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CENTER

HOUSING PUBLIC ROUNDTABLE ON

Shaping Downtown DC: Strategies for Increasing Housing and Building a Vibrant Community

Before the Committee on Housing

Chairman Robert White

Tuesday September 24, 2024, 10 AM

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Good morning, Chairman White, and members of the Committee. My name is Emilia Calma, and I am the Director of Research and Policy of the D.C. Policy Center—an independent non-partisan think tank advancing policies for a strong, competitive, compelling, and vibrant District of Columbia. Thank you for the opportunity to testify on increasing housing in Downtown D.C.

The Covid-19 pandemic has made it clear that housing policy is our most important economic development policy. For our city to thrive, we need more housing of all kinds, making the city an attractive place to live and work. With the rise of telework, employment is no longer as compelling of a reason to move to the city. As such, having an abundance of housing options and quality neighborhood amenities have become more important in making the District competitive. In other words, our housing policy is important economic development policy.

In addition, mixed use neighborhoods in D.C. have been more insulated to the economic effects of the pandemic, recovering faster than neighborhoods like downtown which is almost entirely offices and commercial real estate. While office occupancy has improved since the start of the Covid-19 pandemic, the prevalence of remote work and hybrid work structures has led to lasting declines in the number of people traveling downtown.¹ Last year, daily office occupancy was less than half what it was in February 2020.²

As of July of this year, Downtown D.C. commercial real estate has a vacancy rate of 19%, and an availability rate of 25% (availability rate refers to space is either vacant or will soon become vacant due to expiring leases or other factors).³ As a result, businesses downtown have suffered and many have not been able to reclaim the sales volume and staffing levels they maintained pre-pandemic. Many businesses have had to close their doors, and the downtown retail vacancy rate is 25%, more than twice what it was before

¹ McConnell, B. (November 23, 2021). Is mixed-use the future of downtown D.C.? D.C. Policy Center. <https://www.dcpolicycenter.org/publications/mixed-use-future-downtown-dc>

² McConnell, B. & Sayin, Y. (September 28, 2023). 2023 State of Business Report: Doing Business Under Fiscal Distress. D.C. Policy Center. <https://www.dcpolicycenter.org/publications/2023-business-under-fiscal-distress/>

³ CoStar, accessed July 2024.

the pandemic.⁴ The vacancy downtown and economic hardship experienced by the city's residents has led to increases in crime and lowered perceptions of safety.⁵ Additional residential activity downtown would lead to greater economic activity and people on the street, increasing business revenue, public safety, and attractiveness of the neighborhood to residents and workers.

There are several methods to increase the amount of housing downtown with varying timelines for implementation. In the long term, more housing must be built to accommodate new residents. However, in many cases, office to residential conversion is still not economically feasible for many developers. This is due to several factors including the layout of the office building,⁶ construction costs, and the expected return on investment.⁷ While many of these factors cannot be helped, measures can be taken to reduce the cost of housing construction.

Housing construction can be made more economically feasible by reducing costs associated with permitting. Permits, or construction plan reviews, require multiple agencies, inspections, clearances and licenses, and often third-party contractors such as engineers and expeditors. Common complaints about the permitting process include incomplete information or uncertainty regarding what is needed to get a permit and pass an inspection, the need for multiple visits to regulatory agencies, and the lack of information and response to questions. Agencies that oversee building permits are often resistant to change and have not yet been able to implement systems to streamline the permit application process, share permit information, or make the process transparent.⁸

⁴ The vacancy rate noted here is as of 2023.

State of Downtown 2023. (May 2024). DowntownDC Business Improvement District.
https://www.downtowndc.org/wp-content/uploads/2024/05/263162_DDC_2023SoD_LR2.pdf

⁵ State of Downtown 2023. (May 2024). DowntownDC Business Improvement District.
https://www.downtowndc.org/wp-content/uploads/2024/05/263162_DDC_2023SoD_LR2.pdf

⁶ For example, many of the larger buildings would require a courtyard cut into the middle of them to create windows and many buildings have all their plumbing in one area of the floor. In many cases, it is easier to demolish the building and rebuild, or create something more like a dorm structure with a shared bathroom.

⁷ At present, class A office buildings are still expected to return a better investment than residential. However, as office values continue to decline, this math may change soon.

⁸ Sayin, Y. (November 22, 2019). The economic costs of land use regulations. D.C. Policy Center.
<https://www.dcpolicycenter.org/publications/economic-cost-land-use/>

These uncertainties and irregularities in permitting and passing inspections add significant costs to housing projects, ultimately increasing rents and making projects less economically feasible. Changes can be made to permitting and inspection agencies that will streamline the process, lowering the costs of housing construction in the District.

To increase affordability downtown, or for that matter, anywhere in the city, D.C.'s best option is to focus on existing units and work to lower existing rents in available buildings. New construction takes years to complete, and affordable units often require complex financing and additional requirements that can increase the cost of units.⁹ For an immediate and more economically sustainable solution, the city can create affordability by subsidizing rents. The D.C. Policy Center has developed a model, called Inclusionary Conversions, in which a percentage of units in a building are put under a master lease and then subleased at a lower affordability target to qualifying residents. Subsidizing current rents can be done very quickly as long as there is vacancy, is far less expensive than new housing development, and is flexible in that any mix of income levels can be achieved. We will be releasing a whitepaper next month detailing how the model would work and are happy to discuss this further at any time.

Thank you for the opportunity to testify and I welcome any questions you may have.

⁹ McAnaney, P. (January 25, 2024). Why affordable housing can't pay for itself. Greater Greater Washington. <https://ggwash.org/view/92306/why-affordable-housing-cant-pay-for-itself>