Memorandum

DATE: March 13, 2017

TO: Vision McMillan Partners

FROM: Leonard Bogorad, Managing Director, RCLCO

SUBJECT: Review of Fiscal and Economic Impact Analysis; Analysis of Argument that the McMillan Redevelopment Will Cause Gentrification, Destabilization of Property Values, and Displacement

RCLCO (Robert Charles Lesser & Co.) was retained by Vision McMillan Partners (the "Applicant") to review *McMillan Redevelopment Fiscal & Economic Impact Analysis: Revised Program*, dated June 2011, prepared by Green Door Advisors (GDA); and to evaluate whether the McMillan redevelopment will cause gentrification, destabilization of land values, and displacement of neighborhood residents in the surrounding neighborhoods.

RCLCO has extensive experience conducting fiscal and economic impact analyses for public and private sector clients, and has worked on such projects as DC USA, future development in the NoMa area and the area near the ballpark, Downtown Silver Spring, and National Harbor.

FISCAL AND ECONOMIC IMPACTS OF THE MCMILLAN REDEVELOPMENT

Fiscal Benefits of the McMillan Redevelopment

RCLCO reviewed the GDA analysis, as we did in November 2014, and we continue to conclude that it was very well done and used the same approach that RCLCO has used in conducting analyses for the District government, Montgomery County, Loudoun County, and numerous private developments. Our review indicates that the planned development would generate an exceptional level of total revenues and net fiscal benefit to the District. Specifically, GDA determined that over a 30-year period the McMillan Redevelopment would generate $1,183,055,000 ($1.183 billion) in District revenues and result in a net fiscal benefit to the District after taking account of expenditures of $873,771,200 (approximately $874 million).

In 2014, we examined whether the impact would be different with the revisions that had been made in the development program since 2011. We found that the changes to the development program would not have a material impact on the very positive results in the GDA study, and would probably result in an even more positive fiscal impact.

Furthermore, because home prices and construction costs increased beyond the rate of inflation between 2011 and 2014, we concluded that if anything a study conducted in 2014 would likely have found even more positive fiscal impacts than GDA did in 2011 due to higher real property taxes and construction worker income taxes.

Because home prices and construction costs are at least as high as they were in 2014, in all likelihood a study conducted today would show at least as positive fiscal impact results as in 2014.

Some opponents of the development have argued that the planned medical office space might end up being exempt from real property taxes. We are not aware of any pending legislation that would make the office space on the site exempt from real property taxes, and we understand from the Applicant that medical office space users they have been talking with are not aware of anything of this sort. Nevertheless, in 2014 we modified the GDA analysis to make the extreme, entirely hypothetical assumption that all of the office space would be exempt from real property taxes, and this reduced total revenues to the District over the next 30 years by 29.9%, which would still make the development exceptionally positive to the District with gross revenues over 30 years of over $825 million.

Jobs on the McMillan Redevelopment Site

In 2014 we also reviewed the GDA approach to estimation of construction and permanent employees, and we concluded that the approach was correct. Therefore, we found that the conclusions that the planned development would have approximately 3,000 construction jobs on an annual full-time equivalent basis, and approximately 3,000 permanent employees, were reasonable. If anything, the revised higher office development cost estimates that were provided to us by the Trammell Crow Company in 2014 led us to conclude that even more construction jobs will be created than GDA estimated, and the same would be true today.

With respect to the impact of the development on permanent employment, the planned development offers the exceptional opportunity to complement the nearby hospitals in a way that sites elsewhere in the city could not. Healthcare is one of the most important industries in the city, and it is very important to take advantage of a site that is so proximate to hospitals to generate additional economic activity. Furthermore, providing approximately 3,000 new permanent jobs in Ward 5 is exceptionally valuable given that as of December 2016 (preliminary), 2,870 residents of Ward 5 were unemployed, representing an unemployment rate of 6.7%, considerably higher than the 5.8% rate for the District as a whole.[1] Several components of the PUD are designed to help target Ward 5 residents, as described in greater detail below.

Summary of Fiscal and Economic Impacts

In summary, there is no doubt that the planned development would generate exceptional fiscal, economic, and employment benefits for the District, taking advantage of its proximity to a unique concentration of medical institutions. Providing thousands of jobs in a ward with an unemployment rate that is above the District average will also provide particularly valuable benefits to residents of the surrounding neighborhood and the District as a whole.

[1] D.C. Department of Employment Services. https://does.dc.gov/node/184512

POTENTIAL IMPACTS OF THE MCMILLAN REDEVELOPMENT ON GENTRIFICATION, DESTABILIZATION OF PROPERTY VALUES, AND DISPLACEMENT OF NEIGHBORHOOD RESIDENTS AND BUSINESSES

The Court of Appeals Order

The Friends of McMillan Park ("FOMP") petitioned the District of Columbia Court of Appeals to review Order No. 13-14 of the Zoning Commission for the District of Columbia (the "Commission") approving the application for the McMillan Redevelopment Planned Unit Development ("McMillan Redevelopment" or "PUD"). A division of that court decided to "vacate the Commission's order and remand for further proceedings." *Friends of McMillan Park v. D.C. Zoning Comm'n*, 149 A.3d 1027, 1035 (D.C. 2016) (the "Opinion").

The Opinion stated that "FOMP argues that the Commission failed to adequately consider the PUD's potential effects on neighboring property values and the risk that neighborhood residents would be displaced. The Comprehensive Plan specifically addresses the topics of property values and displacement. *E.g.*, 10-A DCMR §§ 205.6, 218.1, 218.3, 508.1, 2502.5 (2016). The Commission therefore must appropriately address those topics when deciding whether a PUD is consistent with the Comprehensive Plan and whether a PUD would have adverse effects (Opinion, p. 18)." The Opinion proceeded to determine that "On remand, the Commission should explicitly address FOMP's arguments concerning issues of gentrification,[2] land values, and displacement (Opinion, p. 19)."

The Commission's Notice of Limited Scope Public Hearing

Pursuant to the Opinion, the Commission issued a Notice of Limited Scope Public Hearing (the "Notice") that included Issue No. 4 (A): "Will the PUD result in…destabilization of land values, or displacement of neighboring residents…?" The Notice also stated that "The Applicant has the burden of proof as to all the issues."

RCLCO's Analysis Regarding the Opinion and the Issue in the Notice

RCLCO was retained by McMillan Partners to analyze the extent to which the McMillan Redevelopment will have adverse effects in terms gentrification, destabilization of property values, or displacement of neighboring residents and businesses.

Relevant Comprehensive Plan Provisions

RCLCO reviewed the sections of the Comprehensive Plan noted in the Opinion, as well as various other relevant passages.

We conclude that the Comprehensive Plan (1) sees a need for substantial new housing in the District; and (2) believes that infill sites such as McMillan offer some of the best opportunities to meet this need, in part because development of these sites would not require demolition of existing housing. We agree with these provisions of the Comprehensive Plan. For example, the Comprehensive Plan states:

> Despite these limitations [building height limits, historic districts, other fully developed areas], there is room for growth in the District of Columbia. Key opportunities include government lands, underused commercial and industrial sites, and vacant buildings…. There are also hundreds of small "infill" sites scattered throughout the city…. Together, these areas hold the potential for thousands of new units of housing and millions of square feet of office and retail space. (10 DCMR § 205.5).

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[2] Various experts and observers have offered a range of definitions of gentrification. These typically include increases in housing values relative to a larger area, and an increase in the number or proportion of wealthier residents. Jackson, Jeremy (2008). Agent-Based Simulation of Urban Residential Dynamics: A Case Study of Gentrifying Areas in Boston. Thesis submitted to McGill University.

> Change in the District of Columbia is both inevitable and desirable. The key is to manage change in ways that protect the positive aspects of life in the city and reduce negatives such as poverty, crime, and homelessness. (10 DCMR § 217.1).
>
> The District needs both residential and non-residential development to survive. Non-residential growth benefits residents by creating jobs and opportunities for less affluent households to increase their income (10 DCMR § 217.4).
>
> Much of the growth that is forecast during the next 20 years is expected to occur on large sites that are currently isolated from the rest of the city. Rather than letting the sites develop as gated or self-contained communities, they should become part of the city's urban fabric through the continuation of street patterns, open space corridors and compatible development patterns where they meet existing neighborhoods. Since the District is landlocked, its large sites must be viewed as extraordinarily valuable assets. Not all should be used right away – some should be "banked" for the future. (10 DCMR § 217.5).
>
> Large sites in the District include about a dozen properties or clusters of adjoining properties, with the potential for reuse during the next 20 years…. They include…sites that are largely vacant, such as Poplar Point and the McMillan Reservoir Sand Filtration site. These sites hold many possibilities for the future, from large mixed use communities to new parks and open spaces…. (10 DCMR § 213.5).

It is notable that increasing home prices and rents, and the related gentrification, were already well-established trends when the Comprehensive Plan was adopted 11 years ago in 2006. Based on data through 2004 or 2005, 12 to 13 years ago, the Comprehensive Plan concludes:

> In the eight years since the Comprehensive Plan was last amended, there has been a tremendous increase in housing demand, driven by demographic shifts, low interest rates, regional economic growth, falling crime rates, renewed confidence in District government, and improvements in public services. The increase in demand has propelled a steep upward spiral in housing costs, impacting renters and homeowners alike. (10 DCMR § 500.6).
>
> Prices have risen everywhere, but have gone up most rapidly in the older neighborhoods to the north and east of downtown. Parts of Capitol Hill, Shaw, Columbia Heights, and Eckington experienced annualized sales price increases of over 20 percent a year between 1999 and 2004. Even neighborhoods east of the Anacostia River experienced double-digit inflation during this time period. Price increases in the affluent neighborhoods west of Rock Creek were less dramatic but were already out of reach for most District residents even before 2000. (10 DCMR § 504.2).
>
> The District has been losing affordable housing rapidly over the past five years, both through the expiration of federal subsidies and through rising market rents and sales prices…. (10 DCMR § 508.2).

As discussed later in this report, it is highly misleading to blame developments that include a range of new housing, such as the McMillan Redevelopment, for rising property values and gentrification. To the contrary, the Comprehensive Plan clearly recognizes that development of new housing is a critical way to address a tight housing market that was already contributing to increasing home prices and rents more than 10 years ago:

> The housing shortfall will continue to create a market dynamic where housing costs increase faster than incomes. Consistent multi-jurisdictional efforts are needed to increase the supply of housing to better meet demand…. (10 DCMR § 500.14).

> The District must increase its rate of housing production if it is to meet current and projected needs through 2025…. (10 DCMR § 502.2).

> Expanding the housing supply is a key part of the District's vision to create successful neighborhoods…. It is also key to improving the city's fiscal health….The first step toward meeting this goal is to ensure that an adequate supply of appropriately zoned land is available to meet expected housing needs. (10 DCMR § 503.1).

Furthermore, the Comprehensive Plan recognizes that housing development on vacant sites is particularly helpful, in part because it does not involve conversion or demolition of existing housing. One of the clear concerns expressed in the Comprehensive Plan is the demolition of affordable housing or the "conversion or renovation of affordable rental housing to more costly forms of housing" (10 DCMR § 509.7), and a vacant site such as McMillan does not involve any demolition of affordable housing.

> The pending availability of several large sites for redevelopment creates housing construction opportunities that did not exist five or ten years ago. (10 DCMR § 500.12).

> Strongly encourage the development of new housing on surplus, vacant and underutilized land in all parts of the city. Ensure that a sufficient supply of land is planned and zoned to enable the city to meet its long-term housing needs, including the need for low- and moderate-density single family homes as well as the need for higher-density housing. (10 DCMR § 503.4).

> Accommodate a significant share of the District's projected housing demand in "new neighborhoods" developed on large sites formerly used for government functions. In addition to housing, these neighborhoods must include well-planned retail, public schools, attractive parks, open space and recreation, as well as needed supportive services. The new neighborhoods should include a variety of housing types, serving a variety of income levels. (10 DCMR § 503.8).

Another key theme in the Comprehensive Plan is that the development of new affordable housing is an important way to help address the increasing rents and home prices, and that inclusion of affordable housing in new housing developments is particularly valuable. This highlights the importance of the new housing, including 134 affordable units, planned for the McMillan Redevelopment.

> New inclusionary zoning legislation will soon require affordable units to be included in many market-rate projects (10 DCMR § 500.12).

> [A] pending inclusionary zoning ordinance would require affordable units within future market-rate residential development of 10 units or greater. (10 DCMR § 504.5).

It is also noteworthy that the Comprehensive Plan highlights that increasing home values are not inherently bad, as they can be a helpful source of wealth for existing neighborhood residents.

> For existing residents who are already homeowners, the price surge has been a source of wealth as their homes have appreciated in value. (10 DCMR § 500.12).

The Comprehensive Plan also points out the value of non-residential development to District residents, and particularly to those who are less affluent:

> The District needs both residential and non-residential growth to survive. Non-residential growth benefits residents by creating jobs and opportunities for less affluent households to increase their income. (10 DCMR § 217.4).

On balance, we conclude that the Comprehensive Plan recognizes that gentrification was an established trend well before 2006, and that new developments of large vacant parcels such as McMillan, which provide new housing, new affordable housing, and non-residential growth that benefits residents of nearby neighborhoods, are positive ways to help meet the District's needs and counteract some of the adverse impacts of gentrification.

The Surrounding Neighborhoods Have Already Been Experiencing Home Price and Rent Increases for Years, They Have Reached High Levels, Gentrification Is Well Underway, and the Redevelopment Will Not Have a Significant Impact on this Established Trend

RCLCO's analysis determined that the neighborhoods surrounding the McMillan Redevelopment site have been experiencing home price increases for years, and gentrification is well underway. The McMillan Redevelopment will not set gentrification in motion; rather, gentrification is already occurring without any impetus from the McMillan Redevelopment.

- **Home prices near the McMillan Redevelopment site have been increasing faster than in other neighborhoods.** As shown on Exhibit I-1, condominiums that sold in 2016 in Bloomingdale/LeDroit Park appreciated faster since their last sale than condominiums that were sold in 2016 in Dupont Circle. Condos purchased between 2003 and 2007 and sold in 2016 appreciated at an average rate of 2.6% annually in Bloomingdale/LeDroit Park, as compared with 2.0% annually in Dupont Circle. The gap in value appreciation grows for condos purchased more recently: condos purchased between 2008 and 2010 appreciated at an average annual rate of 4.1% in Bloomingdale/LeDroit Park compared with 2.9% in Dupont Circle. Most recently, condos purchased between 2011 and 2014 appreciated by 6.4% annually in Bloomingdale/LeDroit Park and only 3.8% annually in Dupont Circle.

  The pattern is even more dramatic for rowhome sales in 2016 in the two neighborhoods. As shown on Exhibit I-2, rowhomes in Bloomingdale/LeDroit Park appreciated at a rate of 6.8% to 9.9% per year since their last sale, while rowhomes in Dupont Circle appreciated at a rate of 2.9% to 3.3%. This trend of homes that were purchased in Bloomingdale/LeDroit Park appreciating by a higher and increasingly greater rate is illustrative of the gentrification that is actively occurring there. By contrast, value appreciation for condos in Dupont Circle was more consistent and of a smaller magnitude, regardless of the condo's purchase date, reflecting the fact that Dupont Circle is already gentrified and that values have since stabilized.

  An analysis of the change in median single-family home sale price provides further evidence of the accelerated price growth occurring near the McMillan Redevelopment site. Data from Neighborhood Info DC, a project of the Urban Institute (Exhibit I-3), shows that the median single-family home sale price, in constant dollars, for the cluster of McMillan Reservoir-adjacent neighborhoods (Edgewood, Bloomingdale, Truxton Circle, and Eckington) increased 76% between 2010 and 2015, as compared with 19% for the District overall. As a result, median single-family home prices in this neighborhood cluster were higher than the overall Washington, D.C., median single-family sale price beginning in 2013. Whereas in 2010 the neighborhood cluster's median sale price was $167,000 below the citywide median, the cluster's median price was $25,000 above the citywide median price in 2015 (all in 2015 dollars).

- **Home prices near the McMillan Redevelopment site have reached high levels.** Not only is the area's median single-family home price above the District-wide median, home prices are also higher than in some of the District's most established neighborhoods. For example, Exhibit I-4 shows that the average resale condominium price in Bloomingdale/LeDroit Park in 2016 was $496,400, $39,000 more than the average resale condominium in Dupont Circle, which is regarded as one of the most expensive neighborhoods in the District. The difference is due in part to the significantly larger average size of condos in Bloomingdale versus those in Dupont Circle. The average size of Dupont Circle condos sold in 2016 was 725 square feet, while the average for Bloomingdale/LeDroit Park was 950 square feet. Average rowhome prices (Exhibit I-5) are not as high in Bloomingdale/LeDroit Park as in Dupont Circle (the average sale price in 2016 was

$818,400 and $1,133,800, respectively), but the prices in Bloomingdale/LeDroit are much higher than in ungentrified neighborhoods. Furthermore, condo prices already demonstrate that there is a higher barrier to entry to purchasing in Bloomingdale/LeDroit Park today than in some of the most premiere neighborhoods in the District. This is particularly important because a relatively large share of its housing stock is owner-occupied: the ownership rate is 52% in Bloomingdale/LeDroit Park, compared with 39% in U Street and 29% in Dupont Circle (Exhibit I-6).

- **Rents in the surrounding neighborhood are increasing faster than in the District as a whole.** The median rent in North Bloomingdale—defined as the Bloomingdale census tract that is north of Rhode Island Avenue that includes the McMillan Redevelopment site—increased 64% between 2009 and 2015, as compared with 37% in the District as a whole (Exhibit I-7). This is exemplified by U.S. Census Bureau figures estimating that in 2009, only 29% of renter households in Bloomingdale paid more than $2,000 in monthly rent. In 2015, the share of renter households paying rent of $2,000 or more had increased to 50% (Exhibit I-8).

- **Rents have reached levels that are higher than in other neighborhoods.** The U.S. Census Bureau reports that the median rent in North Bloomingdale was $2,260 in 2015, or 70% higher than the median rent in Washington, D.C., overall (Exhibit I-7). Based on the rule of thumb that a household can afford to pay up to 30% of its gross income in rent, the median renter household in North Bloomingdale needs an income of at least $90,500 per year to be able to afford to live there, $37,400 more than in the District overall.

- **In fact, the median rent in North Bloomingdale is higher than in many other census tracts in the most affluent part of the District.** Other census tracts with median rents of $2,000 or more include those in such neighborhoods as U Street, Georgetown, and the West End, meaning that North Bloomingdale rents already place it in the same range as many of the District's most expensive neighborhoods, including other gentrified areas such as U Street (Exhibit I-9).

These findings regarding current pricing and price growth in the neighborhoods adjacent to McMillan Reservoir make it clear that the McMillan Redevelopment will not set gentrification in motion; rather, gentrification is already occurring without any impetus from the McMillan Redevelopment.

This is consistent with two studies that examined changes in the District's relative incomes, home values, and educational attainment by census tract to come to the same conclusion: that gentrification is already occurring in the area surrounding the McMillan Redevelopment site.

- A study by *Governing* magazine found that the Bloomingdale and LeDroit Park census tracts, which includes the McMillan Redevelopment site, have already gentrified (see Exhibit I-10 for map).[3] The study, whose methodology was adapted from a widely cited gentrification paper by Columbia University professor Lance Freeman, concluded that the portion of Bloomingdale south of Rhode Island Avenue (census tract 33.02) gentrified between 1990 and 2000, while the other census tracts gentrified between 2000 and 2013.[4]

- A 2013 study by researchers at Bowie State University and George Washington University, and the D.C. Office of the Chief Financial Officer, also concluded that the LeDroit Park/Bloomingdale neighborhood were gentrifying during the 2001 to 2010 period (see Exhibit I-11 for map).[5] This study used a slightly different methodology in which gentrification status was based on change in

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[3] Study available here: http://www.governing.com/gov-data/washington-dc-gentrification-maps-demographic-data.html

[4] 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 40th 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 decade 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 decade was also in the top third percentile.

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

the indexed median income by census tract, in addition to increases in indexed property values by property type.[6]

Therefore, multiple study methodologies that have surveyed changes in a variety of factors have all still pointed to the conclusion: gentrification is already present in the area near the McMillan Redevelopment site.

Furthermore, with gentrification so far underway in the surrounding neighborhoods because of continuing growth, change, and housing demand relative to supply that have no relationship to McMillan, there is no reason to conclude that the McMillan Redevelopment will have a significant impact on this established trend of home price and rent increases. A comprehensive 76-page review of the scholarly literature regarding gentrification and displacement discussed numerous causes of gentrification that were identified in many different studies, and none of these involved attributed gentrification to projects such as the McMillan Redevelopment.[7] A study by Jeremy Jackson cited in the literature review observed no relationship between large-scale neighborhood investment projects and changes in nearby rents.[8]

One of the Causes of Higher Housing Prices and Rents Is an Imbalance between Demand and Supply, so Development of New Housing Is Critical

As noted in the Comprehensive Plan, development of new housing is very important for the District. The McMillan Redevelopment will result in the creation of 677 new housing units—rental and ownership, single-family and multifamily, in a range of prices and rents.

Academic studies and articles written from a wide range of political perspectives are increasingly finding that 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. As Slate columnist 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.[9]

Similarly, Richard Florida 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.[10] Other economists making the same point range from Edward Glaeser of Harvard University writing for the Cato Online Forum[11] 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.[12]

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[6] 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.
[7] Zuk, M. et al. (2015). Gentrification, Displacement and the Role of Public Investment: A Literature Review.
[8] 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.
[9] *Slate Moneybox*, April 4, 2013.
[10] Florida, R. (2016). How Zoning Restrictions Make Segregation Worse. *The Atlantic Citylab*.
[11] Glaeser, E. (2014). Land Use Restrictions and Other Barriers to Growth. *Cato Online Forum*.
[12] Krugman, P. (2015). Inequality and the City. *New York Times*.

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.[13]

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 neighborhoods in the Bay Area suggests a link between increased construction of market-rate housing and reduced displacement.[14]

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.

Closer to home, a diverse group of D.C. business groups, tenants' groups, developers, affordable housing advocates, faith groups, and over 250 residents recently agreed on 10 priorities for revision of the District's Comprehensive Plan. The first of the priorities in the DC Housing and Development Priorities Statement that they agreed on is as follows:

> **Meet the housing demand.** Through the Comprehensive Plan, the District should forecast, plan for, and encourage the creation and preservation of a supply of housing (market-rate and subsidized affordable) to meet the demand at all income levels. The supply of housing should be sufficient to slow rising costs of rental and for-sale housing.[15]

RCLCO's analysis found that the beneficial effects of new housing production can be seen in the District in the past few years. The increase in apartment construction at a District-wide level is having a measurable impact on rent growth. As the amount of new apartment construction has increased, average annual rent growth has trended down. In 2011 and 2012, a period during which only 2,088 apartments were built, rents grew between 2.3% and 2.5% annually. In the four years that followed, an additional 10,696 apartments were built, and rents only grew by 1.7% in 2015 and 0.9% in 2016 (Exhibit I-12). As all of the new buildings compete for leases, the market is becoming more price-competitive.

[13] Furman, J. (2015). Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents. Remarks to the Urban Institute.
[14] Legislative Analyst's Office (2016). Perspectives on Helping Low-Income Californians Afford Housing.
[15] http://dchousingpriorities.org/

The McMillan Redevelopment Will Not Result in Any Direct Displacement of Neighborhood Residents

As also noted in the Comprehensive Plan, it is particularly advantageous for new housing and other development to occur on vacant sites such the McMillan Redevelopment site, as it will add needed new housing, services, employment, and other neighborhood benefits without demolishing or directly displacing any existing residents or businesses. As David Alpert, founder and president of Greater Greater Washington, wrote recently in the *Washington Post*, "Not building a building doesn't help a low-income person find a place to live. Nobody has ever found a home because a court kept a vacant lot vacant."[16]

The McMillan Redevelopment's Provision of New Affordable Housing Will Be Particularly Valuable

Over and above the benefits of creating new housing at all price levels, development of new affordable housing will help to directly mitigate increasing property values and rents, decreases in affordable housing, and potential displacement of existing neighborhood residents.

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 above, the neighborhoods surrounding the McMillan Redevelopment site already have strong housing markets.) The report noted that one approach was for for-profit developers to include affordable units in their projects,[17] as will occur at the McMillan Redevelopment.

The McMillan Redevelopment will create 134 affordable units, or 20% of total new housing, which greatly exceeds the 8% set aside that would be required under current Inclusionary Zoning regulations. Affordable housing will include:

- 85 senior affordable units, all of which will be devoted to households with incomes 50-60% of the median family income ("MFI").

- 22 for-sale single-family row townhomes that will be set aside to households with incomes no greater than 50% of MFI (9 units) and 80% of MFI (13 units).

- Approximately 27 rental apartments that will be set aside for households with incomes no higher than 50% of MFI (2 units) and 80% of MFI (25 units).

A New Park Alone Would Probably Raise Property Values Close to the Site

Even if home values and rents were not already increasing in the neighborhood independent of the McMillan Redevelopment, eliminating McMillan's planned residential and commercial improvements would also not be sufficient to prevent property values from increasing because the new park favored by FOMC would likely increase property values.

A large body of academic research spanning over 50 years has consistently found that parks and open space have a positive impact on nearby property values. A review of the literature suggests that as a rule

[16] Alpert, D. (February 3, 2017). A Setback for Housing in the District. *Washington Post*.
[17] 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.

of thumb, park-adjacent properties command a 20% value premium.[18] A selection of the most recent relevant studies are summarized below:

- Sielski (2002)[19] studied the impact of Jackson Park, a 25-acre park in the Village of Germantown northwest of Milwaukee, on property values. The study found that 19.2% of the assessed value of properties within 200 feet of Jackson Park was attributable to the park.

- Miller (2001)[20] analyzed the impact of 14 neighborhood parks in single-family housing neighborhoods in the Dallas-Fort Worth region by studying 3,200 residential sales transactions over a 2.5-year period. The parks were selected because of their average quality in order to estimate the impact of even "intermittently maintained" park space on home prices, as well as their distance from large roads, retail centers, or other area amenities so as to better isolate the effect of the park. The study found that homes adjacent to the parks had a price premium of 22% compared to control properties a half-mile away.

- Bolitzer and Netusil (2000)[21] examined over 16,000 single-family home sales relative to 193 parks over a three-year period in Portland, Oregon. The study concluded that the park premium was between 5.3% and 7.6% for properties within 500 feet of a park.

- Nicholls and Crompton (2005)[22] analyzed the impact of the Barton Creek Greenbelt and Wilderness Park, a 171-acre natural area west of downtown Austin, Texas, using three years of sales data for single-family homes adjacent to the greenbelt, controlling for neighborhood differences. The study found that the average sales price for park-adjacent homes in the Barton neighborhood, where park-adjacent homes enjoyed both high quality views and access to the park, was 20% higher than the average price for the entire neighborhood.

- Ernst and Young (2003)[23] conducted a study of the impact of major renovations in select New York City parks, comparing the sales prices of properties within 1-2 blocks of a given park to sales prices of control properties located 3-4 blocks from the same park. At the 11-acre St. Albans Park, sales prices for park-adjacent properties were negligibly higher than the control group prior to the park's renovations; however, after park improvements were made, the park-adjacent properties sold for 19% more.

The McMillan Redevelopment Will Generate Jobs and Provide Advantages for Local Residents

RCLCO estimates that the non-residential development on the McMillan Redevelopment site will have approximately 3,000 permanent jobs in a wide range of incomes—particularly in the fast-growing medical field—along with approximately 3,000 construction jobs on an annual full-time equivalent basis. Some of the employees are likely to be neighborhood residents, which will increase their ability to stay in an area that is already experiencing housing price and rent increases.

Furthermore, the Applicant has committed to undertake various steps that will make it more likely that neighborhood residents will be able to take advantage of the employment opportunities:

[18] Crompton, J. L. (2005). The Impact of Parks on Property Values: Empirical Evidence from the Past Two Decades in the United States. *Managing Leisure*, 10, 203-218.
[19] Sielski, D. M. (2002). The Impact of Parks on Residential Property Values: An Analysis of Two Parks within Washington County, Wisconsin. University of Wisconsin: Madison, WI.
[20] Miller, A. R. (2001). Valuing Open Space: Land Economics and Neighborhood Parks. MIT Center for Real Estate: Cambridge, MA.
[21] Bolitzer, R. and Netusil, N. R. (2000). The Impact of Open Spaces on Property Values in Portland, Oregon. *Journal of Environmental Management*, 59, 185-193.
[22] Nicholls, S. and Crompton, J. L. (2005). The Impact of Greenways on Property Values: Evidence from Austin, Texas. *Journal of Leisure Research*, 37:3, 321-341.
[23] Ernst & Young, New York for Parks (2003). Analysis of Secondary Economic Impacts of New York City Parks, New York.

- The Applicant is required to contribute $700,000 to the Community Foundation of the National Capital Region (“CFNCR”) to support workforce development initiatives to improve low-income workers skills, credentials, career prospects, earnings, and job placement.

- The Applicant is required to contribute $300,000 to the CFNCR to support scholarships for higher education training or job-related certification encouraging “legacy” careers paths, with a preference for Ward 1 and Ward 5 residents, to the extent permitted by law.

- The Applicant is required to contribute $500,000 to the McMillan Public Space Partnership (the “Partnership”) to hire high-school age and senior residents to provide guided tours of the McMillan site.

- The Applicant has executed a First Source Employment Agreement with the District Department of Employment Services to achieve the following:

    - Utilize District residents for at least 51% of the new jobs created by the McMillan Redevelopment and, to the extent permitted by law, give first preference to Ward 1 and Ward 5 residents.

    - Provide training, job fairs, and apprenticeship opportunities with construction trade organizations, or with healthcare facility and other organizations to maximize participation by District residents in the training and apprenticeship opportunities.

The McMillan Redevelopment Will Provide Amenities that Will Benefit Neighborhood Residents

The McMillan Redevelopment will also provide amenities such as a full-service supermarket and other neighborhood-serving retail; a public park, community center and pool; and additional healthcare services—all of which will benefit neighborhood residents of all income levels. The retail will also provide another source of potential jobs for neighborhood residents that would increase their capability to stay in a neighborhood that is already experiencing price and rent increases.

The Many Homeowners in the Surrounding Neighborhoods Benefit from Increasing Home Values

As noted in the Comprehensive Plan, the many homeowners in the neighborhood (as discussed above) have benefitted from the increase in home values that has been occurring in the surrounding neighborhoods, and will likely continue with or without the McMillan Redevelopment. Furthermore, the risk that neighborhood homeowners will be involuntarily forced to sell 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 $72,450 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 incomes of residents (other than tenants) of less than $128,950, the property tax is reduced by 50%.

- Tax Deferral for Low-Income Senior 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.

    - For seniors 75 and over with incomes of residents of less than $50,000 and interest and dividend income less than $12,500, who have lived in the 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: A recently adopted zoning provision allows owner-occupied homes to have an accessory apartment (Subtitle U § 201.1(d)), which was adopted to help homeowners stay in their homes even as property taxes and other housing costs increase.

The McMillan Redevelopment Will Not Result in the Direct Displacement of Any Businesses, and Will Provide Benefits to Local Businesses

The McMillan Redevelopment will not result in any direct displacement of commercial establishments as the site is currently vacant.

Furthermore, the McMillan Redevelopment site is in an area that has very little commercial presence, so there are very few businesses that would be potentially adversely affected by the new retail on the site. To the contrary, businesses that are located in the surrounding neighborhoods will benefit from the new residents and workers on the site.

In addition, the Applicant will be providing several benefits that will support local commercial businesses and help avoid/mitigate the potential for displacement of locally-owned commercial businesses, including:

- Certified Business Enterprises ("CBE") Participation—The Applicant has executed a CBE Agreement with the Department of Small and Local Business Development ("DSLBD") to achieve the following:

    - 35% participation by CBE in the contracted development costs for the design, development, construction, maintenance, and security of the McMillan project;

    - 20% CBE equity sponsorship participation.

- The Applicant is required to contribute $225,000 to the Partnership to facilitate business start-ups by awarding grants or in-kind services to small, local retail/service businesses looking to locate and operate on site to try out their retail/service concepts.

Overall Conclusions

- The neighborhoods surrounding the McMillan Redevelopment site are already experiencing increases in property values and rents that will likely continue whether or not the McMillan Redevelopment occurs. The McMillan Redevelopment will not set gentrification in motion; rather, gentrification is already occurring without any impetus from the McMillan Redevelopment. There is no reason to conclude that the McMillan Redevelopment will have a significant impact on this established trend of home price and rent increases.

- New housing in all price ranges, and specifically new affordable housing, are some of the best ways to mitigate increasing prices and rents, and these will be provided by the McMillan Redevelopment without the demolition or conversion of existing housing.

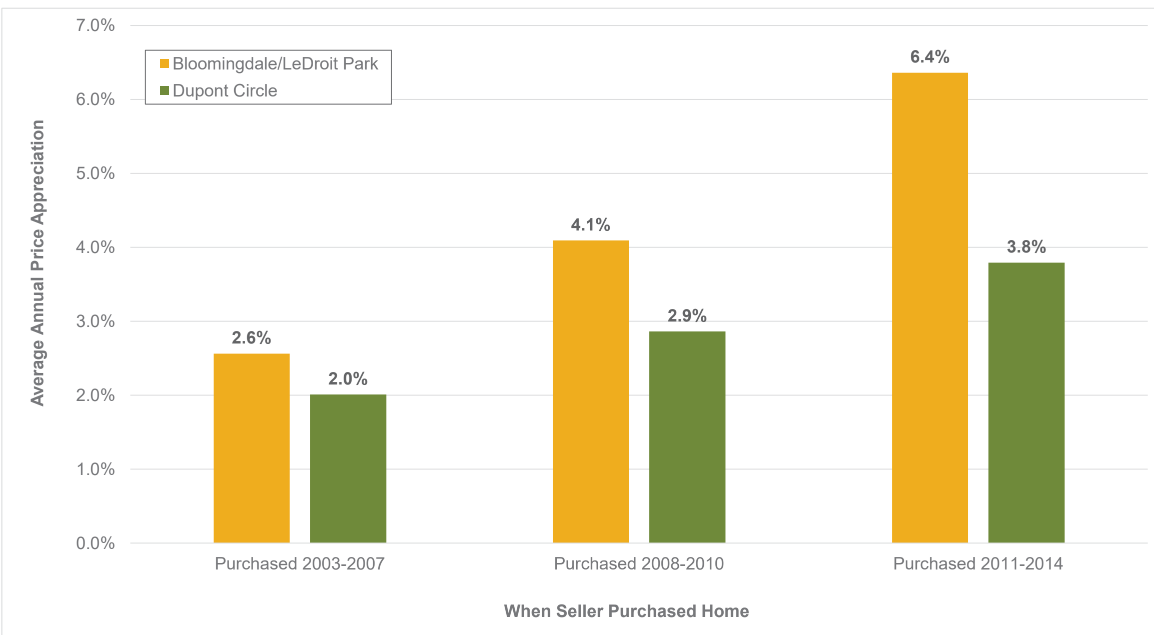
- The McMillan Redevelopment will provide jobs and job training that will be a potential source of income for neighborhood residents that will help them afford to stay in their existing homes.

- The McMillan Redevelopment will not cause displacement of existing businesses and in fact will be helpful to existing businesses.

- Overall, not only will the McMillan Redevelopment not add in any significant way to the gentrification that has already been occurring in the surrounding community, it will in fact mitigate many of the negative impacts of gentrification and deliver many positive impacts. The project will provide a significant number of jobs at all income levels in the healthcare sector; provide additional healthcare services to the community; provide a needed public park, community center, and pool for all residents; provide neighborhood-serving grocery and other retail; and provide affordable housing on a significant scale. These are exactly the types of benefits that are vital to offsetting the negative impacts of gentrification. It appears that the District has made a conscious decision to use McMillan in an effort to enhance quality of life for District residents, and particularly those who live closest to the project.

Exhibit I-1

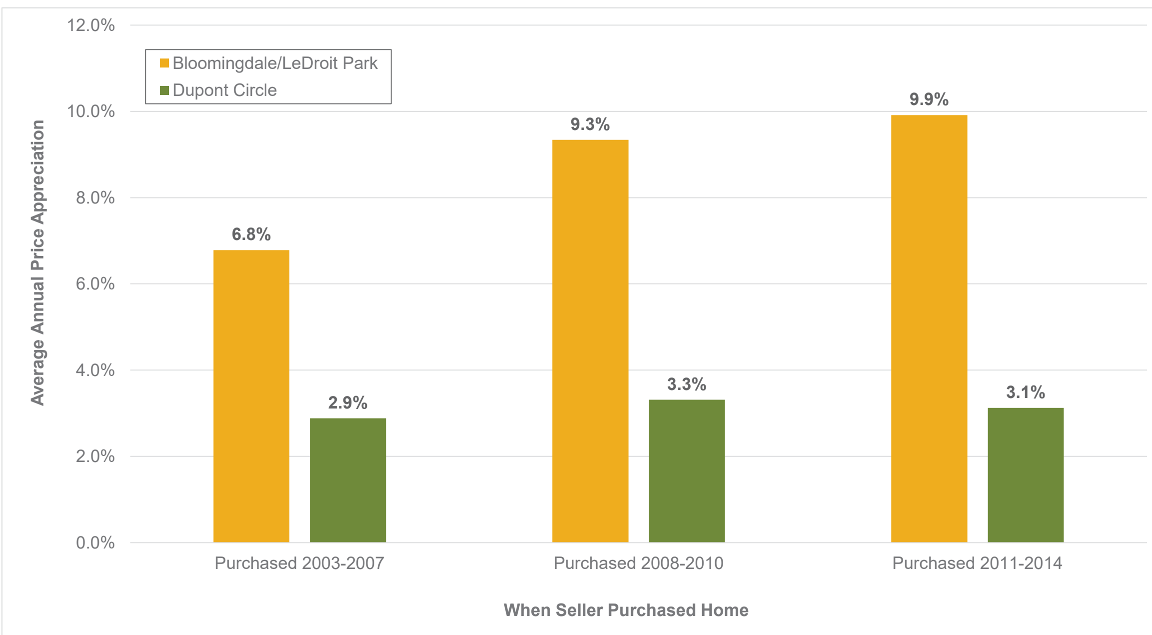
ANNUAL PRICE APPRECIATION SINCE SELLER PURCHASED HOME
BLOOMINGALE/LEDROIT PARK VERSUS DUPONT CIRCLE
2016 CONDO SALES



SOURCE: Redfin; Zillow; RCLCO

Exhibit I-2

ANNUAL PRICE APPRECIATION SINCE SELLER PURCHASED HOME
BLOOMINGALE/LEDROIT PARK VERSUS DUPONT CIRCLE
2016 ROWHOME SALES



SOURCE: Redfin; Zillow; RCLCO

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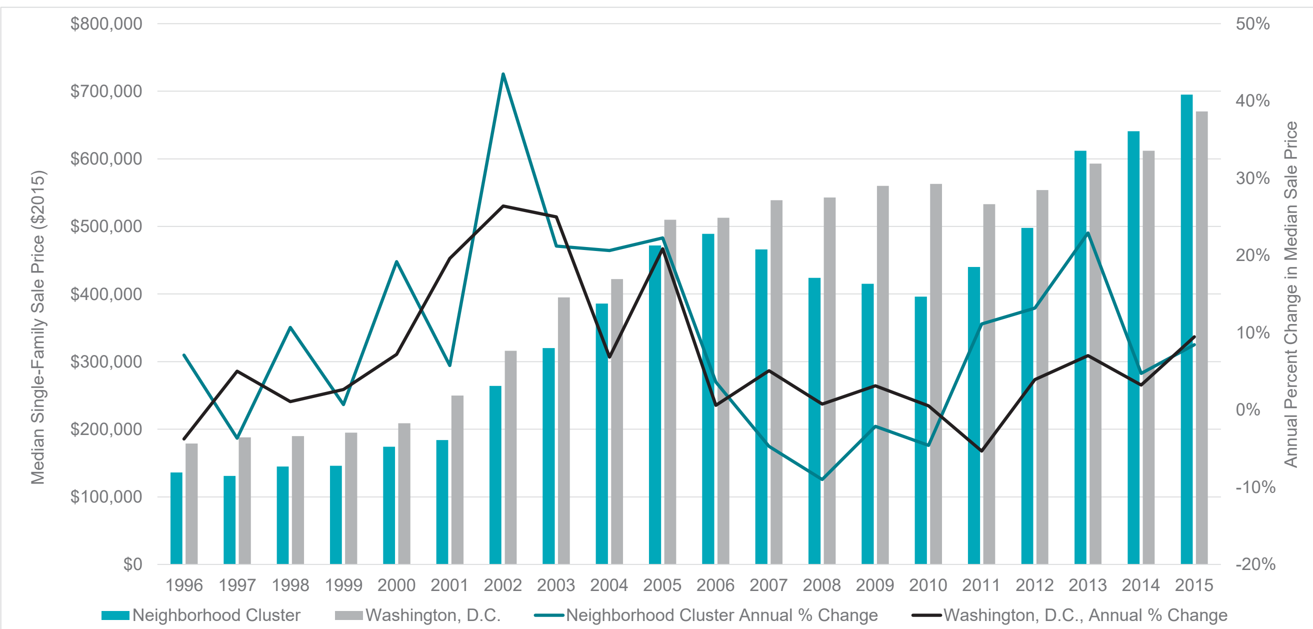
Exhibit I-3

MEDIAN SINGLE-FAMILY HOME SALE PRICE IN 2015 DOLLARS
EDGEWOOD, BLOOMINGDALE, TRUXTON CIRCLE, ECKINGTON NEIGHBORHOOD CLUSTER, WASHINGTON, D.C.*
1996-2015



* An area also referred to as "Neighborhood Cluster 21" in District government documents.
SOURCE: Neighborhood Info DC, a project of the Urban Institute

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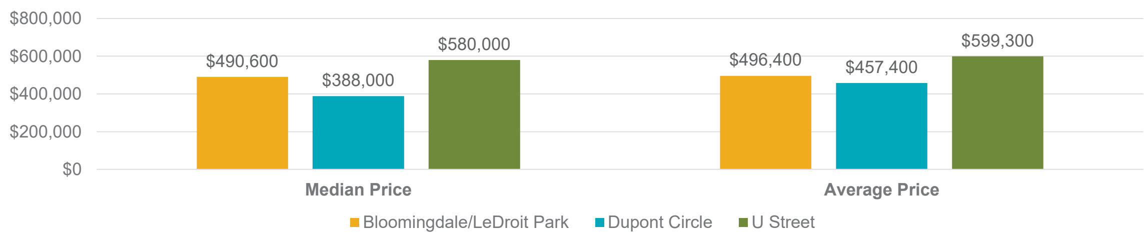
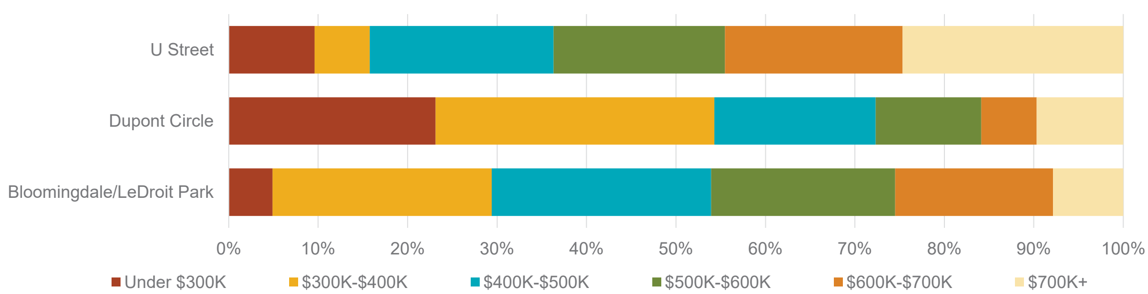
Exhibit I-4

COMPARISON OF CONDO RESALES BY PRICE
BLOOMINGDALE/LEDROIT PARK, DUPONT CIRCLE, U STREET
FEBRUARY 2016 - FEBRUARY 2017 SALES

MEDIAN AND AVERAGE PRICING



DISTRIBUTION OF SALES BY PRICE



SOURCE: Redfin; RCLCO

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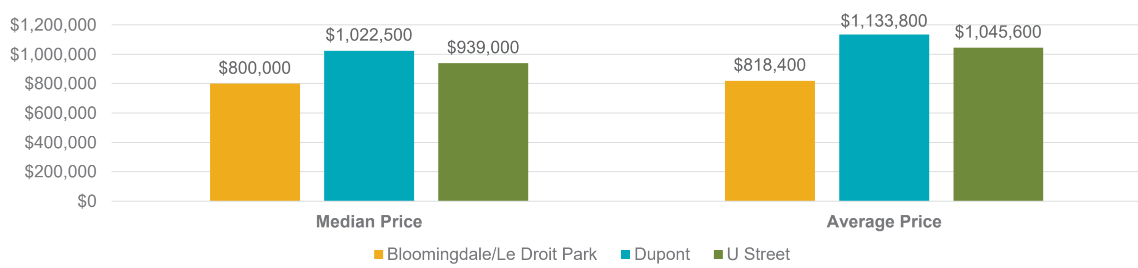
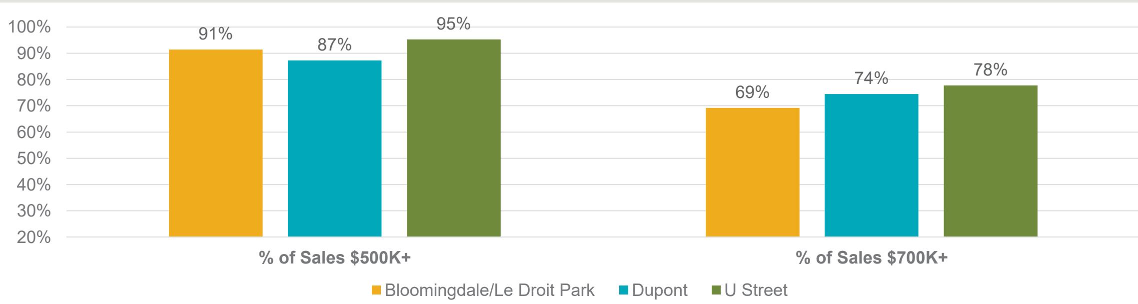
Exhibit I-5

COMPARISON OF ROWHOME RESALES BY PRICE
BLOOMINGDALE/LEDROIT PARK, DUPONT CIRCLE, U STREET
FEBRUARY 2016 - FEBRUARY 2017 SALES

MEDIAN AND AVERAGE PRICING



DISTRIBUTION OF SALES BY PRICE



SOURCE: Redfin; RCLCO

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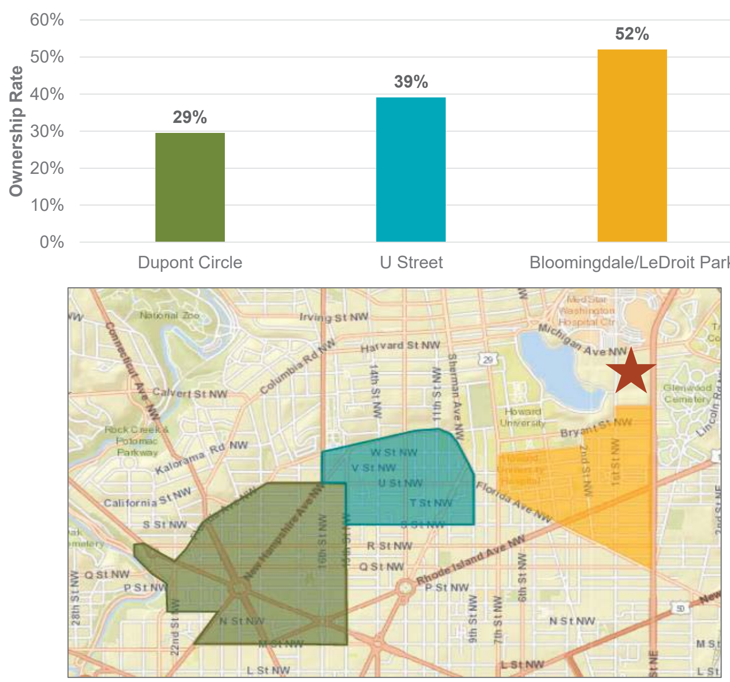
Exhibit I-6

OWNERSHIP RATE COMPARISON BY NEIGHBORHOOD
BLOOMINGDALE/LEDROIT PARK, U STREET, AND DUPONT CIRCLE
2016

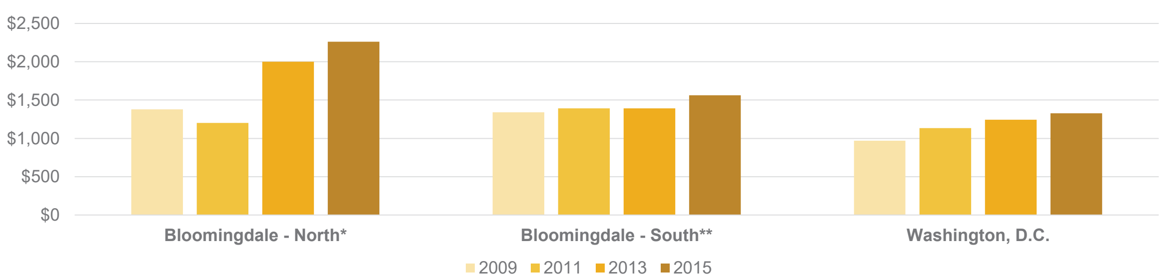


SOURCE: Esri; RCLCO

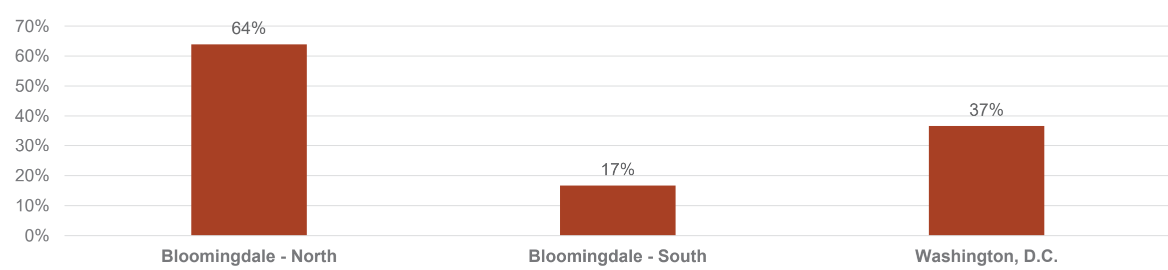
Exhibit I-7

MONTHLY GROSS RENT OVER TIME
BLOOMINGDALE CENSUS TRACTS VERSUS WASHINGTON, D.C., OVERALL
2009-2015 5-YEAR AMERICAN COMMUNITY SURVEY ESTIMATES

MEDIAN GROSS RENT, 2009-2015



GROWTH IN MEDIAN GROSS RENT, 2009-2015

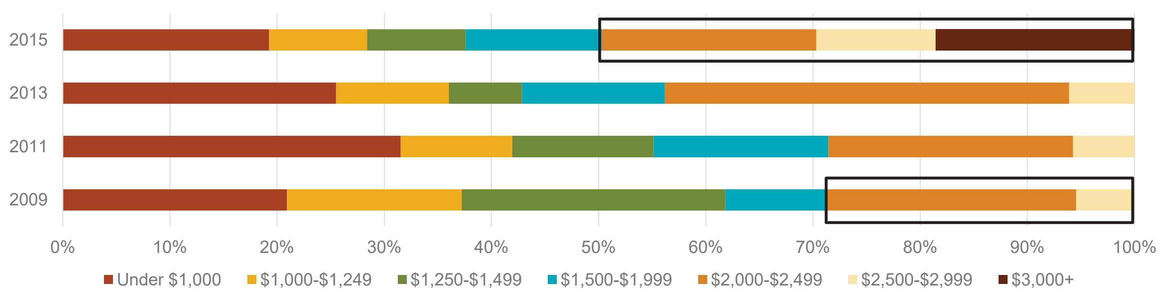


* Census tract 33.01.
** Census tract 33.02.
SOURCE: American Community Survey 5-Year Estimates for 2009, 2011, 2013, and 2015; RCLCO

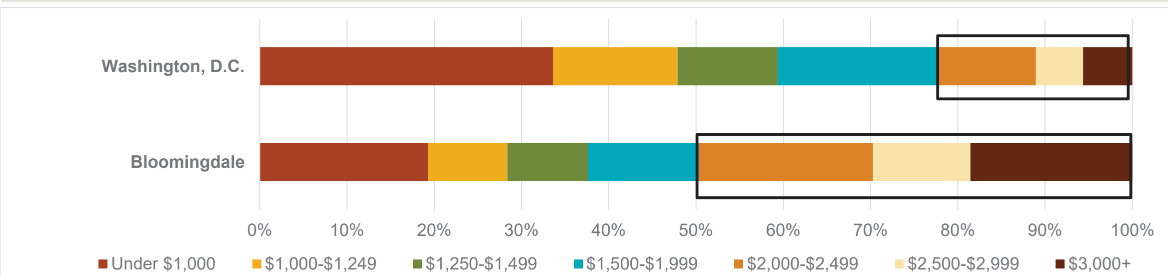
Exhibit I-8

MONTHLY GROSS RENT BY PRICE BAND
BLOOMINGDALE CENSUS TRACTS* VERSUS WASHINGTON, D.C., OVERALL
2009-2015 5-YEAR AMERICAN COMMUNITY SURVEY ESTIMATES

BLOOMINGDALE RENT BY PRICE BAND OVER TIME, 2009-2015



BLOOMINGDALE RENT BY PRICE BAND VERSUS WASHINGTON, D.C. OVERALL, 2015



* Census tracts 33.01 and 33.02
SOURCE: American Community Survey 5-Year Estimates for 2009, 2011, 2013, and 2015; RCLCO

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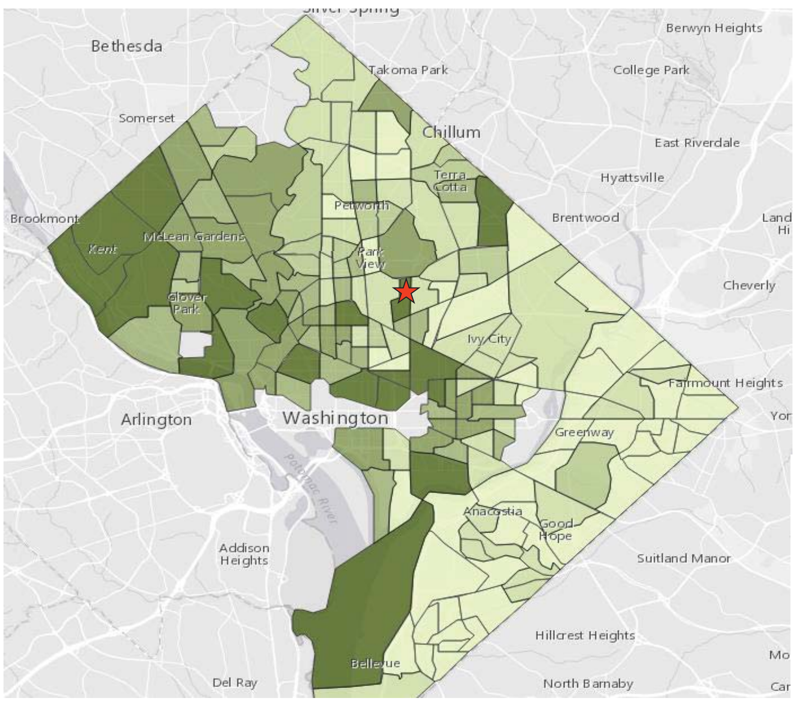
Exhibit I-9

MEDIAN MONTHLY RENT BY CENSUS TRACT
WASHINGTON, D.C.
AMERICAN COMMUNITY SURVEY 2015 5-YEAR ESTIMATE



KEY

- Under $1,000
- $1,000-$1,249
- $1,250 - $1,499
- $1,500 - $1,749
- $1,750 - $1,999
- $2,000+

SOURCE: American Community Survey 2015 5-Year Estimate

RCLCO
ROBERT CHARLES LESSER & CO.

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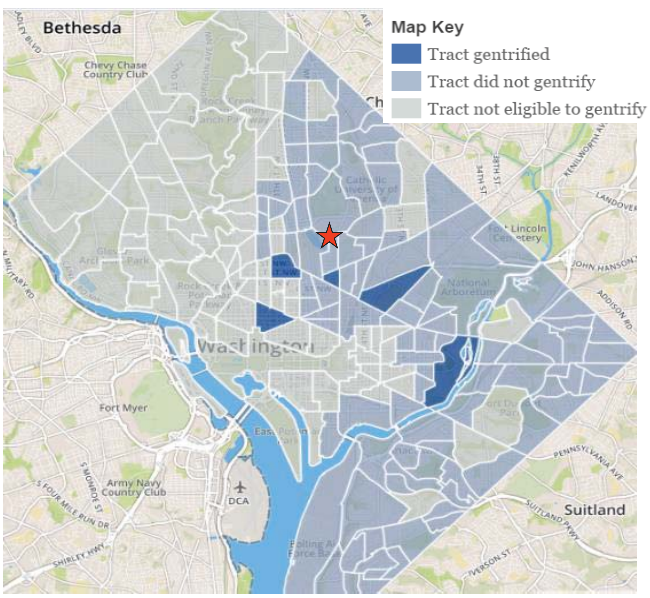
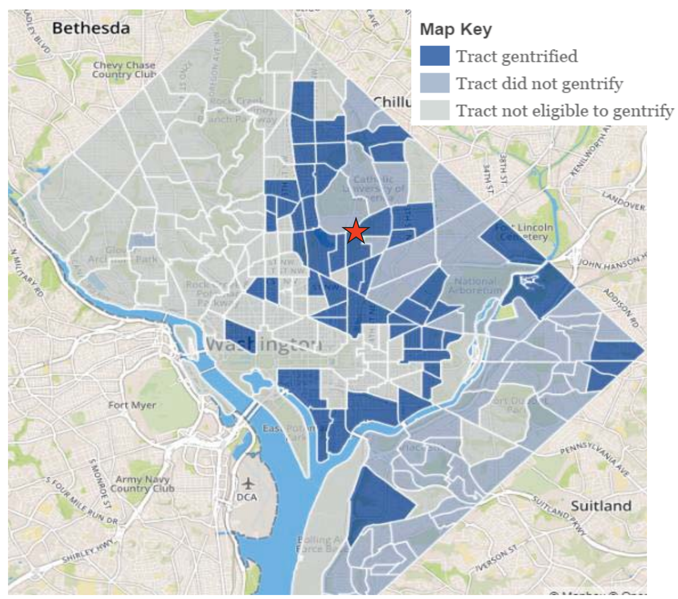
Exhibit I-10

CENSUS TRACTS THAT GENTRIFIED 1990-2000 AND 2000-2013
***GOVERNING* GENTRIFICATION STUDY**
WASHINGTON, D.C.

GENTRIFICATION MAP: 1990-2000



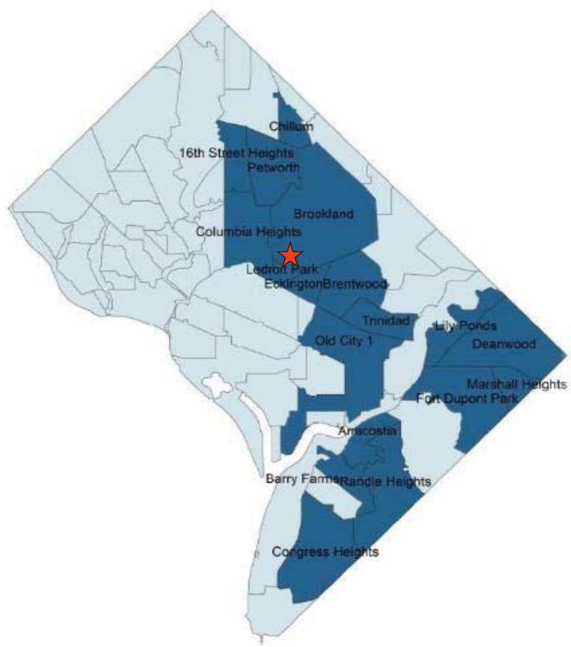
GENTRIFICATION MAP: 2000 - 2013



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

Exhibit I-11

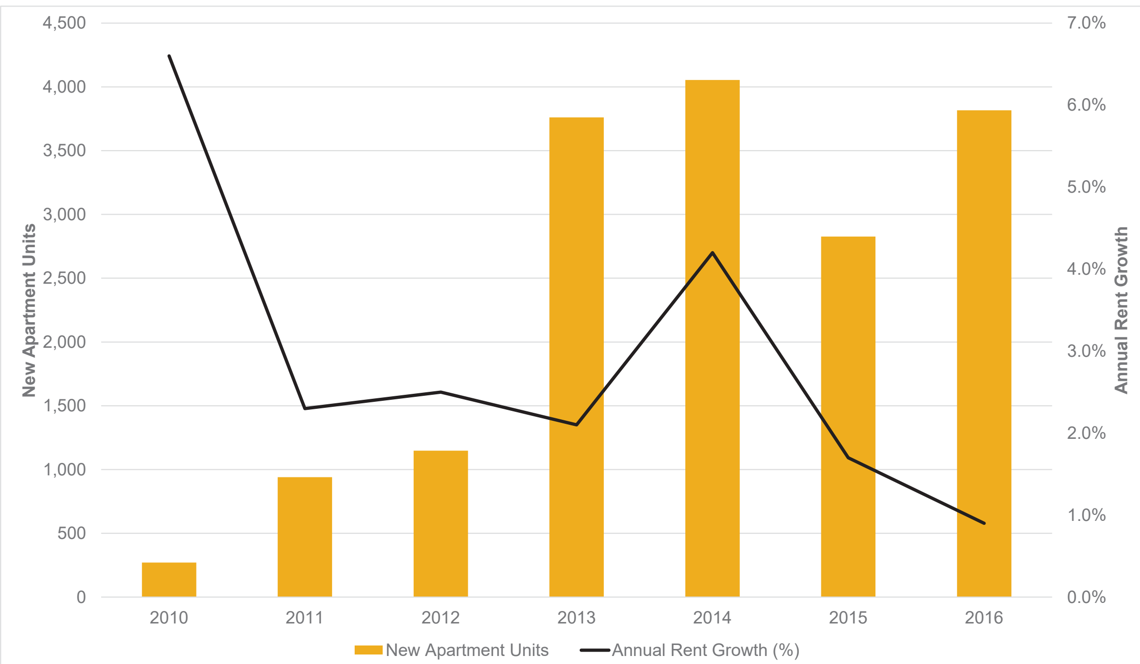
MAP OF NEIGHBORHOODS THAT GENTRIFIED BETWEEN 2001 AND 2010
BOWIE STATE UNIVERSITY AND DISTRICT OF COLUMBIA GOVERNMENT GENTRIFICATION STUDY
WASHINGTON, D.C.



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

Exhibit I-12

POST-RECESSION CLASS A APARTMENT DELIVERIES AND RENT GROWTH
WASHINGTON, DC
2010-2016



Note: Rent growth is calculated net of any rent concessions.
SOURCE: CoStar; RCLCO