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D.C. Gentrification, the Fall of Fenty, and What to do About It

By Jonathan Rothwell

The District of Columbia has a lot going for it, even during the recession: population continued to grow, at least from 2006 to 2008; incomes went up; there were fewer murders in 2009 than any year since1966, and there are signs that the District's troubled public schools are starting to improve. Moreover, including its surrounding counties, in 2008 the D.C. metro was the most highly educated large metropolitan area in the country, which helps explain why its unemployment rate is one of the lowest.

But that good news has a serious downside: Long-time residents of D.C. with modest incomes are unable to afford rental payments or, to a lesser extent, inflated property taxes. It is now widely acknowledged that gentrification significantly contributed to the political downfall of D.C. Mayor Adrian Fenty in the recent election. Although the debate has sometimes devolved into raving characterizations of Fenty voters and the man himself (accused of practicing "friendly fascism"), Vincent Gray voters have a point.

According to HUD data, rents in the district have increased an average of over 5 percent each year since 2006, including during 2010. To afford the median two-bedroom rental unit, a household would need to earn $59,000 a year (using HUD's affordability criteria that no more than 30 percent of income should go to housing). Unfortunately, 69 percent of black households and 37 percent of white households over the age of 65 cannot afford that, and this is the population most vulnerable to gentrification because their incomes are least likely to increase.

Fortunately, most elderly households in D.C. are homeowners (60 percent), but that still lives a large number of people elderly renters at risk of being priced out of the market. Homeowners become wealthier when prices go up, and even those who do not want to move face are shielded from higher property tax increases through D.C. programs: the assessment cap credit limits taxable property appreciation to less than 10 percent even if real housing values increase by more; senior citizen and disabled home owners are eligible for a 50 percent reduction in property taxes; homeowners of seven years or more with incomes below the median are eligible for a credit of 105 percent of their prior year's property tax payment through a Lower Income, Long Term Homeowners Tax Credit.

Finding evidence of gentrification is notoriously difficult, but a recent national report by Pew, found that 24 percent of people who move report that the cost-of-living was the major factor. Unsurprisingly, that rate was higher for people of lower incomes and people who were moving in order to retire. There is suggestive evidence from the Census. D.C.'s black population declined by nearly 6,000 from 2006 to 2008 according to Census estimates, while the white population increased by roughly 22,000. It may very well be the case that a large number of black residents are at least at risk of being forced to leave their homes and city for less attractive suburbs at the very point in history that their neighborhoods are finally starting to become racially integrated, safe, and attractive places to live.

So what's the solution? Matthew Yglesias rightly points out that blaming condo development misses an important point: An increase in housing supply lowers prices. He writes, "If you want to improve the situation facing poor city-dwellers, you need to pair efforts to improve living conditions with efforts to ensure that increased demand is met mostly with increased supply rather than mostly with higher rents."

Among the problems with this is that D.C. faces a federally mandated heightrestrictions on buildings for gratuitous aesthetic reasons, and the mayor has no control over housing regulations in the prosperous suburban counties that border D.C. Of course, the mayor could push for a change of the many single-family zoning districts to R3, R4, or R5, which allow for progressively higher density. The Fenty Administration has helped build over 9000 affordablehousing units since 2006, but the city's inclusionary zoning program takes with one hand what it gives with one hand by relaxing density restrictions conditional on the provision of some affordable units. Research suggests that inclusionary zoning does little to increase the supply of affordable units. Why not relax density restrictions everywhere, or at least more broadly?

There is, however, another potential solution: housing inflation insurance. HUD could allow cities like D.C. with rising rents to use some of their Section 8 funding to bolster the incomes of poor D.C. residents to just high enough to afford rents at fair market prices (the 40th percentile of distribution). Unlike Section 8, residents would not have to move and would not face discrimination for participating if HUD or the city government simply deposited the money automatically every month. Like the long-term homeowners credit it could be limited to long-standing residents and be based on the previous year's tax returns.

Housing inflation insurance would align the interests of economic development more completely with the poor, who would otherwise benefit from economic integration and its positive consequences like falling crime, better schools, and better grocery stores, but only if they can afford to stay in the city. Presumptive mayor Gray seems sympathetic to the need for a program along these lines. It would give him a way to do something about gentrification, without hampering the city's progress.