the existing commercial building at 1348 4th Street to 1346 4th Street during construction and back on-site upon completion, which will allow the Union Market area to retain an essential supportive economic function, particularly for small businesses in this ecosystem.
11. The Proposed Development will create a number of employment opportunities, adding both permanent and construction jobs to the neighborhood.
12. The Proposed Development will provide a number of other benefits for neighborhood residents and businesses, including—but not limited to—parklets and programmed pedestrian areas; various street and streetscape enhancements; sustainable design features; and a $25,000 contribution for improvements to Lewis Crowe Park and other ANC-requested public items. Likewise, the Proposed Development will generate a variety of tax revenues to the District, helping to increase the ability to fund public initiatives.
13. The Proposed Development is located in close proximity to a planned entrance to the NoMa-Gallaudet U Metro Station, which will be highly desirable from environmental, market, traffic, and urban planning perspectives.

Overall, this research reveals that the Proposed Development will not contribute, in any meaningful way, to the increases in housing costs that have already been occurring in the surrounding neighborhoods. Instead, it will help to mitigate negative impacts of such increases and deliver many other positive impacts. The Proposed 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; affordable housing units; and other neighborhood benefits. These benefits are vital to offsetting the negative impacts of increasing home prices and rents in the District of Columbia.

1. THE PROPOSED DEVELOPMENT WILL NOT RESULT IN THE DIRECT DISPLACEMENT OF ANY RESIDENTS, AS THE SITE ON WHICH IT IS LOCATED IS LARGELY VACANT APART FROM TWO SMALL COMMERCIAL BUILDINGS.

The Proposed Development is located on a site that is largely vacant, apart from an approximately 5,660 square foot commercial building at 1348 4th Street, NE and an approximately 4,800 square foot commercial building at 1346 4th Street, NE. As such, no residents live at the site, and there will be no displacement of residents of any income level as a direct result of the Proposed Development.

2. A RANGE OF DISTRICT PROGRAMS WILL GREATLY REDUCE THE LIKELIHOOD THAT THE RESIDENTS OF NEIGHBORHOODS SURROUNDING THE PROPOSED DEVELOPMENT WILL BE FORCED TO SELL THEIR HOMES OR MOVE INVOLUNTARILY.

The District offers a range of programs that will greatly mitigate the risk that rising property taxes or rents in the neighborhood will force surrounding homeowners and renters to move, including—but not limited to the—following:

- **Homestead Deduction**: This program deducts $76,350 from the assessed value of any owner-occupied housing unit when calculating the amount of yearly property taxes that the owner of that housing unit must pay.
- **Senior Citizen or Disabled Property Owner Tax Relief**: This program reduces the property tax of qualified property owners by 50%. For this program, qualified property owners include homeowners who are 65 and older and/or disabled, with total federal adjusted gross incomes of less than $135,750 for all residents of the property, excluding tenants. In addition, the property may not be taxed more than a 5% annual increase in the property's taxable assessed value, per the Senior Assessment Cap Credit.
- **Tax Deferral for Low-Income Property Owners**: For any homeowners with incomes of residents less than $50,000, property tax increases of more than 10% are deferrable with a 6% interest rate.
- **Tax Deferral for Low-Income Senior Property Owners**: This program allows eligible low-income seniors to defer real property tax increases of more than 10% at a 0% interest rate. Eligible seniors include those who are 75 and older and meet the following criteria:
  - Federal adjusted gross incomes of residents is less than $50,000;
  - Interest and dividend income is less than $12,500; and
  - Have lived in the District and owned a principal place of residence in the District for at least the past 25 years.

- **Assessment Cap Credit**: This cap provides that an eligible property may not be taxed on more than a 10% increase in its assessed value every year. Eligibility requirements include the following:
  - The homeowner used the property as his or her principal residence during the current tax year;
  - The property was not sold or transferred to a new owner during the prior tax year;
  - The assessed value of the property was not clearly erroneous due to an error in calculation or measurements of improvements;
  - The value of the property was not increased due to a change in the zoning classification during the prior tax year, at the request of the homeowner or anyone having an interest in the property; and
  - The change in assessed value was not the result of a supplemental assessment, which can occur following significant construction or rehabilitation projects.
- **Lower Income, Long-Term Homeowners Tax Credit**: Under this program, property owners who are receiving the Homestead Deduction and occupying the property for at least seven consecutive years are eligible for an individual income tax credit of any annual property tax increase of over 5%. To qualify, property owners must have household incomes below a threshold determined annually by U.S. Department of Housing and Urban Development ("HUD").
- **Accessory Apartments**: The District permits owner-occupied homes to have accessory apartments, subject to various regulations. While one motivating factor behind this provision is to help homeowners stay in their homes as property taxes and other housing costs increase, the provision also has a separate benefit of creating additional rental supply.
- **Individual Income Property Tax Credit**: This tax credit allows eligible homeowners and renters with total household incomes of less than $20,000 to reduce their DC individual income tax liability by up to $750.

3. THE DEVELOPMENT OF NEW HOUSING, GENERALLY, IS IMPORTANT GIVEN THAT IMBALANCES BETWEEN SUPPLY AND DEMAND CAN LEAD TO INCREASES IN HOUSING PRICES AND RENTS.

The development of new housing is important to moderate increases in housing prices and rents in the District. The Proposed Development will add approximately 379 new rental apartments to the surrounding neighborhoods. For the purpose of this analysis, RCLCO defined the surrounding neighborhoods as Census Tract 84.10, Census Tract 87.01, Census Tract 87.02, Census Tract 88.03, and Census Tract 106.00 (the "Relevant Census Tracts"), which together comprise various neighborhoods around NoMa, Eckington, Union Market, Gallaudet University, and Ivy City. In total, the approximately 379 units at the Proposed Development represent a 3.6% increase in the multifamily housing inventory of the Relevant Census Tracts. For a map of the Relevant Census Tracts, please see Exhibit 1.

Academic studies and articles written from a wide range of political perspectives are increasingly finding 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.

The Legislative Analyst's Office ("LAO") of the California Legislature has conducted extensive research and analysis on this topic, which is relevant to the District and other communities across the country. As part of its research, the LAO 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 neighborhoods in the Bay Area suggests a link between increased construction of market-rate housing and reduced displacement[1].*

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.*
- *Lack of new construction can slow this process.*
- *New housing construction eases competition between middle- and low-income households.*

[1] Legislative Analyst's Office (2016). Perspectives on Helping Low-Income Californians Afford Housing.

- ► *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.*[2]

And Jason Furman, the chairman of President Obama's White House Council of Economic Advisors, states that:

> *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.*[3]

Other economists making the same point range from Edward Glaeser of Harvard University writing for the Cato Online Forum[4] 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, especially upward. 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.*[5]

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.*[6]

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 anymore 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.*[7]

Evan Mast reaches a similar conclusion in a 2021 study that examines 52,000 residents in new multifamily buildings across 12 large cities, the previous addresses of those residents, the current occupants of those previous addresses, the previous addresses of those current occupants, and so on for six rounds.[8] In this study, Mast determines that "constructing a new market-rate building that houses 100 people ultimately leads 45 to 70 people to move out of below-median income neighborhoods, with most of the effect occurring within three years". This finding led Mast to conclude that, assuming a symmetric relationship between reducing demand and increasing supply, the delivery of this market-rate building that houses 100 people can be interpreted as equivalent to adding 45 to 70 depreciated units in below median-income neighborhoods.

In the District specifically, RCLCO observes a beneficial relationship between new housing production and housing affordability. In recent years, the amount of rental apartment construction in the District has had a measurable impact on limiting the ability of properties to push rents, with rent growth generally being lower in years with substantial apartment deliveries. From 2010 to 2020, annual rent growth in the District was very highly correlated with the number of apartment units delivering in the District and the level of employment growth occurring in the broader metropolitan statistical area ($r = 0.90$). This analysis suggests that, barring periods of limited job growth, rent growth tended to be highest in years with less apartment development and lowest in years with more apartment development. For more information, please see Exhibit 2a.

Similar trends occurred in the Relevant Census Tracts. From 2010 to 2019, the Relevant Census Tracts added more than 6,500 rental apartment units, an increase of more than 400% in the multifamily housing stock. Despite this uptick in newer—and, in most cases, higher-end—development, effective rents at multifamily properties in the Relevant Census Tracts grew by an average of just 1.9% annually. This rate of growth is virtually identical to the rate at which effective rents grew in the District as a whole over the same period, indicating that the increased multifamily development did not lead to

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[2] Florida, R. (2016). How Zoning Restrictions Make Segregation Worse. *The Atlantic Citylab*.

[3] Furman, J. (2015). Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents. Remarks to the Urban Institute.

[4] Glaeser, E. (2014). Land Use Restrictions and Other Barriers to Growth. *Cato Online Forum*.

[5] Krugman, P. (2015). Inequality and the City. *New York Times*.

[6] Mangin, J. (2014). The New Exclusionary Zoning. *Stanford Law & Policy Review*.

[7] Yglesias, M. (2013). Halting Construction is a Terrible Way to Fight Gentrification. *Slate Moneybox*.

[8] Mast, E. (2021). JUE Insight: The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market. *Journal of Urban Economics*.

disproportionate rent increases in the Relevant Census Tracts. If anything, the sheer volume of new deliveries may have limited the ability of those properties to push rents upwards in the submarket, for reasons discussed above. Together, these trends illustrate that—rather than fueling increases in average apartment rents—new apartment development can actually help limit the extent of those increases. For more information, please see Exhibit 2b.

RCLCO's findings are further supported by recent, District-specific academic literature that analyzes the impact of supply additions in the District from 2000 to 2018 in conjunction with the Mayor's 2019 Housing Initiative. As Bethel Cole-Smith and Daniel Muhammad posit in this analysis, "if the delivery of the markedly large number of new apartment units in recent years had not occurred, average city apartment rents may have been 5.84 percent higher in 2018."[9] Further, Cole-Smith and Muhammad emphasize the need for continued deliveries going forward, stating, "if the planned increase in new additions . . . does not occur, then average city apartment rents are estimated to be 5.53 percent higher in 2025."[9] These conclusions underscore the role of new apartment development in mitigating rent increases. Importantly, this type of development would not be feasible at the site on which the Proposed Development is located under its current zoning, which does not allow for any residential uses.

4. THE DEVELOPMENT OF INCOME-RESTRICTED HOUSING, SPECIFICALLY, WILL HELP TO MITIGATE ADVERSE EFFECTS OF RENT INCREASES IN THE NEIGHBORHOOD.

Over and above the benefits of creating new housing at all price levels, the development of new affordable housing helps to directly mitigate increases in rents and property values, decreases in affordable housing, and potential indirect displacement of existing neighborhood residents. Based on current plans for the Proposed Development, 11% of the residential gross floor area will be set aside for households earning at or below 60% of MFI, and 2% will be set aside for households earning at or below 50% of MFI. These units represent a direct benefit to residents of the District who are seeking income-restricted and rent-capped housing, which would not be feasible at the site on which the Proposed Development is located under its current zoning for reasons discussed above.

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, such as the one in which the Proposed Development is located (discussed in more detail below). The report noted that one approach was for for-profit developers to include affordable units in their projects,[10] as will occur in the case of the Proposed Development.

5. THE MIXED-INCOME NATURE OF THE RESIDENTIAL COMPONENT THE PROPOSED DEVELOPMENT 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."[11] The mix of affordable and market-rate housing in the Proposed Development, as well as in many of the other rental apartment developments that are planned and proposed in the Relevant Census Tracts, will help make the area—which has historically had limited housing—a diverse neighborhood that offers these benefits to its lower-income residents.

6. THE NEIGHBORHOODS AROUND THE PROPOSED DEVELOPMENT HAVE BEEN EXPERIENCING INCREASES IN HOUSING PRICES AND RENTS FOR YEARS, AND THERE IS LITTLE REASON TO BELIEVE THAT THE PROPOSED DEVELOPMENT WILL HAVE AN ADVERSE IMPACT ON THIS ESTABLISHED TREND. IN FACT, THERE IS STRONG EVIDENCE TO SUGGEST THE PROPOSED DEVELOPMENT CAN HELP MITIGATE SUCH INCREASES IN HOUSING PRICES AND RENTS.

RCLCO's analysis determined that the neighborhoods surrounding the Proposed Development have been experiencing home price and rent increases for years. The Proposed Development will not set destabilization of rents, home prices, and property values in motion. Rather, these trends have long been occurring without any impetus from the Proposed Development, and—as stated—the Proposed Development could actually help address rent increases.

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[9] Cole-Smith, B. and Muhhammad, D. (2020). The Impact of an Increasing Housing Supply on Housing Prices. District of Columbia, Office of Revenue Analysis.

[10] Levy, D. et al. (2006). In the Face of Gentrification: Case Studies of Local Efforts to Mitigate Displacement, p. 77. Urban Institute: Washington, D.C.

[11] Brummet, Q. and Reed, D. (2019). The Effects of Gentrification on the Well-Being and Opportunity of Original Resident Adults and Children, p. 1. Federal Reserve Bank of Philadelphia.

- **Home prices in the Relevant Census Tracts have been increasing faster than in other neighborhoods**. As shown on Exhibit 3, median owner-occupied home values (as estimated by residents to the Census Bureau) increased at a much faster pace in the Relevant Census Tracts than they did in the District as a whole from 2007-2011 to 2015-2019. Exhibit 4 shows the substantial decrease in homes valued under $300,000 and the rapid increase in homes valued above $500,000 in the Relevant Census Tracts during this time.
- **Median rents in the Relevant Census Tracts are increasing**. As shown on Exhibit 5, median rent levels in four of the five Relevant Census Tracts increased considerably faster than they did in the District as a whole from 2007-2011 to 2015-2019. The one exception is Tract 106.00, 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 likely 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 rent distribution for the Relevant Census Tracts from 2007-2011 to 2015-2019. For example, the share of renter households with gross rents of under $1,500 in the area decreased from 62% in 2007-2011 to 19% in 2015-2019. This change likely stemmed from the addition of 7,815 new units between 2007 and 2019 (as reported by CoStar), 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 12 units between 2007-2011 and 2015-2019.

These findings regarding home price and rent increases in the Relevant Census Tracts make it clear that the Proposed Development will not be the source of increases of home prices, rents, or land values; rather, market pressures have long been evident in the housing stock of this community without any influence from the development.

This conclusion is consistent with the findings of 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, these studies came to the same conclusion: that "gentrification" is already occurring in the area surrounding the Proposed Development, and that it likely began many years ago.

- A study by Governing magazine found that the Relevant Census Tracts, other than Tract 88.03 (which had little population other than Gallaudet students and no households in Union Market during the study period), "gentrified" between 2000 and 2013 (see Exhibit 7 for map).[12] The study's methodology was adapted from a widely cited gentrification paper by Columbia University professor Lance Freeman.
- The 2019 gentrification study 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. (see Exhibit 8 for map).[13] 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 Proposed Development gentrified during the 2001 to 2010 period (see Exhibit 9 for map).[14] 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.[15]
- 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.[16]

[12] Study available here: http://www.governing.com/gov-data/washington-dc-gentrification-maps-demographic-data.html based on Census data for 2009-2013.

[13] Brummet, Q. and Reed, D. (2019).

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

[15] 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.

[16] American Neighborhood Change in the 21st 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
Interactive map: https://myottetm.github.io/USMapBoxIMO/USLwDispConc.html

- 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.[17]

With gentrification so far underway in the surrounding neighborhoods because of continuing growth, change, and housing demand relative to supply, independent of the Proposed Development, there is no reason to conclude that the Proposed Development will have an adverse impact on established trends of home price and rent increases. A 76-page review of scholarly literature regarding gentrification and displacement in 2015 discussed numerous causes of gentrification that were identified in many different studies, and none of these causes attributed gentrification to projects such as the Proposed Development.[18] Cited in this literature review, a 2008 study by Jeremy Jackson observed no relationship between large-scale neighborhood investment projects and changes in nearby rents, instead focusing on the role of individual consumer decisions in driving such changes.[19]

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 379 rental apartment units, including the approximately 49 of which that would be set aside for affordable housing, at the Proposed Development could not conceivably have such an effect. The Proposed Development would hardly be starting a new trend; as shown on Exhibits 10 and 11, real estate industry data sources CoStar and Axiometrics show that 10,144 new rental apartment units were completed in the Relevant Census Tracts between 2007 and the present, 3,482 units are under construction, and another 7,796 units are planned or proposed (excluding the Proposed Development).

For all of these reasons, there is no reason to conclude that the Proposed Development will be the cause of gentrification in surrounding neighborhoods. Instead, there is ample evidence to suggest that the Proposed Development and its increase in supply would actually help mitigate rent increases, for reasons discussed above.

7. DESPITE THE ONGOING CHANGES IN HOME PRICES, RENTS, AND LAND VALUES IN THE NEIGHBORHOODS SURROUNDING THE PROPOSED DEVELOPMENT, THESE NEIGHBORHOODS CONTINUE TO OFFER APARTMENTS AVAILABLE AT A WIDE RANGE OF MONTHLY RENTS.

While increasing home prices, rents, and land values are well-established trends in the neighborhoods surrounding the Proposed Development, and while many market-rate rental apartments have delivered in the past 14 years in the Relevant Census Tracts, these areas continue to have housing that serves a wide range of income levels. As previously mentioned, Census data indicates that the absolute number of renter-occupied housing units with gross rents below $1,500 decreased by just 12 units between 2007-2011 (1,178 units) and 2015-2019 (1,166 units), a decrease that is normal, if not lower than expected, when considering inflation. The provision of income-restricted housing units in new residential housing developments likely played a key role in the preservation of housing affordability in the Relevant Census Tracts.

8. SIMILAR TO INCREASING HOME PRICES AND RENTS, DEMOGRAPHIC CHANGES ARE LONG UNDERWAY IN THE NEIGHBORHOODS SURROUNDING THE PROPOSED DEVELOPMENT. IN FACT, THERE IS STRONG EVIDENCE TO SUGGEST THE PROPOSED DEVELOPMENT CAN HELP MITIGATE THREATS TO RACIAL EQUITY.

When considering the racial equity implications of gentrification, recent literature suggests that it is important to look beyond displacement as the only relevant measure. In 2008, Elizabeth Kirkland of the Metropolitan Interdenominational Church First Response Center noted that “there may well be consequences [of gentrification] short of displacement—including marginalization, isolation, alienation—wherein original residents remain in gentrified neighborhoods, but through the transformation of their neighborhood, their quality of life is diminished”.[20] Similarly, Lance Freeman explains that gentrification is a “gradual process that, although displacing some, leaves its imprint mainly by changing who moves into a neighborhood”.[21]

Together, these outlooks suggest that one effective way to assess threats to racial equity in any given neighborhood is by examining the change in its racial composition over time. Looking at the Relevant Census Tracts over the last 10 years, RCLCO observes that the share of the population that has identified itself as non-White has experienced more substantial declines during periods with less new apartment development than it has during periods with more new apartment development. For example, an average of just 597 new rental apartment units delivered annually in the Relevant Census

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[17] Shifting Neighborhoods: Gentrification and Cultural Displacement in American Cities (2019).

[18] Zuk, M. et al. (2015). Gentrification, Displacement and the Role of Public Investment: A Literature Review.

[19] 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.

[20] Kirkland, E. (2008). What’s Race Got to Do With it? Looking for the Racial Dimensions of Gentrification.

[21] Freeman, L. (2005). Displacement or Succession? Residential Mobility in Gentrifying Neighborhoods. p. 488

Tracts from 2010 to 2016, and the share of the population identifying as non-White declined from 78% to 52% during this period. Meanwhile, the average pace of rental apartment deliveries increased to 1,067 units annually from 2017 to 2019, and the share of the population identifying as non-White remained consistent during this period, at 52%. This comparison suggests that new rental apartment development not only prevents extreme rent growth, but that it also provides increased housing opportunities for non-White residents, either because it creates new housing units into which non-White residents can move, or because it alleviates demand for the existing housing units in which those non-White residents live.

One other reason that additional rental apartments can help to preserve racial equity, especially in the face of growing demand, is that they are subject to Fair Housing Laws. These laws prohibit discrimination based on race, color, national origin, and a number of other factors, and rental apartment buildings such as the ones at the Proposed Development are not subject to the same exemptions that may apply to other types of housing units (e.g., an owner-occupied home with an apartment in the basement level).[22] According to the National Fair Housing Alliance, there were 28,712 complaints of fair housing violations across the United States in 2020, with 17% of these complains relating to race.[23] The majority of these complaints (20,860) pertained to the rental housing market. These complaints highlight the extent to which discrimination remains a threat to housing access and racial equity. Moreover, these threats are arguably more prevalent in neighborhoods with growing demand but limited supply, since the owners of existing housing units (e.g., the previously mentioned example of an owner-occupied home with an apartment in the basement level) may be able to select the specific tenants to whom they wish to rent. Meanwhile, it is illegal for rental apartment buildings such as the ones at the Proposed Development to discriminate against or prefer potential tenants based on a number of factors, including race, color, and national origin.

The Proposed Development will create approximately 379 rental apartment units at a range of affordability levels, and it will be subject to Fair Housing Laws. Together, these factors are likely to help to preserve racial equity and diversity in the Relevant Census Tracts, particularly considering the pressures that continuing growth, change, and housing demand relative to supply are placing on the local housing market, independent of the Proposed Development.

9. THERE IS NO REASON TO BELIEVE THE PROPOSED DEVELOPMENT WILL LEAD TO DISPLACEMENT IN THE SURROUNDING NEIGHBORHOOD.

While changes in the relative proportion of non-White populations can often indicate threats to racial equity for reasons discussed above, it is important to note that, given the rapid growth of the Relevant Census Tracts, these changes do not necessarily imply the displacement of non-White populations. Indeed, the share of the population that non-White residents represent in this area decreased from 78% in 2010 to 52% in 2019, as discussed above. However, an analysis of overall population growth during this same period reveals that the total non-White population in the Relevant Census Tracts actually increased during this time, from 8,296 residents in 2010 to 10,174 residents in 2019 (Exhibit 12). During this period, the single-largest increase in non-White population occurred in 2019, which was also the year that saw the greatest number of new rental apartment units delivered (Exhibit 2b).

Newly released 2020 redistricting data from the U.S. Census Bureau provides further evidence that, rather than accelerate trends of gentrification and minority displacement, new rental apartment development can play a critical role in reversing them. Looking at this data for census tracts in the District, RCLCO observes a moderate statistical correlation between the amount of rental apartment development in any given census tract from 2010 to 2020 and the growth in its non-White and/or Hispanic populations during this time ($r = 0.58$). In fact, just 11 of the 59 census tracts (19%) that added new apartment units between 2010 and 2020 saw a net reduction in the number of residents who identify themselves as non-White and/or Hispanic, compared to 45 of the 120 census tracts (38%) that did not add any new apartment units during this time. This comparison suggests that, from 2010 to 2020, census tracts that added new apartment units were 50% less likely to experience a net reduction in non-White and/or Hispanic residents as census tracts that did not add any new apartment units. Please see Exhibit 16 for a map of this data.

The same relationship between new rental apartment development and non-White population growth applies to the Relevant Census Tracts as well. For example, Tract 106.00 and Tract 88.03—which comprise much of NoMa and Union Market—added a combined total of 6,144 apartment units between 2010 and 2020, and they saw a net increase of 4,216 non-White and/or Hispanic residents during this same period. Meanwhile, Tract 87.01 and Tract 84.10 added no new rental apartment units during this period, which coincided with a net loss of 313 non-White and/or Hispanic residents from those tracts. Together, these two findings suggest that, while displacement is indeed occurring in the District, it is primarily occurring in neighborhoods that are not adding enough new housing supply to keep up with growing demand.

Moreover, an economic analysis of the Relevant Census Tracts from 2010 to 2019 reveals no evidence of economic displacement either. As shown on Exhibit 14, the number of households in the Relevant Census Tracts with incomes below \$50,000 increased from 1,747 to 2,086 during this period, equivalent to growth of more than 19%. At the same time, the number of households with incomes between \$50,000 and \$100,000 grew from 1,104 to 1,919 during this period, translating to a growth rate of more than 74%. Looking at the data by both race and income, the same trends occurred in the case of non-White and/or Hispanic households with incomes below these levels. As shown on Exhibit 15, the number of non-White and/or Hispanic

[22] District of Columbia Office of Human Rights. Forward With Fairness: Understanding Fair Housing Requirements. p. 4

[23] National Fair Housing Alliance. (2021) "Fair Housing Trends Report".

households with incomes below $50,000 increased by 183 between 2010 and 2019, while the number of non-White and/or Hispanic households with incomes between $50,000 and $100,000 increased by 578 during this time as well.

These local demographic trends are consistent with recent academic research on this matter. New research released from the Upjohn Institute for Employment Research in 2019, which studied rents in 11 major U.S. cities, found that "new buildings lower nearby rents . . . and increase in-migration from low-income areas."[24]

The Proposed Development will allow for the continuation of those trends without any direct displacement, as the site on which it is located is currently vacant apart from the small commercial building, as discussed above.

10. THE PROPOSED DEVELOPMENT WILL PROVIDE BENEFITS TO LOCAL BUSINESSES.

The Proposed Development will feature additional commercial spaces that will create opportunities for other local businesses. Of the 45,477 square feet of commercial space at the Proposed Development, approximately 50% will be constructed to meet the specifications of PDR/Maker users, and 10% will be specifically set aside for these users for the next five years. In addition, the occupants of the approximately 379 new rental apartment units at the Proposed Development will add to the market support for businesses in the area and contribute to the evolution of Union Market as a thriving economic center.

In order to mitigate impacts to the existing business at 1348 4th Street NE (PNC Bank), EDENS plans to purchase the property from the bank, relocate it within the property while the Proposed Development is under construction, and then move it into one of the new commercial spaces at the Proposed Development upon completion. This strategy will allow the Union Market area to retain an essential supportive economic function, particularly for small businesses in this ecosystem.

11. THE PROPOSED DEVELOPMENT WILL CREATE A NUMBER OF EMPLOYMENT OPPORTUNITIES, ADDING BOTH PERMANENT AND CONSTRUCTION JOBS TO THE NEIGHBORHOOD.

The Proposed Development will add a number of jobs to the neighborhood. Upon completion, RCLCO estimates the Proposed Development will create approximately 182 permanent jobs, including 171 jobs in its commercial component and 11 jobs in its rental apartment component (Exhibit 17). While development is underway, RCLCO also estimates that the Proposed Development will create 741 full-time equivalent ("FTE") construction jobs over the life of the project, equivalent to approximately 370 jobs per year assuming a two-year development timeline (Exhibit 17).

12. THE PROPOSED DEVELOPMENT WILL PROVIDE A NUMBER OF OTHER BENEFITS TO NEIGHBORHOOD RESIDENTS AND BUSINESSES, AND IT WILL GENERATE A VARIETY OF TAX REVENUES TO THE DISTRICT.

The Proposed Development will provide a number of other benefits to current and future residents of the surrounding neighborhood. These benefits include, but are not limited to, the following:

- Urban design and architecture, which will frame the entrance to the Union Market neighborhood from New York Avenue, NE;
- Commercial space, including PDR/Maker space, that will create employment opportunities for area residents and business opportunities for area establishments;
- Parklets and programmed pedestrian areas;
- Streetscape and street enhancements along 4th Street, NE, and streetscape enhancements along New York Avenue, NE;
- A $25,000 contribution for improvements to Lewis Crowe Park and other ANC-requested public items;
- Funding for a study to add bicycle lanes to Mt. Olivet Road, NE; and
- A number of sustainable design features, including LEED Gold buildings and rooftop solar panels.

Likewise, the Proposed Development will generate a number of tax revenues to the District, helping to increase its ability to fund public initiatives. These revenues include, but are certainly not limited to, the following:

- Real property tax revenue from the new development that will occur at Proposed Development;

[24] Asquith, Brian J., Mast, Evan, and Reed, David. (2019). Supply Shock Versus Demand Shock: The Local Effects of New Housing in Low-Income Areas. p. 1. *W.E. Upjohn Institute for Employment Research.*

- Income tax revenue from the residents that will occupy the rental apartments at the Proposed Development;
- Sales and meals tax revenue from the businesses that will occupy the commercial space at the Proposed Development; and
- Other sales and meals tax revenue generated by residents of the Proposed Development, in cases when their spending activity occurs outside of the Proposed Development but elsewhere in the District.

13. THE PROPOSED DEVELOPMENT IS LOCATED IN CLOSE PROXIMITY TO A PLANNED ENTRANCE TO THE NOMA-GALLAUDET U METRO STATION.

The Proposed Development's new market-rate and affordable housing units will be within a half mile of the planned new entrance to the NoMa-Gallaudet U Metro Station, which will be highly desirable from environmental, market, traffic, and urban planning perspectives.

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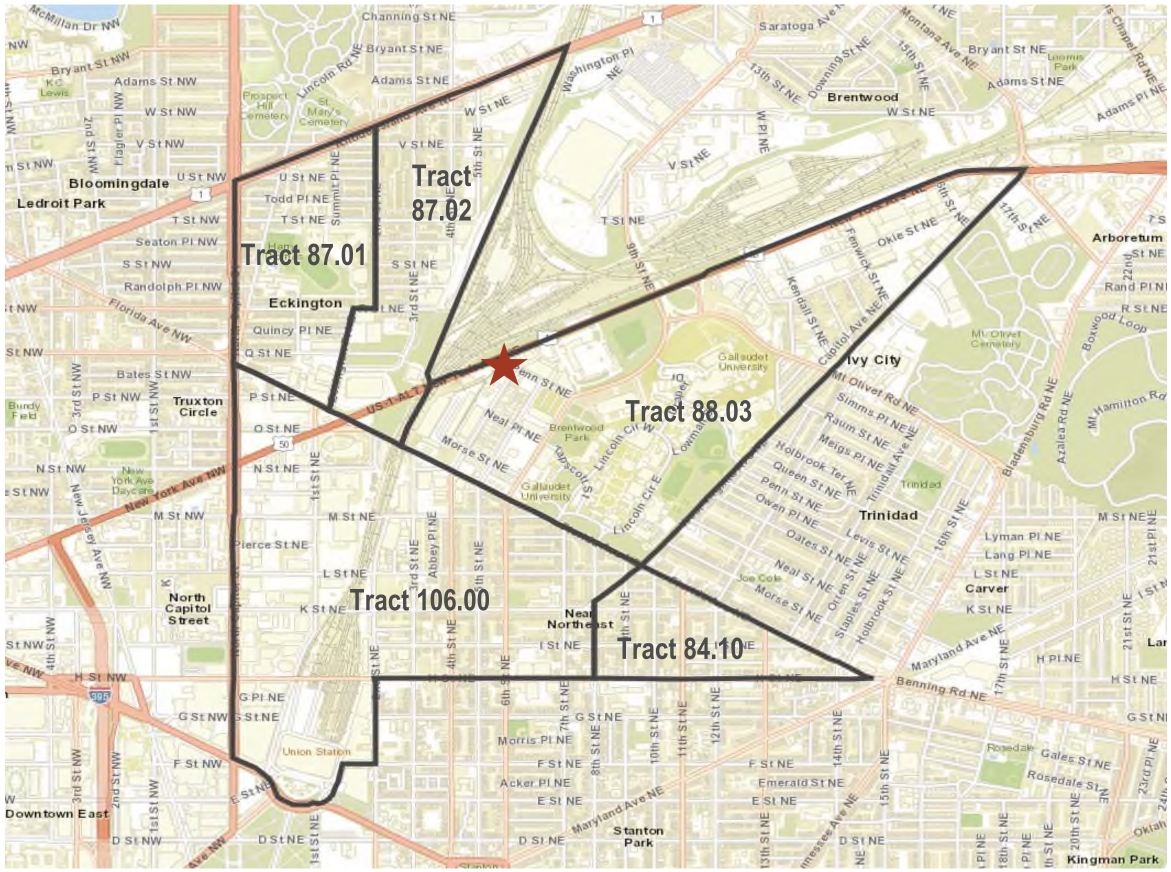
SUPPORTING EXHIBITS

Exhibit 1

Relevant Census Tracts Map
Washington, D.C.
November 2021

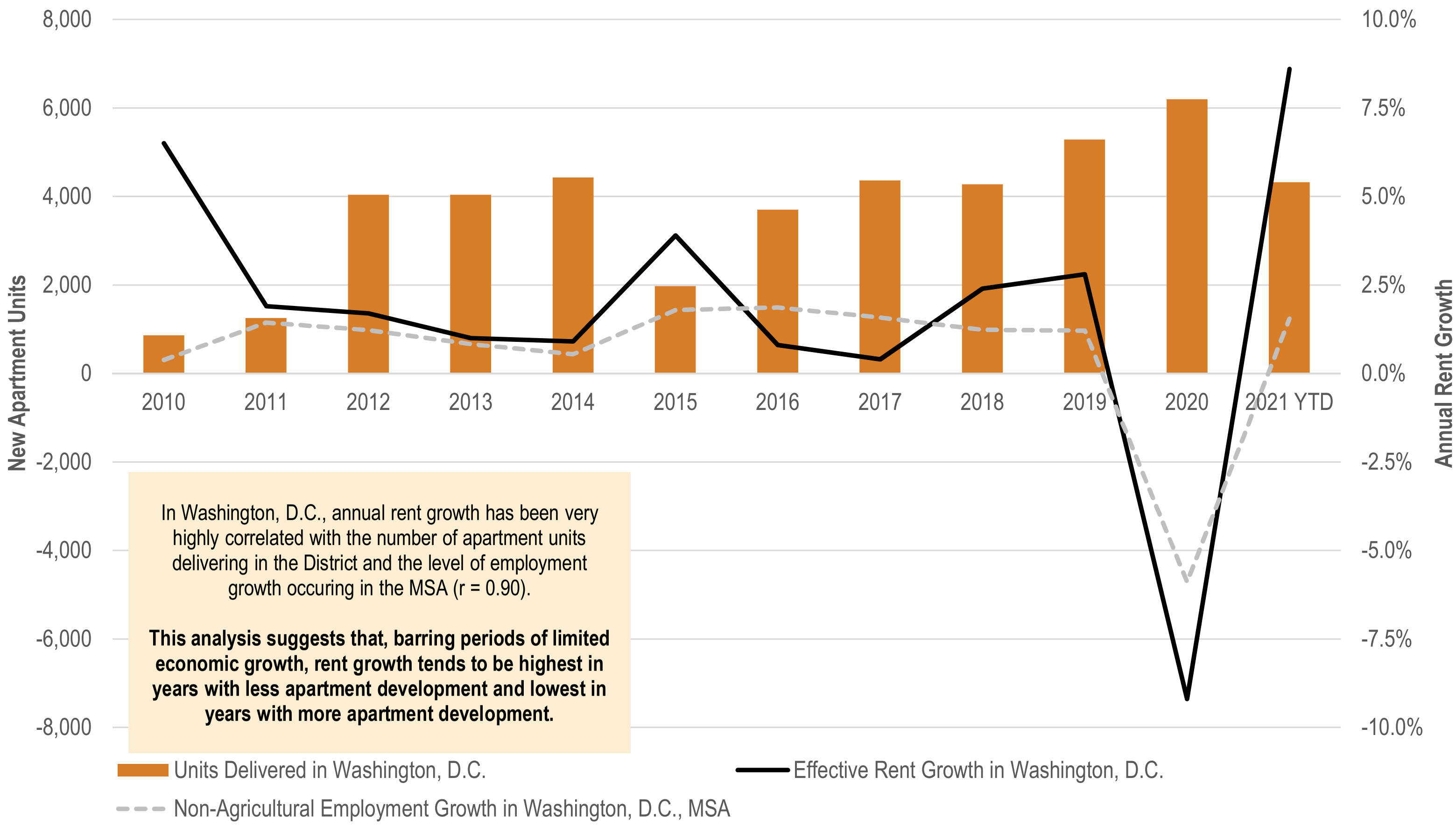


Note: Includes the following census tracts: 84.10, 88.03, 87.01, 87.02, 106.00

Source: ESRI

Exhibit 2a

Apartment Deliveries, Rent Growth, and Employment Growth
Washington, D.C.
2010-2021 YTD

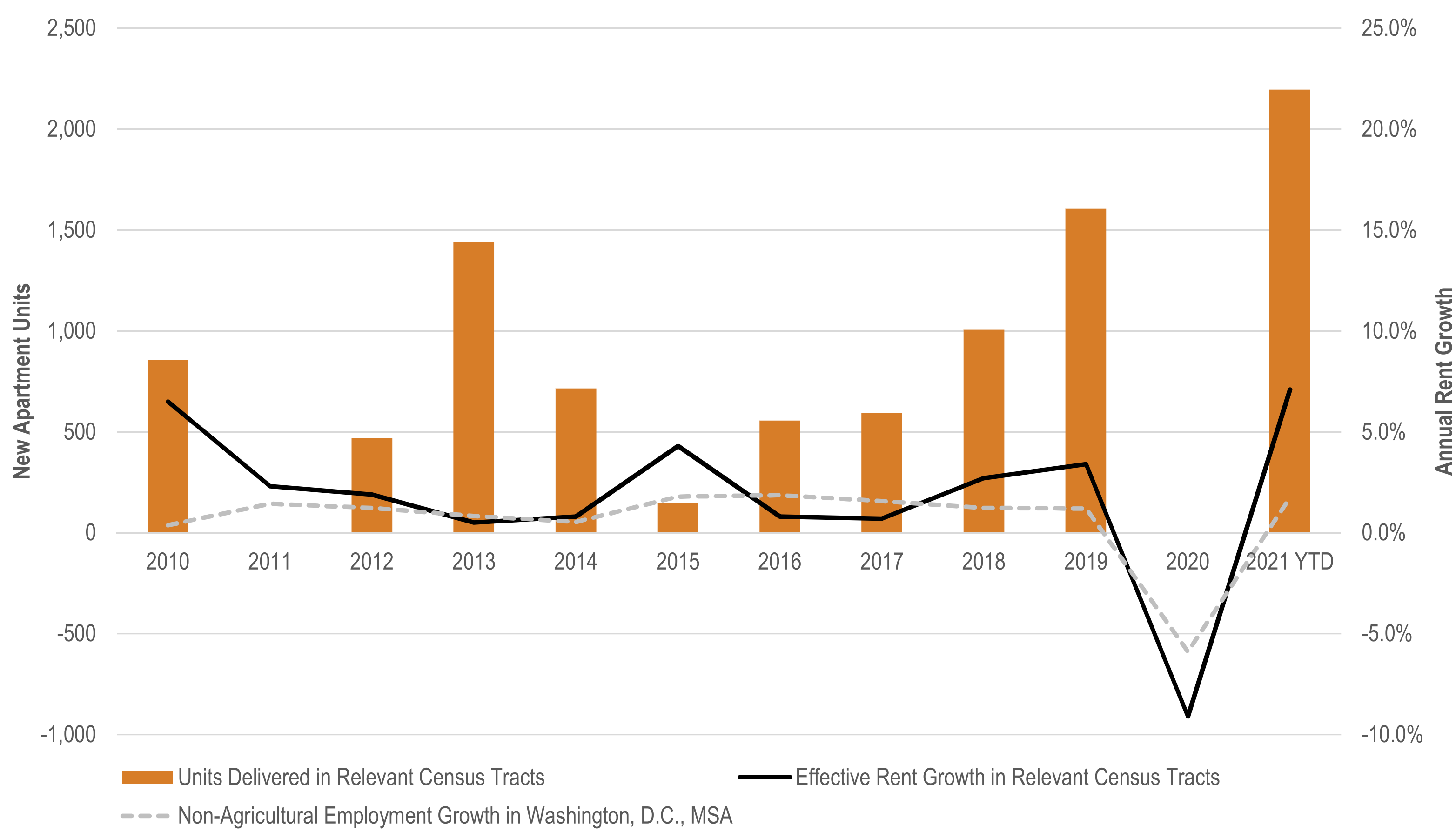


Note: Data reflects communities with 25 or more units designated as "market" or "market/affordable" in CoStar.

Source: CoStar; Moody's Analytics; RCLCO

Exhibit 2b

Apartment Deliveries, Rent Growth, and Employment Growth
Relevant Census Tracts
2010-2021 YTD

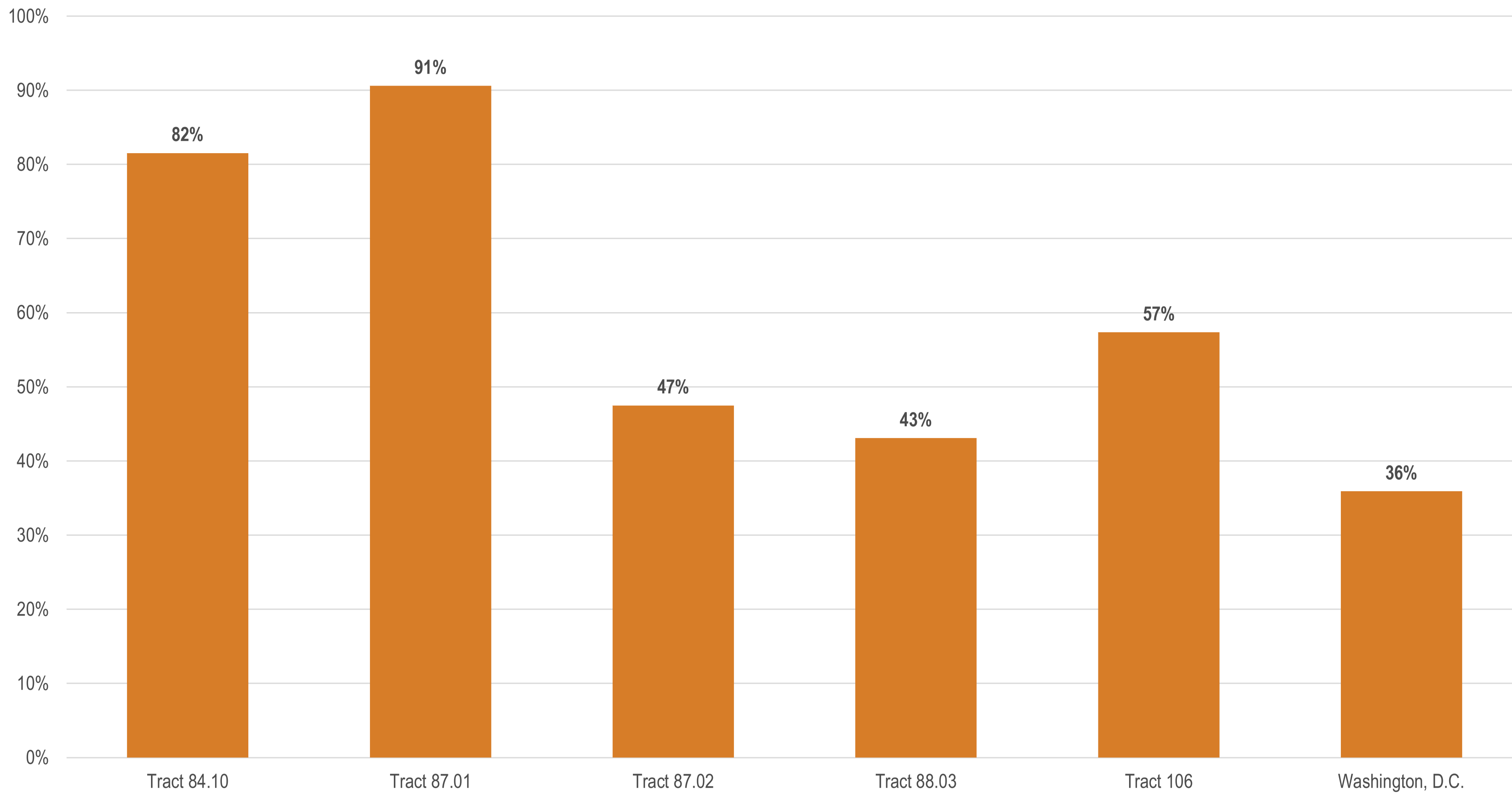


Note: Data reflects communities with 25 or more units designated as "market" or "market/affordable" in CoStar.

Source: CoStar; Moody's Analytics; RCLCO

Exhibit 3

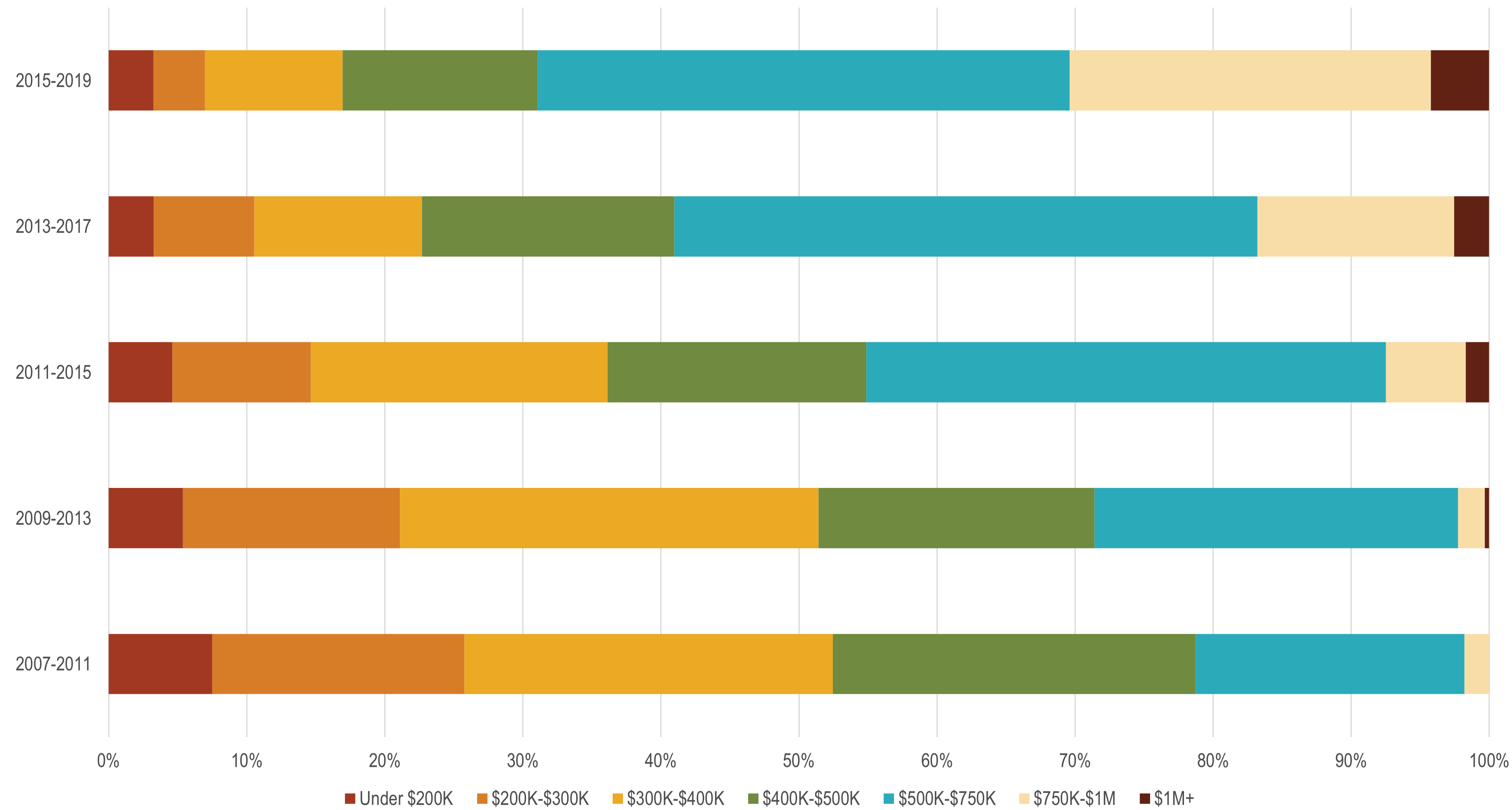
Change in Median Owner-Occupied Home Value
Relevant Census Tracts and Washington, D.C.
2007-2011 to 2015-2019



Source: American Community Survey 2011 and 2019 5-Year Estimates

Exhibit 4

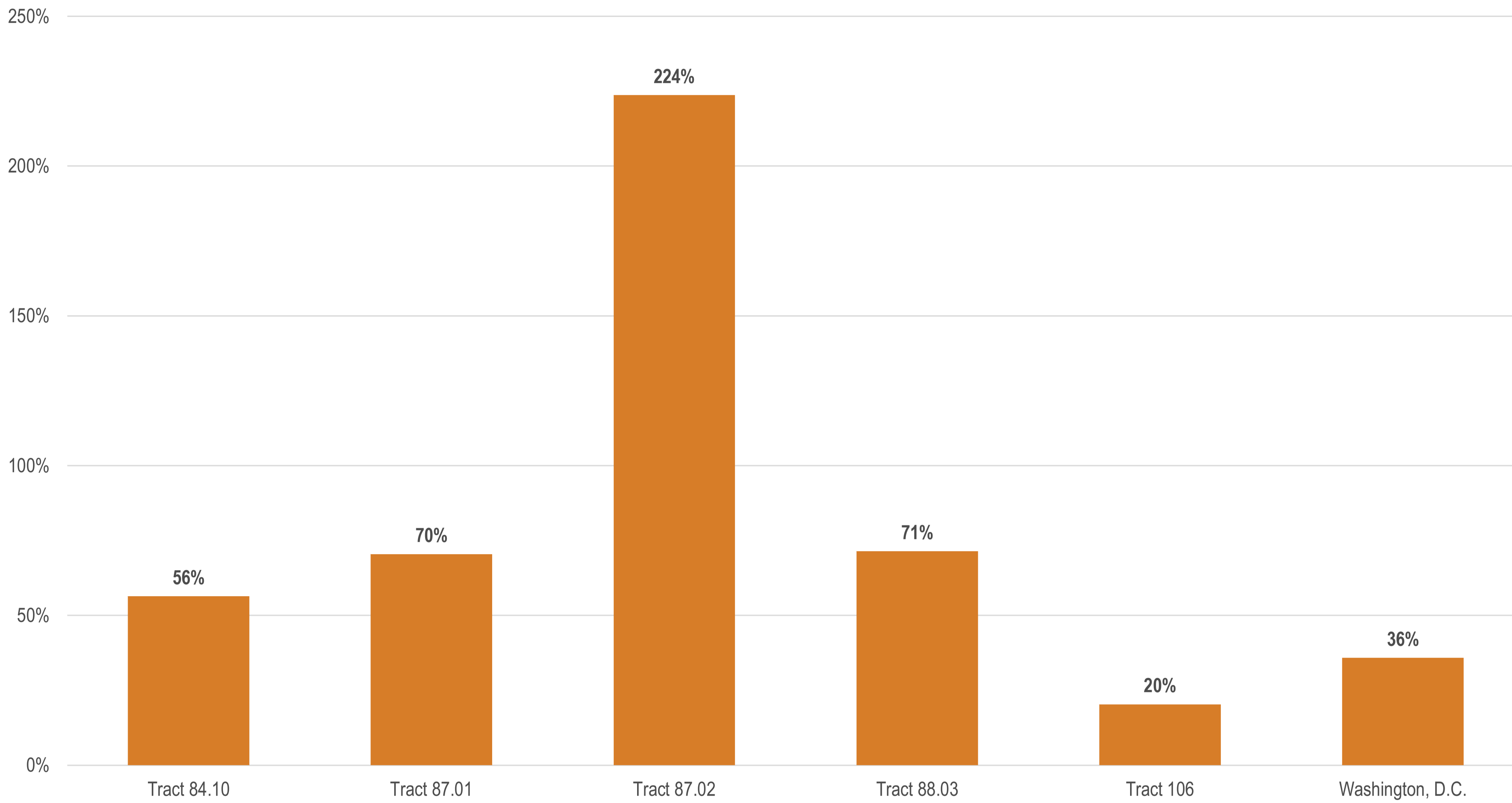
Owner-Occupied Home Value by Price Band
Relevant Census Tracts
2011, 2013, 2015, 2017, and 2019 American Community Survey 5-Year Estimates



Source: American Community Survey 5-Year Estimates

Exhibit 5

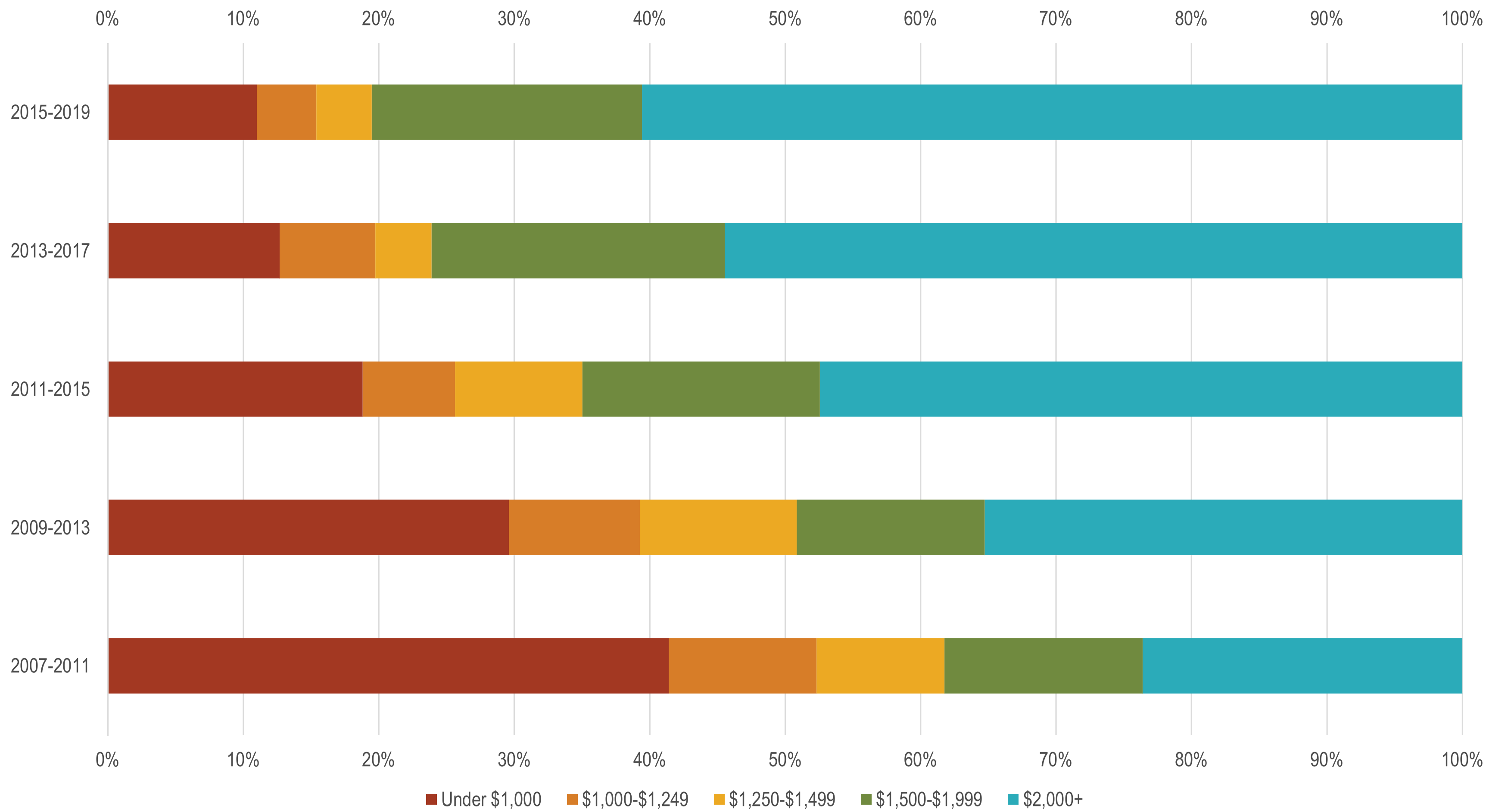
Increase in Median Monthly Gross Rent
Relevant Census Tracts and Washington, D.C.
2007-2011 to 2015-2019



Source: American Community Survey 2011 and 2019 5-Year Estimates

Exhibit 6

Monthly Gross Rent by Price Band
Relevant Census Tracts
2011, 2013, 2015, 2017, and 2019 American Community Survey 5-Year Estimates

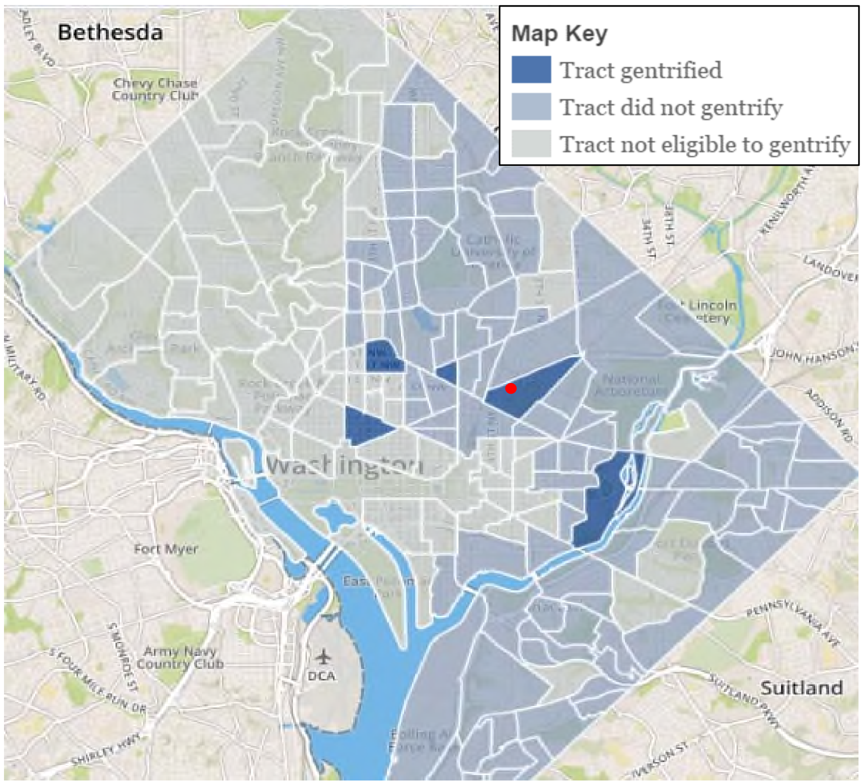


Source: American Community Survey 2011, 2013, 2015, 2017, and 2019 5-Year Estimates

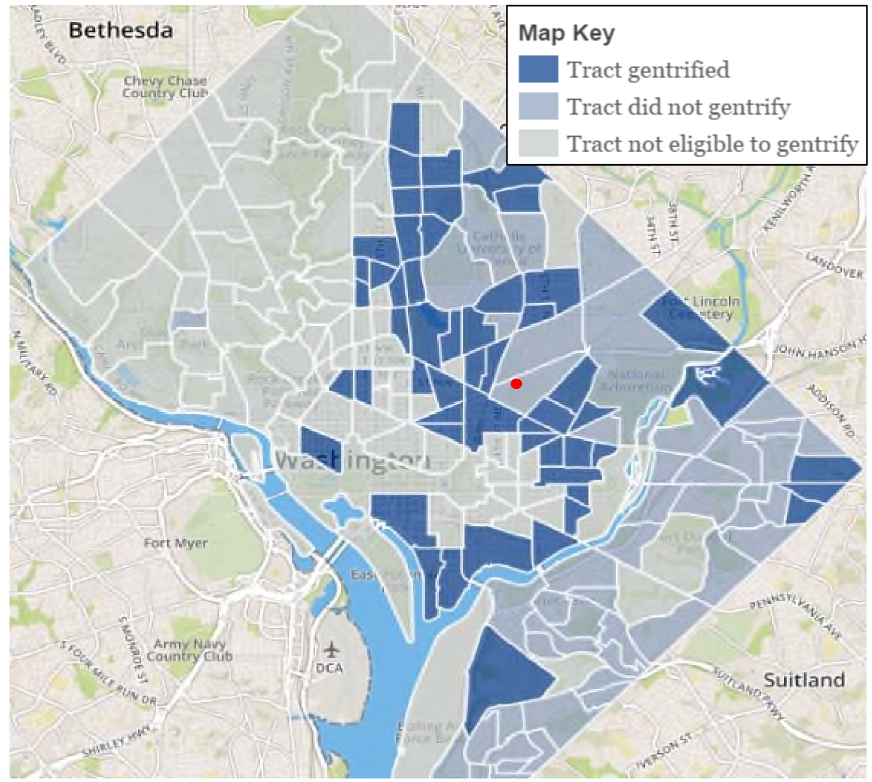
Exhibit 7

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

GENTRIFICATION MAP: 1990-2000



GENTRIFICATION MAP: 2000-2013



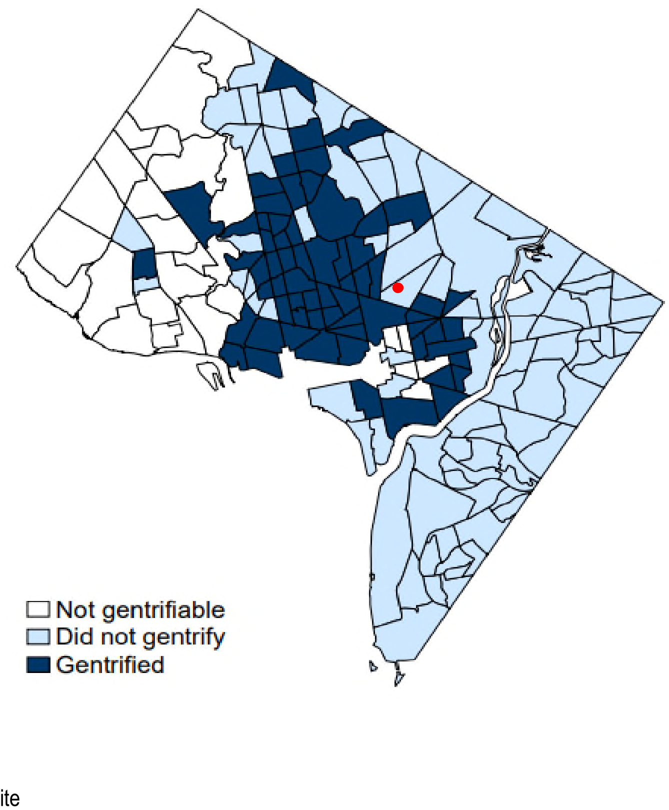
● = Subject Site

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

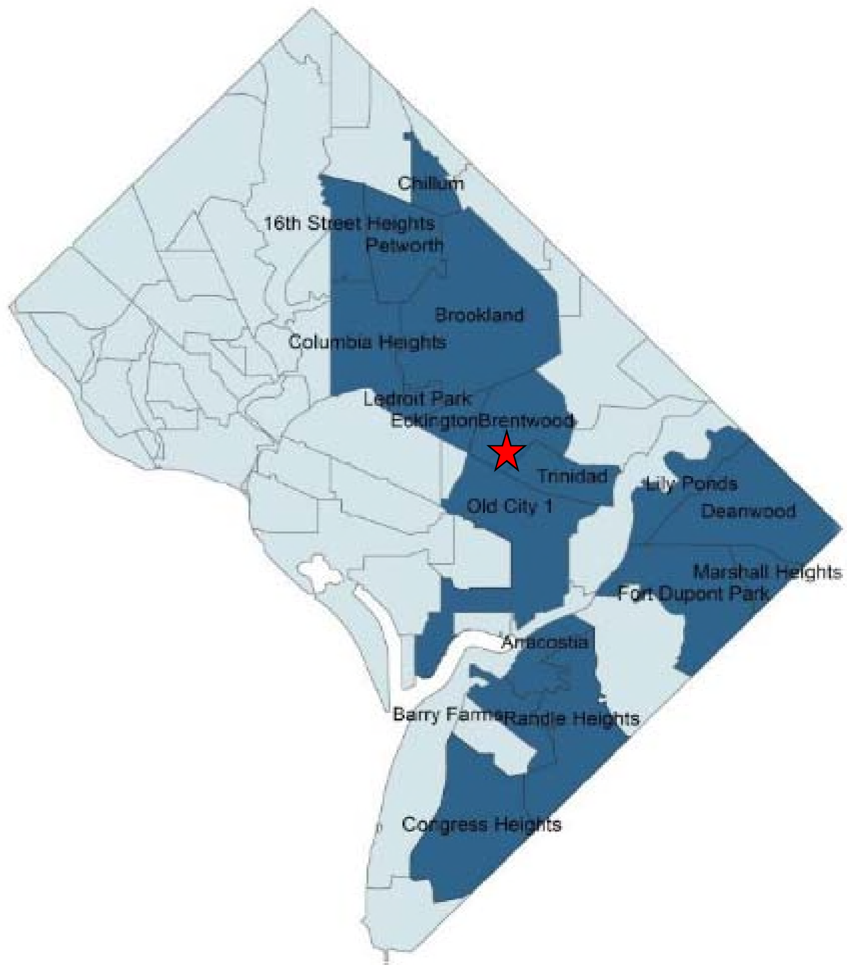
GENTRIFICATION MAP: 2000 to 2010-2014



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

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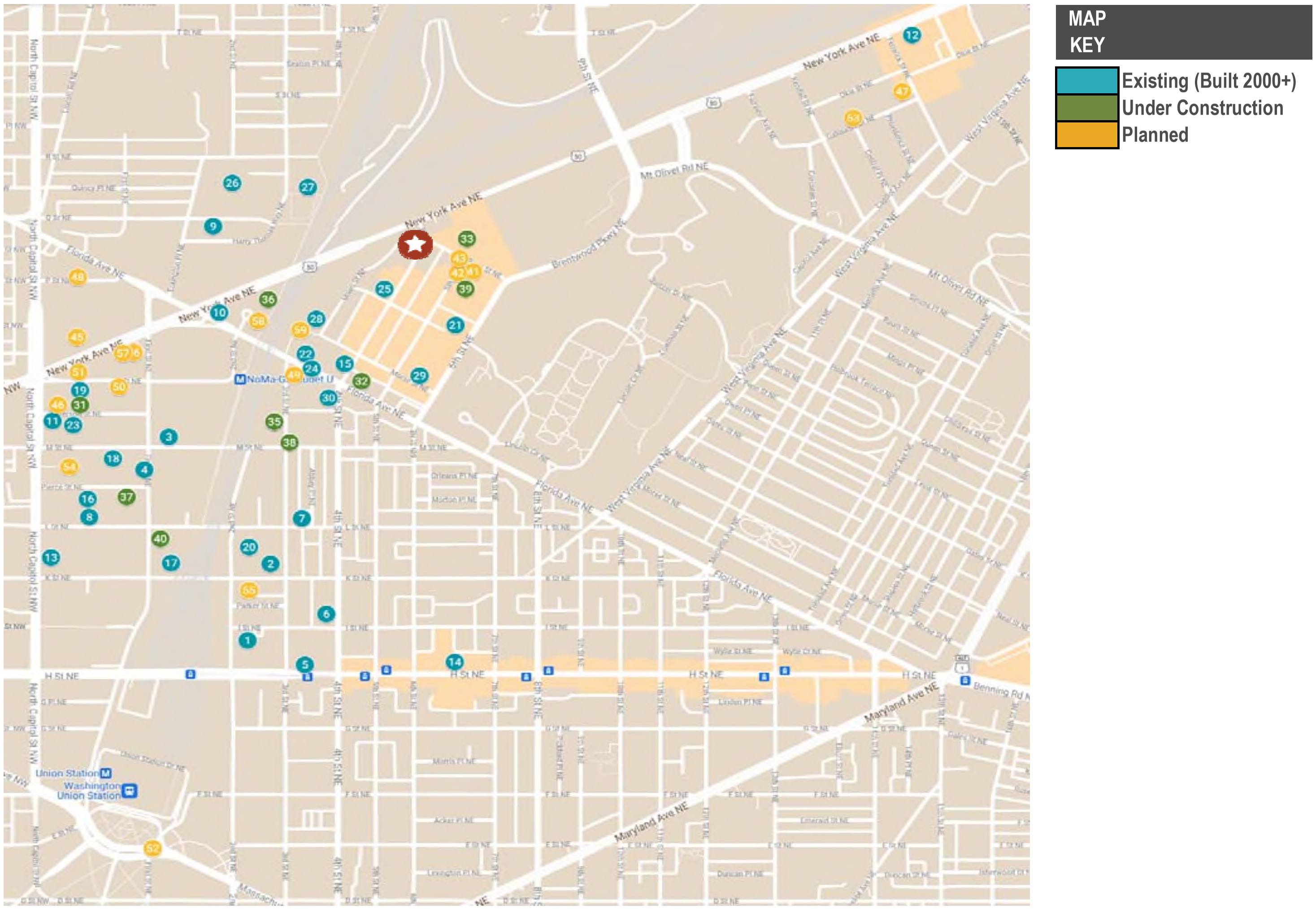
Exhibit 10

Map of Rental Apartment Inventory and Development Pipeline
Relevant Census Tracts
November 2021



Source: CoStar; Axiometrics; RCLCO

Exhibit 11

List of Rental Apartment Inventory and Development Pipeline
Relevant Census Tracts
November 2021

MAP KEY	PROJECT	DEVELOPER	YEAR BUILT/EST. OPENING	TOTAL UNITS
	EXISTING (BUILT 2000 AND AFTER)			
1	Senate Square	Broadway Capitol, LLC	2007	432
2	The Loree Grand at Union Place	Cohen Siegel Investors	2010	212
3	Flats 130 at Constitution Square	Clark Construction Group, LLC	2010	643
4	Avalon First and M	AvalonBay Communities, Inc.	2012	469
5	360H Street	Steuart Investment Company	2013	215
6	AVA H Street	AvalonBay Communities, Inc.	2013	138
7	Aria on L	Ellisdale Construction	2013	58
8	Camden NoMa	Camden Property Trust	2013	426
9	The Gale Eckington	Mill Creek Residential Trust LLC	2013	603
10	Elevation at Washington Gateway	MRP Realty	2014	400
11	2M Street	WC Smith	2014	315
12	The Hecht Warehouse at Ivy City	Douglas Development Corporation	2015	147
13	John and Jill Ker Conway Residence	McCormack Baron Salazar	2016	124
14	The Apollo	Insight Property Group LLC	2016	431
15	The Edison at Union Market	Sang OH Development LLC	2017	187
16	Camden NoMa - Phase II	Camden Property Trust	2017	405
17	100K Apartments	Equity Residential	2018	222
18	AVA NoMa	AvalonBay Communities, Inc.	2018	438
19	The Belgard	Wood Partners	2018	346
20	Union Place	Toll Brothers, Inc.	2019	525
21	The Batley	Level 2 Development, LLC	2019	432
22	i5 Union Market	Level 2 Development, LLC	2019	219
23	RESA	Skanska USA	2019	329
24	i5 Union Market by Common	Level 2 Development, LLC	2019	99
25	Ledger Union Market	Great Gulf	2020	134
26	Judd & Weiler	JBG SMITH Properties	2021	681
27	ONE501	Foulger-Pratt Companies	2021	327
28	The Gantry	Carmel Partners	2021	552
29	550 Morse	LCOR Inc.	2021	279
30	Press House	Foulger-Pratt Companies	2021	356
				10,144

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Exhibit 11

List of Rental Apartment Inventory and Development Pipeline
Relevant Census Tracts
November 2021

MAP KEY	PROJECT	DEVELOPER	YEAR BUILT/EST. OPENING	TOTAL UNITS
	UNDER CONSTRUCTION			
31	40 Patterson	Monument Realty LLC	2022	321
32	400 Florida Avenue Northeast	Ranger Properties LLC	2022	110
33	440 Penn	UDR Inc/EDENS	2022	299
34	Armature Works I	High Street Residential	2022	468
35	Armature Works II	High Street Residential	2022	172
36	The Burton I	MRP Realty/Barings	2022	387
37	1150 First Street Northeast	Carmel Partners	2023	500
38	300 M	LCOR Residential	2023	425
39	Gables Union Market	EDENS/Gables Residential	2023	300
40	NoMa CNTR	Perseus TDC	2023	500
				3,482
	PLANNED/PROPOSED			
41	JBG Smith Development Parcel 2	JBG Smith	Not Available	236
42	JBG Smith Development Parcel 3	JBG Smith	Not Available	600
43	JBG Smith Development Parcel 4	JBG Smith	Not Available	775
44	Ozma	Skanska USA Inc	Not Available	275
45	New York Avenue Northeast & First Street Northeast	Douglas Development Corporation	Not Available	557
46	2 Patterson Street Northeast	Monument Realty LLC	Not Available	577
47	1900 Fenwick Street Northeast	OceanPro	Not Available	123
48	22 P St	Aria Development Group	Not Available	172
49	301 Florida Avenue Northeast	Sivan Properties/Zusin Development	Not Available	56
50	51N	JBG SMITH Properties	Not Available	208
51	7 New York Avenue Northeast	Unknown	Not Available	116
52	Burnham Place at Union Station	Akridge	Not Available	1,300
53	Former Crummell School	Ivy City Partners	Not Available	343
54	Former District of Columbia Housing Authority	MRP Realty	Not Available	1,200
55	K Street Northeast & 2nd Street Northeast	SGA Companies LLC	Not Available	40
56	NoMa McDonald I	JBG SMITH Properties	Not Available	500
57	NoMa McDonald II	JBG SMITH Properties	Not Available	305
58	The Burton II	MRP Realty	Not Available	254
59	The Gantry III	Carmel Partners/Kettler	Not Available	159
				7,796

Source: CoStar; Axiometrics; RCLCO

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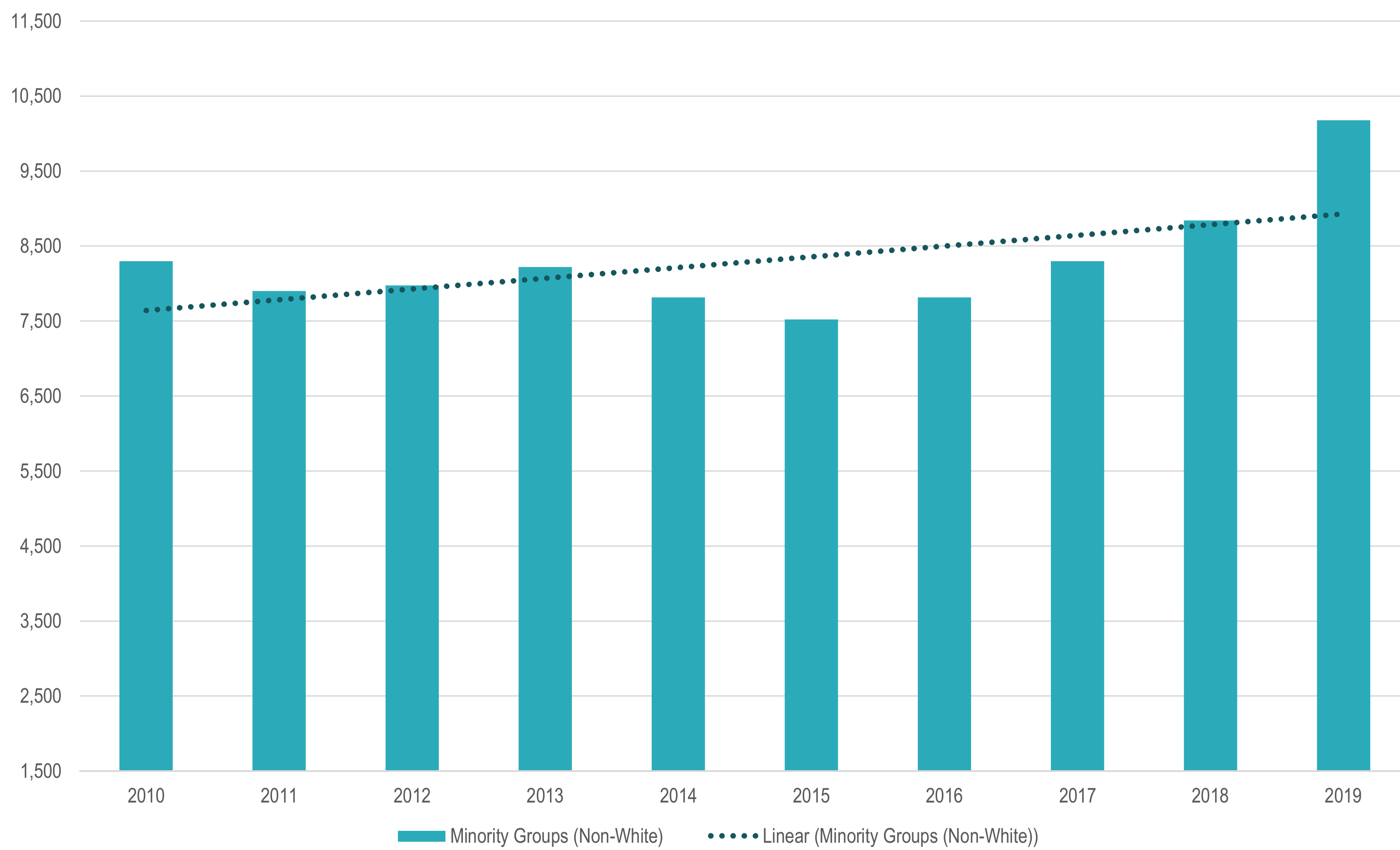
Exhibit 12

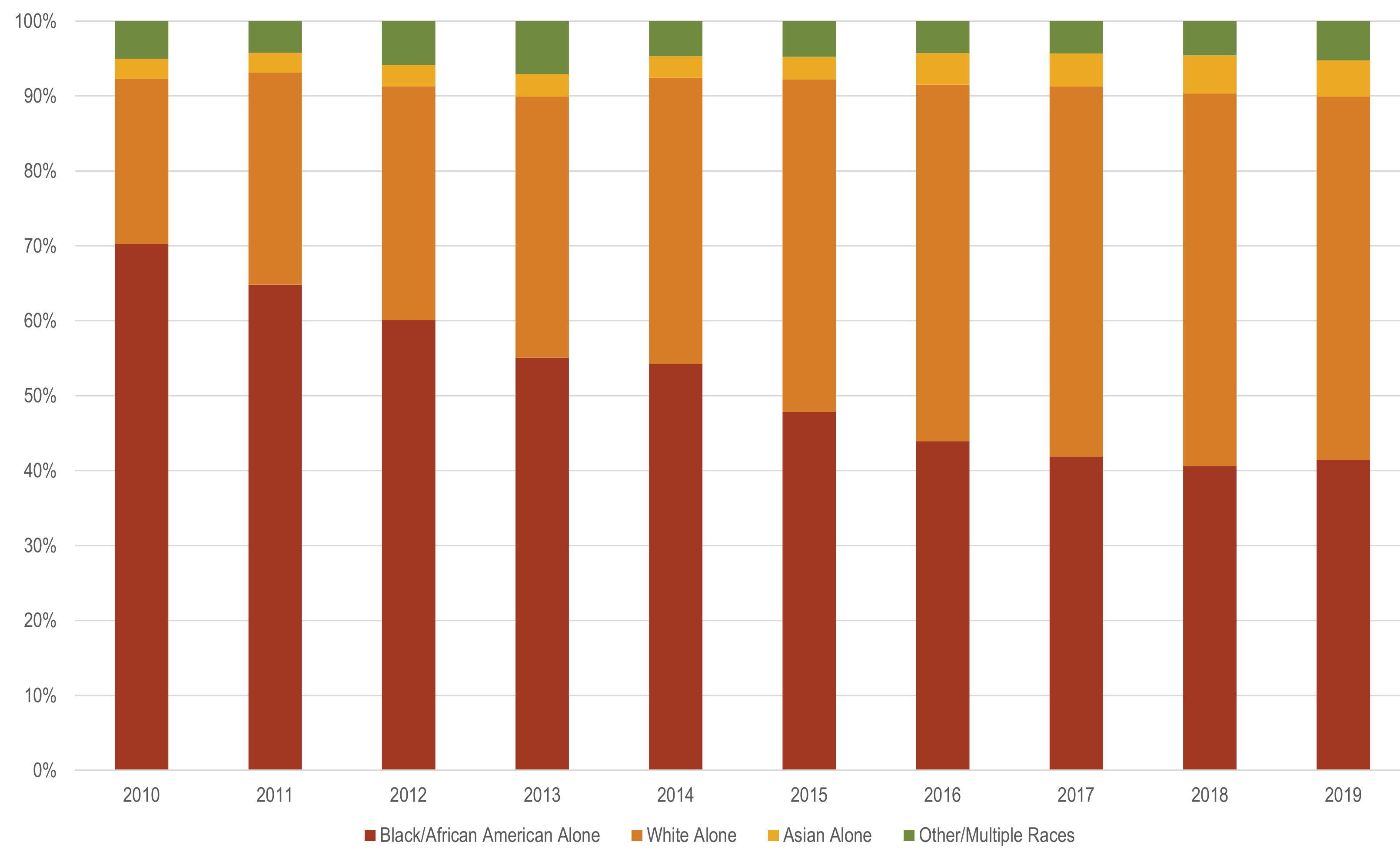
Annual Population of Minority Races (Non-White)
Relevant Census Tracts
2010-2019



Source: American Community Survey 5-Year Estimates

Exhibit 13

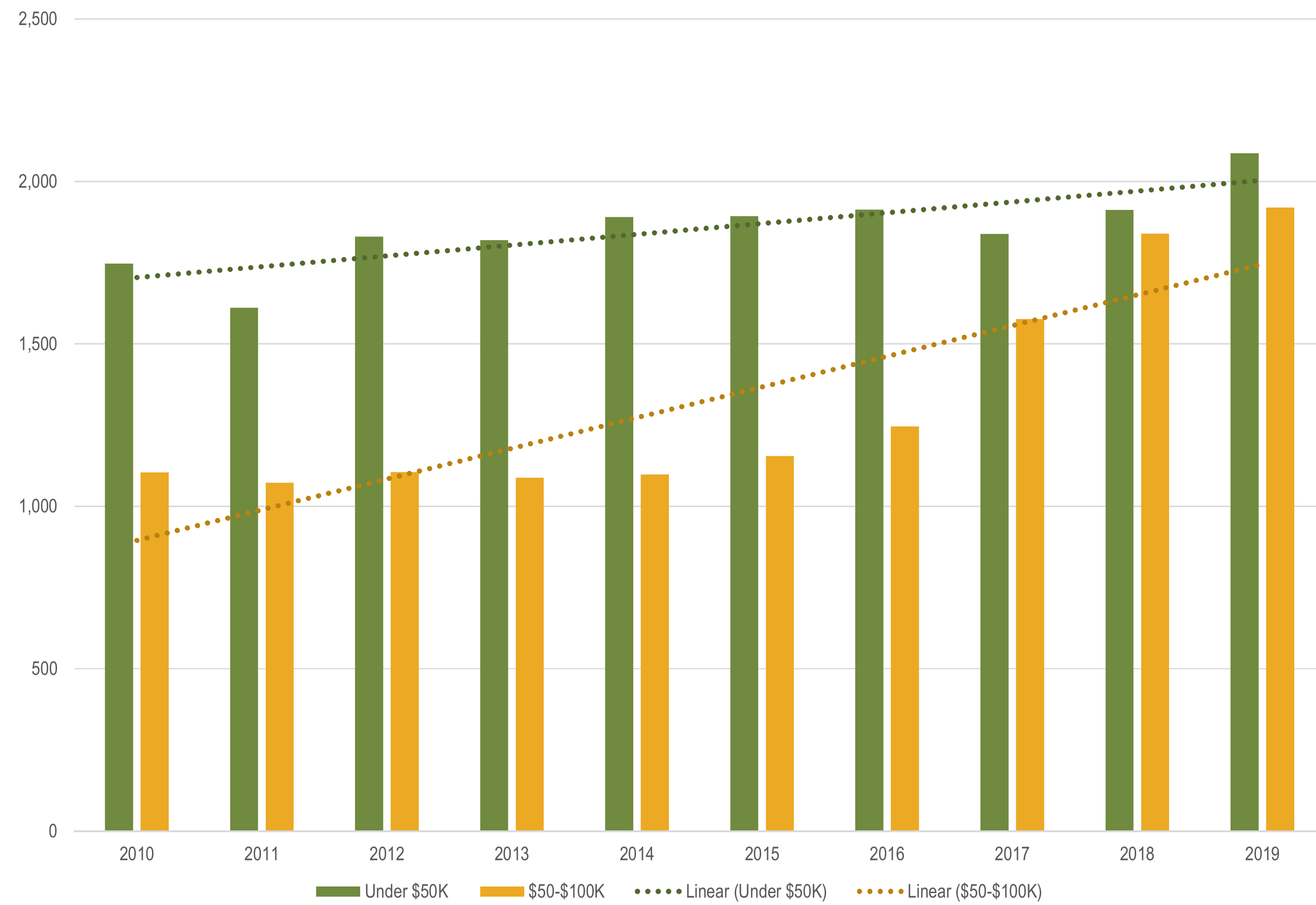
Annual Distribution of Population by Race
Relevant Census Tracts
2010-2019



Source: American Community Survey 5-Year Estimates

Exhibit 14

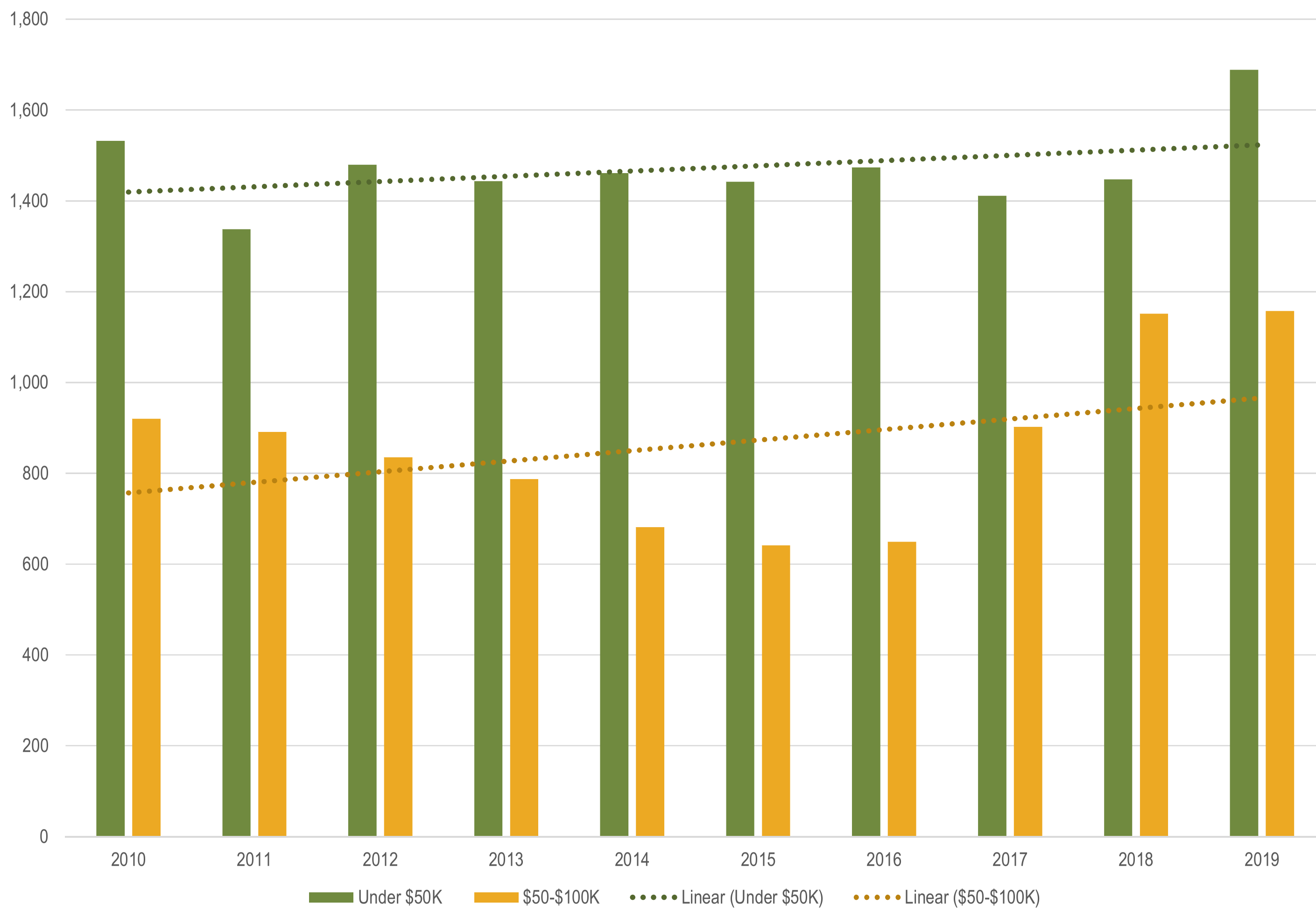
Year Over Year Households by Income Band
Relevant Census Tracts
2010-2019



Source: American Community Survey 5-Year Estimates

Exhibit 15

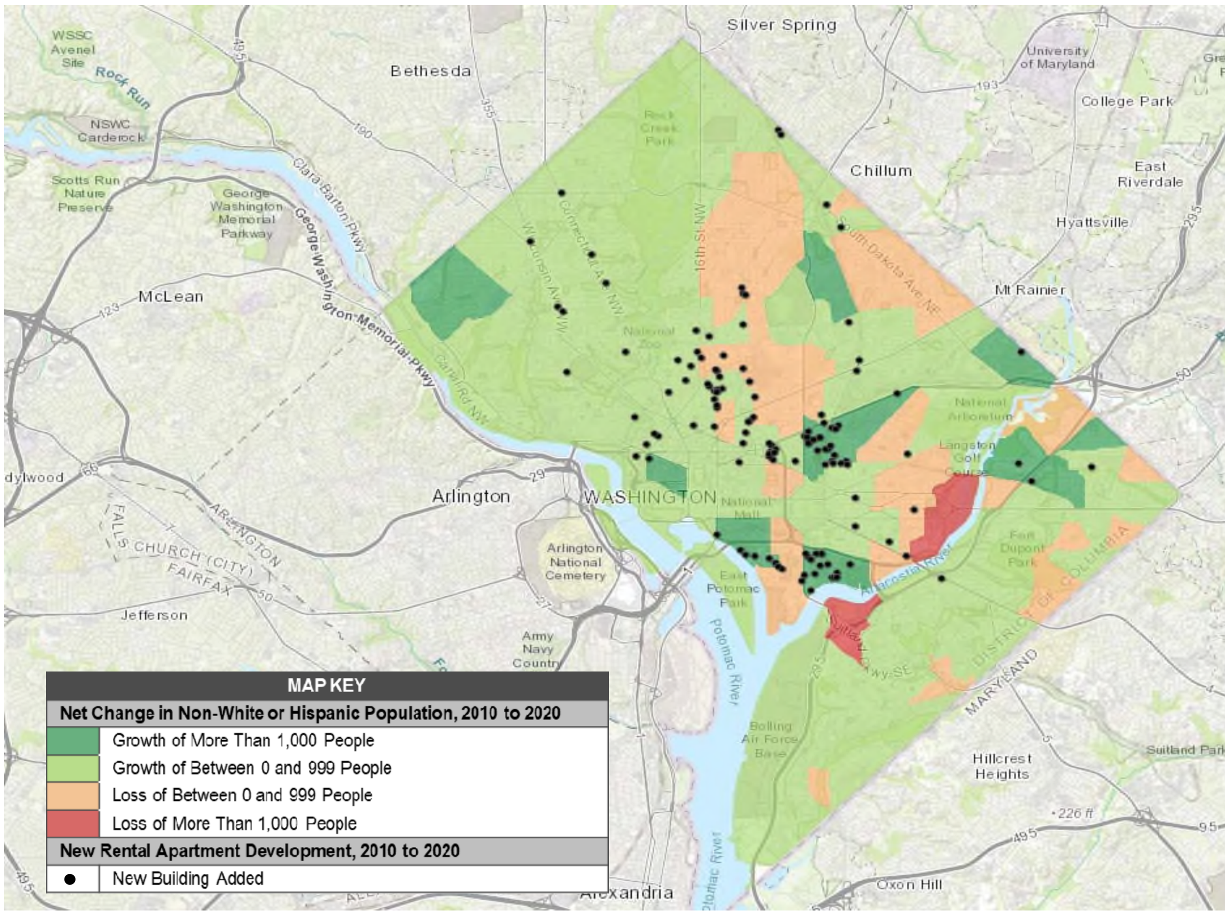
Year Over Year Non-White and/or Hispanic Households by Income Band
Relevant Census Tracts
2010-2019



Source: American Community Survey 5-Year Estimates

Exhibit 16

Map of Change in Non-White and/or Hispanic Population and New Rental Apartment Development
Washington, D.C.
2010-2020



Looking at census tract-level data for Washington, D.C., the net change in population identifying as non-White and/or Hispanic from 2010 to 2020 was moderately correlated with the number of apartment units delivering during that time period (r = 0.58). Moreover, the two census tracts with the largest amount of rental apartment development also saw the largest net increases in non-White and/or Hispanic residents.

This analysis suggests that, during that time period, census tracts without any rental apartment construction were more likely to see a net reduction in the number of non-White and/or Hispanic residents than census tracts

Note: Above map includes buildings delivered between January 1, 2010 and December 31, 2019.

Source: U.S. Census Bureau; DC Office of Planning; Axiometrics; RCLCO

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Exhibit 17

Estimated Job Creation
Proposed Development
December 2021

PERMANENT JOBS

LAND USE	ASSUMPTION[1]	PROGRAM	EMPLOYMENT RATIO[2]	IMPLIED EMPLOYMENT
Rental Apartment		379 Units	0.03 / Unit	11
Commercial		45,477 SF	267 / SF	171
Shops	*50.0%*	*22,739 SF*	*400 / SF*	*57*
Restaurants	*50.0%*	*22,739 SF*	*200 / SF*	*114*
TOTAL PERMANENT JOBS				**182**

CONSTRUCTION JOBS

VARIABLE	ASSUMPTION
Per $1,000 of Construction Value	**$1,000**
x Percent Labor[2]	45% of Hard Costs
Est. Labor Costs Per $1,000 of Construction Value	**$450**
Square Feet of Development	**420,864 SF**
x Est. Hard Costs[1]	$350 / SF
Est. Construction Value	**$147,302,400**
Avg. Annual Construction Wages[3]	**$74,507**
x Additional Value of Benefits[2]	20% Beyond Wages
Total Annual Labor Cost Per Employee	**$89,409**
÷ Hours Worked Per Week	40 Hours / Week
÷ Weeks Worked Per Year	50 Weeks / Year
Annual Labor Cost Per Hour	**$44.70**
Est. Labor Costs Per $1,000 of Construction Value	**$450**
÷ Annual Labor Cost Per Hour	$44.70
Man Hours Per $1,000 of Construction Value	**10.1**
Est. Construction Value	**$147,302,400**
x Man Hours Per $1,000 of Construction Value	10.1
Man Hours	**1,482,768**
÷ Hours Worked Per Week	40 Hours / Week
÷ Weeks Worked Per Year	50 Weeks / Year
TOTAL FTE CONSTRUCTION JOBS	**741**

[1] Based on information provided by EDENS
[2] Reflects assumptions from RCLCO based on industry experience and previous work in the District
[3] Based on 2019 County Business Patterns for Washington, D.C.
Source: RCLCO