

Rebuttal to Brett Williams' Oral and Written Testimony Regarding Whether the McMillan Project Will Cause Destabilized Land Values and Displacement of Neighborhood Residents (Issue 4A)

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Brett Williams testified that there's housing market distress on Channing Street across from McMillan. As an expert in real estate market and economic impact analysis, do you believe that's correct?

No. Williams testified that on Channing St. "both RealtyTrac and Zillow show significant housing distress with many houses in pre-foreclosure, foreclosure, or at auction." But her testimony also says that moneyed millennials are moving into Channing St. Based on analyzing DC housing markets and predicting factors that lead to demand for housing for over 35 years, it's highly unlikely both of these could be true. Claims of Channing St. market distress make no sense given that the entire Bloomingdale housing market is so strong (for reasons largely unrelated to McMillan).

In fact, Williams' testimony is factually incorrect. The Zillow website shows no indication of any foreclosures or pre-foreclosures on Channing St. And the market appears to be steadily improving, but without the "gutting and flipping" of numerous Channing St. houses that Williams asserted. The RealtyTrac foreclosure website that Williams said she used actually shows no homes on Channing St. in pre-foreclosure, foreclosure, or being auctioned.

Williams testified that development of McMillan will pressure landlords of large Edgewood apartment buildings to convert to more expensive housing. As a real estate market expert, do you believe this is correct?

No.

Edgewood Commons, formerly Edgewood Terrace, is the largest concentration of rental apartments in Edgewood. My understanding is that CPDC [Community Development & Preservation Corporation] is in the midst of a five-year recapitalization of the development that will assure that it stays affordable for many years using project-based Section 8 and Tax Credits. Other apartments are in Franklin Commons, a project-based Section 8 development with rents based on the resident's income. I therefore don't believe there will be significant destabilization of rents in large apartment buildings in Edgewood, with or without McMillan.

Williams testified that housing market changes and resultant displacement are very different today than in earlier waves. As a real estate market expert, do you believe she's correct?

No. An anthology by Hyra and Prince that Williams contributed to has a chapter by Asch and Musgrove¹ that explains that the four waves of displacement in DC dating back to 1920 each had similar causes, all associated with demand from a flood of young, well-educated professionals wanting to live in the city. In all four waves, individual homebuyers, renters, developers, and investors participated in renovating and occupying the housing. The fourth wave has caused the rapid price and rent increases the neighborhoods surrounding McMillan have been experiencing for many years.

Williams testified that even the plans for McMillan caused the destabilization of land values in surrounding neighborhoods. Do you agree?

No. Williams testified that property values are rising in Stronghold and Bloomingdale and that Stronghold assessments have nearly doubled in the last 10 years, and have gone up even faster in Bloomingdale.

My expert report also found that home prices, values, and rents have been increasing for many years in all of the nearby neighborhoods, regardless of proximity to McMillan.

But my conclusion as a real estate market expert with extensive experience understanding DC housing market and neighborhood changes is that McMillan, or the plans for it, have not been and will not be a significant cause of the price and rent increases in these neighborhoods.

The reasons for this include:

1. The Bloomingdale/LeDroit Park row houses that are relatively closer to McMillan have experienced less rapid price increases than those located farther from McMillan. This tells me that the plans for McMillan were not a significant cause of the price increases that have been occurring for many years in the neighborhood.
2. A study of changes in Bloomingdale by urban planner and market analyst Julius Levine,² excerpts of which were attached to Friends of McMillan's April 3rd letter, includes an extensive discussion of the causes of market and demographic changes in Bloomingdale but does not identify the plans for McMillan as a cause of these changes.
3. My extensive experience analyzing real estate markets in DC tells me that the long-standing destabilization of land values in surrounding neighborhoods is in large part a result of an excess of housing demand relative to supply. My conclusion's consistent with a new book by Hyra regarding Shaw/U Street.³ That book makes clear that the dramatic price and rent increases are a result of economic and real estate market forces. He concludes that DC became a global city that created jobs downtown and that was very attractive to millennials. This, along with the improvements downtown, dramatically

¹ Asch, C. and G. Musgrove, "We Are Headed for Some Bad Trouble": Gentrification and Displacement in Washington, DC, 1920-2014. *Capital Dilemma* (2016). Edited by Derek Hyra and Sabiyha Prince.

² Levine, J. with E. Pierson (2015). Bloomingdale: The Intersection of Gentrification, Aging-in-Place, and Race in a District of Columbia Neighborhood.

³ Hyra, D. (2017). *Race, Class, and Politics in the Cappuccino City*.

increased demand for relatively close-in housing. Despite Hyra's extensive analysis of the causes of the destabilized property values and displacement in Shaw/U Street, he doesn't identify infill developments like McMillan, much less plans for developments like McMillan, as a cause of destabilized property values and displacement.

Williams testified that your conclusion that the housing market is based on supply and demand, and that therefore more housing will lower the price of housing, are "problematic claims." Do you agree?

No. There's no credible basis to conclude that housing is insulated from the supply and demand forces that affect all aspects of our market economy. This is confirmed by my extensive experience analyzing housing demand, supply, and demographic change. As an expert in real market estate market analysis and economic impact analysis, with a particular focus on housing, I regularly analyze the causes of and predict property value increases and rent increases, and their impact on choices that households make about housing. These factors, all of which are at the core of my expertise, are highly related to the likelihood of gentrification over time in a particular neighborhood.

Housing prices and rents are the function of demand and supply just like other products and services. As I discussed, Hyra's book regarding Shaw/U Street illustrates that housing price and rent increases are a function of housing demand and supply.

Williams' own 1988 book on Mt. Pleasant⁴ also confirms my conclusion. The book makes it clear that price and rent increases in Mt. Pleasant leading up to 1979, and then again in the mid-1980s, were very much driven by economic and market forces, just as the long-standing price and rent changes in Bloomingdale, Stronghold, and LeDroit Park have been. (But rather than acknowledging what was obvious to everyone she interviewed in Mt. Pleasant—that return of rapid home price increases, and displacement, in the mid-1980s was due to increasing housing demand due to lower U.S. mortgage rates—Williams attributes the return of these home price increases to "the problems of militaristic consumer capitalism.")

My report explains why building new housing in all price and rent ranges is one of the key steps that can be taken to mitigate housing price and rent increases, all other things being equal. This includes market-rate, and housing for all affordable income levels, for families and seniors. A study by Levy cited in my report⁵ found that production of affordable housing was the key approach to mitigating displacement in the neighborhoods they analyzed.

This doesn't mean that areas with a lot of construction have lower prices and rents, because construction is often a response to strong demand. But with a given level of demand for housing in a neighborhood or city, price and rent increases are lower than when there is more supply being added, as we're currently seeing with apartments in the District.

⁴ Williams, B. (1988). *Upscaling Downtown: Stalled Gentrification in Washington, D.C.*

⁵ 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.

One of Williams' sources for her assertion that housing prices are not determined by demand and supply, by Glaeser, Gyourko, and Saka,⁶ actually finds exactly the opposite of her point. The same lead author's more recent article⁷ cited in my report states that extremely high housing prices in affluent coastal cities are due to insufficient supply.

Are the land value destabilization issues different in Stronghold, as Williams intimates?

Her testimony acknowledged that prices and values in Stronghold have been increasing rapidly, stating that "Assessments in Stronghold have nearly doubled in the last ten years...." But she seems to be attributing these increases to Chancellor's Row and other new developments.

Based on my expertise and experience in real estate market analysis throughout DC, this is not accurate.

Bloomingdale and Stronghold have somewhat different demographic characteristics. But home values are increasing rapidly throughout the area, regardless of proximity to a development such as Chancellor's Row. Home prices have been going up in Bloomingdale/LeDroit Park by over 9% per year since 2008, unrelated to any major new development. I also looked at assessment increases for a sample of row houses from 2017 to 2018, and they averaged 7.6% on Franklin St. in Stronghold; 9.7% on Bryant St. farther from Chancellor's Row (but close to McMillan); and 10.2% on U Street in Bloomingdale, farther from Chancellor's Row and McMillan. I therefore see no credible evidence that Chancellor's Row caused Stronghold's assessment increases, and my expert opinion is that McMillan will not have a significant impact on nearby assessments, over and above the continuation of the established trend of price, assessment, and rent increases.

Did you claim that price increases and displacement in Bloomingdale, Stronghold, and LeDroit Park are "over" as Brett Williams asserts?

No. This is an ongoing process, but once it's well underway, price and rent increases continue as long as the demand driving this process is strong. And that demand is not caused by McMillan or the plans for it.

Are there any other issues you have with Williams' testimony?

Yes.

1. She testified that displacement of some neighborhood residents can change the character of these neighborhoods. But the asserted results of displacement are not relevant to the question the Court asked the Commission to address: will McMillan cause property values to increase and displacement to occur?

⁶ Glaeser, E. and J. Gyourko and R. Saks (2005). Why Have Housing Prices Gone Up? *AEA Papers and Proceedings*.

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

2. The impact of a park on property values, particularly in an area like Bloomingdale where prices have been increasing rapidly, is well-established by studies cited in my expert report.
3. Williams selectively quoted from the Comp Plan. But the Plan as viewed as a whole from my perspective as a real estate market analysis expert identifies a need for substantial new housing in the District, and views infill sites such as McMillan as some of the best opportunities to meet this need, in part because they would not require demolition of existing housing.