What Assumptions Are Driving the Intense Pressure to Build More Market Rate Developments in DC?

As the District of Columbia races to approve large scale primarily market rate, "luxury" small unit housing developments throughout the city – at Union Market, Brookland Manor and others – and to up zone many sections of the city, it is important to examine the rationale driving these developments. Affordable housing in the District is scarce, and it is especially difficult for those who earn less than half of the area median income to live here. While the cost of housing in the city is the result of high land costs and historically low interest rates, it is also incentivized by certain administration policies based on highly questionable assumptions:

Assumption #1: DC's population will reach 1 million by 2045 and we must build now to accommodate that growth.

The Office of Planning's growth projection of an additional 300,000 residents (reaching a population of nearly one million) by 2045 is unlikely in light of other more recent data and projections. This projection is based on a methodology that relies on project development data in which present rates of building are projected into the future. In order to reach 1 million residents, city growth would need to be 1% per year. However, the US Census Bureau projects a steady decline in the national growth rate from .72% in 2018 to 0.4% in 2045. Further, the DC Office of the Chief Financial Officer reported in April 2018 that Global Insights projects a declining DC growth rate steadily dropping to 1% in 2020. The DCOCFO also reported that Moody's Analytics projects a steady decline in growth to 0.6% in 2020 essentially cutting all net in-migration by 2019.

Population projections should be examined in 2024 when the Comprehensive Plan is revised through a rigorous study and community process, not during the current 2018 amendment cycle. Inaccurate growth assumptions should not drive or justify development decisions that are unrealistic.

Assumption #2: Large new residential projects will benefit those who earn significantly less than the area Median Family Income (MFI, currently $117,200 for a family of four) through Inclusionary Zoning (IZ). In fact, low income residents who make below 60% of AMI are not served by IZ . In fact, they are worse off as new market produced housing is generally built for the high end of the market, not the lower end where the need for subsidized housing is greatest[1]. A paper by the DC Fiscal Policy Institute (DCFPI) on the ill-conceived public subsidies

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[1] In July 2018, income limits for a family of four at three different income levels, based on Housing Production Trust Fund or HPTF figures (dated July, 2018) for the DC area, is: 0-30% of MFI is $35,150; 31-50% of MFI is $58,600; 51-80% of MFI is $93,750. For these purposes, extremely low income is 30% of MFI, very low income is 50% of MFI, low income is 80% of MFI. MFI for the Washington, D.C. area, the figure we use, is currently $117,200. But **District housing programs NOT using federal funds are NOT restricted to using HUD's MFI figures.** MFI figures for the District only, excluding surrounding jurisdictions included in the area MFI, are believed to be considerably lower, perhaps only half of the area MFI.

given to the Union Market development is a painful example of the trend to reward high-end development at the expense of those less fortunate and worthy of help.[2]

Assumption #3: Low income families will be able to pay up to 50% of their gross income for housing and thus will be able to afford to live in DC[3]. According to Zillow research on rent affordability in the District in August, 2017, low-income renters paid over 50% of their income on their residence rent, while 30% of income for rent is considered a reasonable standard. Conversely, homeowners are paying closer to 15-20% of their income on their residence by comparison[4]. Furthermore, there is a evidence that rising rents are increasing homelessness in the District and many other cities in the U.S. Zillow data estimates that about 450 people in the District would become homeless if their rent were to increase by 10%; over 200 if the rent increased by only 5%[5]. The 2008 financial crisis also hit hard entry-level homeowners, as shown in an October 2018 Zillow study that found over 50% of those whose houses were foreclosed in the District were among entry-level home buyers, many of whom had 70% or more of their net worth tied up in their foreclosed homes. Yet those same homes are now at or near their pre-foreclosure value – a lost opportunity for these homebuyers[6].

Assumption #4: Building more high-end residential has a trickle-down rent reduction effect that will ease the housing crisis for people earning less than the MFI. That is demonstrably not so. Not only is the housing stock for those earning 50% or less of the AMI disappearing, torn down or extensively remodeled for higher-end residents, but even the escalating property assessments based on the market value of homes surrounding new luxury buildings are making them unaffordable to current residents. **The Committee of 100 on the Federal City (C100) has been unable to find a single case in which new high-end market-rate construction has kept stable or lowered the assessed and market value, and rent, of neighborhood properties**.

Conclusion: There is no trickle-down housing effect from market rate housing, and the bottom is getting worse. The C100 strongly advocates robust public funding to create housing for those in the 0%- 50% AMI range ($58,600) first, before subsidizing developments catering to those above that level. For those at the lower end of the scale, the availability of publicly subsidized housing is the difference between having a home and not having one. Further up the scale a subsidy merely enhances the quality of a home and the profits of the developer.=

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[2] https://www.dcfpi.org/all/lets-get-better-jobs-affordable-housing-union-market-development/

[3] https://dhcd.dc.gov/sites/default/files/dc/sites/dhcd/publication/attachments/IZ%202017-9-1%20final%20notice%20of%20emergency%20%20proposed%20rulemaking%20as%20published.pdf
see section 2214.3, (e) and (f), which cites "Annual Income," presumably meaning gross.

[4] https://www.zillow.com/research/low-income-rentals-unaffordable-16158/

[5] https://www.zillow.com/research/rents-larger-homeless-population-16124/

[6] https://www.zillow.com/research/housing-bust-wealth-gap-21543/