

April/May/June 2018 (<https://washingtonmonthly.com/magazine/april-may-june-2018/>)

The Monthly Interview: A Conversation with Christopher B. Leinberger

Want to stop the gentrification of old urban neighborhoods? Build new ones.

by The Editors (<https://washingtonmonthly.com/people/the-editors/>)

MAGAZINE (<https://washingtonmonthly.com/magazine/april-may-june-2018/>)

Among liberals, few topics are as hotly debated as gentrification. The issue is often presented in moralistic terms: privileged white people are pushing poor black and Hispanic people out of their neighborhoods.

The truth is a little more complicated. Booms in places like New York City and Washington, D.C., have both positive and negative effects—including for the poor. They have revitalized previously dangerous and economically depressed neighborhoods, bringing better jobs, safer streets, and, for homeowners, rising property values. The rapid pace of change and rising rents also raise the danger, however, of too many spoils going to the white and wealthy, leaving the poor and minorities behind.

Chris Leinberger, a real estate developer and chair of the Center for Real Estate and Urban Analysis at the George Washington University School of Business, spoke with the *Washington Monthly* at the Wharf, the new waterfront development in Southwest D.C., about the underlying policy choices that have led to urban housing unaffordability, and how to change those policies to make sure urban renewal doesn't just benefit the rich.

(This interview has been edited and condensed.)

WM: What do you worry about with these booming towns, like D.C.—who is potentially getting hurt by development?

CL: The folks who get hurt the most are existing renters. They'll not only see their rents go up; they'll be moved out completely, if their building gets rehabbed.

Now, a development like [the Wharf], of course, nobody was living here, so there's no displacement, which happens quite a bit in our formerly abandoned cities.

WM: So maybe a better example of this in D.C. would be a neighborhood like Shaw or Williamsburg in New York?

CL: Exactly. But the interesting thing is, Federal Reserve research shows that neighborhoods which are gentrifying (a) make up a very small fraction of city neighborhoods—as in 5 percent—and (b) actually have less movement than poor neighborhoods do. The primary reason is that people will try their hardest just to stay there, because it's getting better. All of a sudden you have options like a supermarket, and crime is going down, and there are more public amenities. You would want to stay if at all possible. In a poor neighborhood, there's much more spin.

WM: You're saying the research on gentrification shows that some of our concern about the victims of gentrification may be misplaced?

CL: If it's a moderate to poor neighborhood, the people who have lived in the neighborhood for decades and own their own house will have a much larger net worth than if gentrification didn't happen. It may be what pays for their retirement.

WM: But in an urban area, isn't there usually a very high proportion of people who rent and don't own?

CL: Suburbs are 75-25 ownership versus rental, urban areas will be closer to 50-50. In New York City, it's closer to 33 percent ownership and 67 percent renter—which is why I mentioned that the main concern is for renters. But the other key point is that those low-income households—and I'm talking about households earning less than 50 percent of the metropolitan area median income—are far better off living in a revitalized, walkable urban place. Yes, the housing prices may be higher as a percentage of their household income, but the transportation costs are much lower, and transportation is the second-highest household spending category. That offsets those higher housing prices. And they have accessibility to three, four, five times more jobs than they would have if they were in a low-income drivable suburb.

WM: But even if there's less individual displacement than people think, over time a certain class of people is going to be priced out of moving into that neighborhood, right?

CL: Yes. When you combine the pent-up demand for this kind of place—walkable urban, safe, lots of exciting things happening—with the fact that there’s not enough land that’s zoned for that kind of activity to take place, the land that is zoned for it gets bid up to ridiculous levels. And that’s the major reason for gentrification and making mixed-income development hard to do.

WM: You used the term “walkable urban.” What does that mean?

CL: There are two ways to build a metropolitan region. One is “drivable suburban,” which is very low-density development that segregates land by type of use, meaning offices are separate from residential is separate from retail, and so on. It relies on one transportation system: cars and trucks. The other way is “walkable urban,” which is much more dense, mixed use, and historically more mixed income. We built only walkable urban cities for the 7,000 to 8,000 years we’ve been building cities, until drivable suburban was introduced in the mid-twentieth century.

WM: And much of what we think of as “cities” in the United States, or metropolitan areas, counts as drivable suburban, right?

CL: Yes. The metropolitan Washington region is only 2 percent walkable urban land; the other 98 percent is low-density drivable suburban. The most important criterion in building walkable urban is higher density, but the other issue is, do you have multiple transportation options to get to work, shopping, school, so you’re not just forced to use the car?

WM: And your argument is that we have too many places where you have to drive everywhere, and not enough of the other kind—walkable urban. And that this is what makes walkable urban so expensive.

CL: Right. It is almost entirely the high land price in walkable urban places that causes gentrification. Increase the land in metro Washington that’s zoned for walkable urban development from 2 percent to 4 percent, and most of this price premium goes away.

WM: How do you know there’s unmet demand for walkable urban? Because you might think, well, if people want it, then the market will supply it.

CL: One way is by doing consumer research. Depending on the poll, somewhere between 35 and 50 percent of us want to live and work in walkable urban areas. Whereas only 5 to 20 percent actually can, depending on the metro area. So there’s a gap, known as pent-up demand.

WM: How did we end up in the situation where there’s not enough walkable urban?

CL: Zoning. It's illegal to build walkable urban development in 98 percent of metropolitan Washington, and that's why the market cannot supply enough—and what the market does deliver is at a high price. It's not just D.C., of course. We put in place zoning in the 1940s, '50s, '60s, that mandated a separation of land uses. You could not have retail underneath rental apartments. That was illegal. It is illegal to have auxiliary housing units in a single-family neighborhood, sometimes called “granny flats,” which is a great form of affordable housing. And 95 to 98 percent of the metropolitan zoning in this country is the same way. It's been in place for half a century, or more, and it's a bitch to change.

WM: And is the key problem that it suppresses density, or that it rules out mixed use?

CL: Both. It's a web of restrictions that makes walkable urban development impossible: height limits, restrictions on mixed use, setbacks. And it also demands a very high amount of parking. The only way to meet those high parking ratios is to build low density with surface parking lots.

WM: What are some problems with this, besides the effect on rental prices?

CL: Number one, drivable suburban development is the U.S.'s biggest contributor to climate change. The built environment—our buildings and the transportation system we use to move between them—represents about 73 percent of greenhouse gas emissions in this country. You move a household from Potomac or McLean [D.C. suburbs] to Dupont [a D.C. urban neighborhood], you're going to cut your greenhouse gas emissions by 50 to 80 percent.

WM: So how do we go about fixing this market inefficiency?

CL: It's a very simple thing conceptually: allow for more walkable urban land. The reason we are only building luxury walkable urban right now is because each unit has to justify between \$300,000 and \$1 million, maybe more, of land value. And that's stupid. We have an artificial constraint on the market. As I mentioned, if you make 4 percent of the land walkable urban, the affordability problem gets a lot easier to solve.

WM: I think a lot of people would be skeptical that the kind of development we're sitting in now is going to help with housing affordability.

CL: Additional supply, even just at the top of the market, does mean rents will begin to fall. But it's too slow. The better way is to build middle-income housing, which we know how to do. This is not rocket science. You don't have to have gold-plated faucets. But you need land that costs \$50,000 to \$100,000 per unit, not \$300,000 per unit.

WM: So how do we break this resistance that we find in zoning laws all over the country, making land artificially scarce?

CL: The main keepers of the status quo are neighborhood organizations—the “not in my backyard” people. It’s actually rational. If building more supply makes housing prices go down, then the existing homeowners have something to lose. Also, existing homeowners are afraid this might bring “undesirables” to their neighborhood. And it’s very easy to stop things. Saying no to something is a whole lot easier than building something.

WM: Thinking about some of the older neighborhoods in D.C.—those row houses have a lot of charm to them. And if someone wanted to come in and knock them down and build higher-density housing, that might have good secondary consequences, but folks might also say they like the way the neighborhood looks now.

CL: We don’t have to knock down anything. Again, 2 percent of the total land in the D.C. metro area is walkable urban. There is plenty of unused land, especially in the suburbs. The urbanization of the suburbs is where much of this market demand is being satisfied, though it requires great effort to change zoning.

WM: What about transportation?

CL: Transportation drives development. A good example here is the Purple Line. [The Purple Line is a new rail line that will allow travel between D.C. suburbs without having to go in and out of the city center.] It will drive more development around those suburban stations, but only within walking distance. So now all of a sudden you can live in, say, New Carrollton [a Maryland suburb]. You’ll at least be able to get rid of one car in your household, which greatly increases your mortgage capacity. The average American family spends 18 percent of their household income on transportation, almost all for cars. Dropping one car out of a household budget on average increases the mortgage capacity by \$150,000.

WM: But if you put mass transit into a poor or working-class neighborhood, won’t that bring in a flood of wealthier people and more upscale development and the people who were living there before won’t benefit as much?

CL: The key is for the new transit to go hand in hand with new high-density housing. New transit won’t drive up land prices if we add more housing at the same time. Generally speaking, these walkable urban places see an explosion in population density. As an example, if an existing neighborhood had 50 percent

of the housing occupied by lower-income households, the new development of market rate housing at a higher density might reduce the low-income household percentage to, say, 20 percent without people actually getting displaced.

WM: When most people think about urban development, they think “urban,” so they’re going to picture stuff in the city center. We’re talking a lot about the metro area. So what role do the suburbs play?

CL: A minimum of 50 percent of the demand for walkable urban will be satisfied in the suburbs—places like Silver Spring, Maryland, or Evanston, Illinois. We built the bulk of existing walkable urbanism before 1930. In 1930, we had forty million households in this country, twenty-two million of which were in our metropolitan areas. So those twenty-two million units, whether they be flats or townhouses or single-family homes in tight densities, they’re the heart of the walkable urban stock that we have. Well, today we have 123 million household units in metropolitan areas. So a very small percentage of the total housing stock is walkable urban, and it’s all the old stuff, the focus of gentrification.

WM: What role does federal policy play in helping fix this?

CL: The biggest way the federal government can help is by making its balance sheet available to local governments. Places like Los Angeles, Washington, Denver are in a mad rush to build more rail transit. In Los Angeles, they voted last November to tax themselves an additional \$120 billion to build rail transit. The feds should be loaning money up front to municipalities and states to build mass transit, repaid by the local tax funds it generates. That would allow these places to get moving right now and pay the money back using the local tax obligations.

WM: If we were to get this right, what would happen to the people who are currently living in drivable suburbs who don’t intend to move?

CL: Those property values, based on the market right now, are flat or going down. Many are still under water from the 2008 housing debacle, where the bulk of lost value was in drivable suburban housing. Our big social challenge is that a lot of drivable suburban places, particularly in low-income suburbs, are where the next slums will be.

WM: And this is related to what people worry about when it comes to gentrification: residents being pushed from the convenient neighborhood closer to the city center, being pushed out to places that are less convenient.

CL: One thing we have not discussed is that we need to have a very aggressive affordable housing program at the walkable urban place level. That's another part of the answer.

WM: What would that look like?

CL: This would be part of the work of the "place manager." Right now, just as we have growth of neighborhood groups, we have growth of place management in this country. It tends to take the form of business or community improvement districts. The government passes legislation that allows property owners to come together and form these districts through voluntary taxes. So the property owners say, for example, "We're going to increase our taxes and provide services to this 300-acre place in downtown D.C. It's going to be cleaner, it's going to be safer, we're going to put flowers out, we're going to run festivals and promote economic development."

Going forward, place managers need to be responsible not just for economic development, but also for social equity and for providing the affordable housing. So people who work in downtown D.C. can also live in downtown D.C., if they so choose.

WM: But how do you force a business improvement district to make sure there's enough affordable housing?

CL: Every few years, a business improvement district or community improvement district has to go back to the city council to be reauthorized. So it would be very simple: the city council says, "In addition to the economic development work that you're doing, you also have to take on affordable housing."

WM: What is the purpose of devolving the responsibility over affordable housing from the city-wide level to this more micro level?

CL: Because the cities have generally failed to provide enough affordable housing. Not all—New York City has built a remarkable amount of affordable housing that works as well as anyplace. But after fifty years of relying on the feds and the cities to provide affordable housing, there's just not enough of it—and what does exist is usually pretty bad. But place management organizations have proven themselves to be effective, and they are closest to the issue.

WM: In other words, given their success at economic development, why not entrust them with this other difficult task?

CL: Exactly. And I'm not going to guarantee that they're going to succeed. But I was involved personally with, in essence, a place manager, which was the University of California at Irvine. Irvine, one of the largest universities in the country, was having a massive affordable housing problem for faculty and staff. We came up with an idea to set up a nonprofit development corporation and transfer some of the university land to it. We borrowed \$2 million of working capital from the UC Board of Regents, which was paid back within three years. We built 1,500 housing units, most of them for sale. We sold them to the faculty and staff at 60 percent of market price. Today the price is still 60 percent of market because we set up resale controls. Households can't sell at the market rate and have a windfall profit, because it would deprive the next generation of affordable housing. And it worked.

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