

## Memorandum

DATE: April 7, 2017

TO: Mid-City Financial Corporation

FROM: Leonard Bogorad, Managing Director, RCLCO

SUBJECT: Analysis of Potential Impact of the RIA Development on Gentrification, Destabilization of Property Values, Displacement, and Employment

RCLCO (Robert Charles Lesser & Co.) was retained by Mid-City Financial Corporation (the “Applicant”) to evaluate whether the RIA development (consisting of the redevelopment of Brookland Manor) will cause gentrification, destabilization of land values, and displacement of neighborhood residents in the surrounding neighborhoods, and to estimate how much employment will be supported by RIA.

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, developments in the NoMa area and the area near the ballpark, Downtown Silver Spring, and National Harbor.

### **The Surrounding Neighborhoods Have Already Been Experiencing Home Price and Rent Increases for Years, Gentrification Is Well Underway, and RIA Will Not Have a Significant Impact on this Established Trend**

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

- **Home prices near the RIA site have been increasing faster than in other neighborhoods.** Data from Neighborhood Info DC, a project of the Urban Institute (Exhibit I-1),<sup>1</sup> shows that the median single-family home sale price, in constant dollars, for the cluster of RIA-adjacent neighborhoods (Brookland, Brentwood, and Langdon) increased 51% between 2010 and 2015, as compared with 19% for the District overall. Whereas in 2010 the neighborhood cluster’s median sale price was \$171,000 below the citywide median, the cluster’s median price was \$80,000 below the citywide median price in 2015 (all in 2015 dollars).

As shown in Exhibit I-2, median owner-occupied home values (as estimated by residents to the Census Bureau) in the Brentwood and Brookland Census tracts increased faster than in the District overall, based on a comparison between home values in 2008-2010 with values in 2013-2015. Exhibit I-3 shows the substantial decrease in homes valued under \$300,000, and the rapid increase in homes valued \$500,000 and over, in the Brentwood Census tract in recent years.

- **Median rents in the surrounding neighborhood are increasing.** The median rent in Brentwood increased by 37% from 2008-2010 to 2013-2015, compared with 11% for the District as a whole (Exhibit I-4). The median rent in Brookland-South across Rhode Island Avenue from RIA increased by 10%, approximately the same percentage as in the District as a whole. Exhibit I-5 shows the striking change in the distribution of rents in Brentwood since 2005-2009. Looked at another way, the absolute number of renter households with gross rents of under \$1,000 in Brentwood decreased by 24% from 2005-2009 to 2011-2015.

<sup>1</sup> <http://www.neighborhoodinfodc.org/index.html>

These findings regarding home price and rents increases in the neighborhoods surrounding RIA make it clear that RIA will not set gentrification in motion; rather, gentrification is already occurring without any impetus from the RIA development.

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 RIA site.

- A study by *Governing* magazine found that the Brookland census tracts, including the area just across Rhode Island Avenue from RIA, have already gentrified (see Exhibit I-6 for map).<sup>2</sup> The study, whose methodology was adapted from a widely cited gentrification paper by Columbia University professor Lance Freeman, concluded that Brookland (Census tracts 93.01 and 93.02), including the area directly across Rhode Island Avenue from RIA, gentrified between 2000 and 2013, but as of 2013 Brentwood had not yet gentrified by their criteria.<sup>3</sup>
- 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 both Brentwood and Brookland were gentrifying during the 2001 to 2010 period (see Exhibit I-7 for map).<sup>4</sup> This study used a slightly different methodology in which gentrification status was based on change in the indexed median income by census tract, in addition to increases in indexed property values by property type.<sup>5</sup>

Therefore, multiple study methodologies that have surveyed changes in a variety of factors have all pointed to the same conclusion: gentrification is already present in the area near the RIA 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 RIA, there is no reason to conclude that RIA 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 RIA development.<sup>6</sup> A study by Jeremy Jackson cited in the literature review observed no relationship between large-scale neighborhood investment projects and changes in nearby rents.<sup>7</sup>

## **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. RIA will have more than three times as many units as the existing development as a result of the creation of approximately 1,760 new housing units.

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

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<sup>2</sup> Study available here: <http://www.governing.com/gov-data/washington-dc-gentrification-maps-demographic-data.html>

<sup>3</sup> A census tract was determined to have gentrified according to three criteria: first, only the census tracts with a median household income and median home value in the bottom 40<sup>th</sup> percentile of the metro area at the beginning of the decade were "eligible" to gentrify. Gentrification was determined to have occurred if an eligible census tract's percentage increase in the inflation-adjusted median home value over the course of the 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.

<sup>4</sup> Brown-Roberston, L. and Muhammad, D. (2013). "Identifying the District of Columbia's Gentrified Neighborhoods."

<sup>5</sup> Household income and home values for 2001 and 2010 were indexed to the District-wide median household income and home value for those time periods, respectively. Home values were compared among like property types, which were categorized as one of the following: single-family homes, condominiums, small multifamily buildings, medium multifamily buildings, and large multifamily buildings.

<sup>6</sup> Zuk, M. et al. (2015). Gentrification, Displacement and the Role of Public Investment: A Literature Review.

<sup>7</sup> Zuk, p. 54; and Jackson, Jeremy (2008). Agent-Based Simulation of Urban Residential Dynamics: A Case Study of Gentrifying Areas in Boston. Thesis submitted to McGill University.

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.<sup>8</sup>

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.<sup>9</sup> Other economists making the same point range from Edward Glaeser of Harvard University writing for the Cato Online Forum<sup>10</sup> to liberal economist Paul Krugman. Krugman poses the question of why gentrification is happening so much in iconic U.S. cities, and one of his key answers is:

Rising demand for urban living by the elite could be met largely by increasing supply. There's still room to build, even in New York, 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.<sup>11</sup>

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

Basic economic theory predicts—and many empirical studies confirm—that housing markets in which supply cannot keep up with demand will see housing prices rise.<sup>12</sup>

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.<sup>13</sup>

The LAO explains the causes of this phenomenon as follows:

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

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<sup>8</sup> *Slate Moneybox*, April 4, 2013.

<sup>9</sup> Florida, R. (2016). How Zoning Restrictions Make Segregation Worse. *The Atlantic Citylab*.

<sup>10</sup> Glaeser, E. (2014). Land Use Restrictions and Other Barriers to Growth. *Cato Online Forum*.

<sup>11</sup> Krugman, P. (2015). Inequality and the City. *New York Times*.

<sup>12</sup> Furman, J. (2015). Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents. Remarks to the Urban Institute.

<sup>13</sup> Legislative Analyst's Office (2016). Perspectives on Helping Low-Income Californians Afford Housing.

- More supply places downward pressure on prices and rents.

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-8). As all of the new buildings compete for leases, the market is becoming more price-competitive.

One of the advantages that RIA will have is the broad range of housing types that it will provide, including townhomes, two-over-two stacked townhomes, and multifamily flats; rental and ownership; seniors housing; and the affordable housing discussed in the following section.

### **RIA's Provision of 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.

Unlike many other redevelopment projects, the Applicant will be replacing the 373 project-based rental apartment subsidized units on a one-for-one basis with newer, higher quality apartments with very deep subsidies. The units are reserved for households with incomes of 0% to 30% of Area Median Income. There is no minimum income, and rents are based on the greatest of 30% of household adjusted income, 10% of gross income, the portion of welfare assistance designated for housing, or \$25, regardless of how low the household income is.

Given that any requirements to maintain affordable housing on the site will lapse by the end of 2017, in the absence of the Applicant's commitments it is likely that some other owner would replace all of the existing housing with market-rate units (other than affordable units required under the Inclusionary Zoning program, which result in many fewer affordable units than RIA will have, and without the very deep subsidies for most of the RIA affordable units).

RIA will also include approximately 11 affordable townhome units (10% of however many townhomes are built). Furthermore, the Applicant has committed to work with DCHA in order to retain in the new market-rate units on-site all Section 8 Housing Choice Voucher ("HCV") holders who are living in Brookland Manor at the time that redevelopment commences.

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 RIA already have strong housing markets.) The report noted that one approach was for for-profit developers to include affordable units in their projects,<sup>14</sup> as will occur at RIA.

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<sup>14</sup> 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.

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

The one-for-one replacement of older project-based subsidized apartments with newer subsidized apartments, the continuation of providing apartments for HCV holders who are living in Brookland Manor at the time that redevelopment commences, and the Applicant's commitment that all households in good standing that reside at Brookland Manor at the commencement of redevelopment will have the right to continue living in the new community, means that there will be no displacement of low-income residents as a result of the development.

## **RIA Will Support New Jobs and Provide Advantages for Local Residents**

Based on the 181,000 square feet of retail space approved for RIA, at build-out it will have approximately 734 on-site permanent jobs in a wide range of incomes, along with approximately 1,923 construction jobs on an annual full-time equivalent basis. The redevelopment will also generate approximately 91 off-site permanent jobs within the District, and the construction itself will generate approximately 1,107 temporary jobs within the District 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:

- The Applicant will cooperate with its contractors and the District to review the applicability and participate to the extent practicable in Minority Business Enterprise/Women Business Enterprise subcontractor programs.
- The Applicant, and the Ford family that owns it, have a long history of supporting initiatives and programs that further the educational and job readiness/training needs of District of Columbia residents. The most recent example is their charitable support of, and partnership with, the Academy of Hope adult charter school with the acquisition and rehabilitation of their new campus in Ward 5. The Academy of Hope has been working closely with the Applicant's management team and the on-site not-for-profit, Community Services Foundation (founded by the Ford family), to identify residents who are looking to further their personal, professional, and educational goals. Additionally, the community center at Brookland Manor partnered with DOES and other not-for-profits for a Career & Community Resource Fair on January 18, 2017, and it is expected that this partnership will expand and accelerate in the coming years as the community is redeveloped.
- The Applicant has entered into a First Source Employment Agreement with the District Department of Employment Services.

New jobs are particularly valuable in Ward 5 given that as of February 2017 preliminary figures indicate that 3,056 residents of Ward 5 were unemployed, representing an unemployment rate of 7.1%, considerably higher than the 5.7% rate for the District as a whole.

## **The RIA Development Will Provide Retail that Will Benefit Neighborhood Residents**

The RIA development is approved for 181,000 square feet of retail, which is anticipated to include a full-service grocer (up to 55,000 square feet) along with neighborhood-serving retailers and service providers. The Brentwood, Brookland, Langdon, and Woodridge neighborhoods currently have only one full-service grocer, and much of the RIA location was identified as a "food desert" in a recent D.C. Policy Center study.<sup>15</sup> Furthermore, as discussed above, the retail will also provide a source of potential jobs for neighborhood

<sup>15</sup> <https://www.dcpolicycenter.org/publications/food-access-d-c-deeply-connected-poverty-transportation/>

residents that would increase their capability to stay in a neighborhood that is already experiencing price and rent increases.

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

The homeowners in the neighborhood have benefitted from the increase in home values that has been occurring in the surrounding neighborhoods, and will likely continue with or without the RIA development. Owners account for 33% of Brentwood and Brookland households, including 72% of Brookland households.<sup>16</sup> Furthermore, the risk that neighborhood homeowners will be forced to sell involuntarily because of rising property taxes will be greatly mitigated by a range of District programs, including but not limited to:

- **Homestead Deduction:** For owner-occupant homeowners, deducts \$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.

## **RIA Will Provide Benefits to Local Businesses**

The many new households living in RIA will provide more customers for existing nearby businesses. The Rhode Island Main Street organization strongly supports the development because of the households and their additional disposable income that will be added to the market area.

## **Overall Conclusions**

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

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<sup>16</sup> U.S. Census Bureau, American Community Survey, 2011-2015.

- New housing in all price ranges helps to mitigate increasing prices and rents, and the development will more than triple the number of on-site housing units. In addition, the development will include one-for-one replacement of very deeply subsidized units and continued housing of voucher holders and others living in Brookland Manor when redevelopment commences.
- RIA will support new jobs that will be a potential source of income for neighborhood residents that will help them afford to stay in their existing homes, particularly in combination with educational and job readiness/training that the developer plans to provide.
- RIA, with such a substantial increase in housing units and resident disposable income, should be helpful to existing businesses.
- Overall, not only will RIA not add in any significant way to the gentrification that has already been occurring in the surrounding neighborhoods, it will in fact mitigate many of the negative impacts of gentrification and deliver many positive impacts. The project will provide a significant increase in the total number of housing units, which will help to correct the imbalance between housing demand and supply; support a significant number of jobs at all income levels; provide neighborhood-serving grocery and other retail; and retain very deeply subsidized affordable housing on a significant scale that would otherwise likely be lost if the site were redeveloped by another owner. These are exactly the types of benefits that are vital to offsetting the negative impacts of gentrification.