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One landlord, one vote

How a form of private governance is quietly remaking America's cities

by SAAHIL DESAI

To get to work at the Washington Monthly each morning, I walk west on P Street, past stately mansions and row houses that are home to well-to-do urban professionals, then cut south to Connecticut Avenue across Dupont Circle, a grassy roundabout with park benches surrounding a marble fountain. The neighborhood around Dupont Circle teems with wealth and history, but that's not what you see in the park. Water flows from only one of the fountain's three spouts. Especially on weekends, the trash cans fill to the brim, and excess garbage swirls in the wind like tumbleweeds. The park is infested with so many rats—by one measure, more than a thousand—that someone created a satirical Yelp page for the "Dupont Circle Rat Sanctuary."

For lunch I sometimes head two blocks farther south on Connecticut to Farragut Square, a park about the same size as Dupont Circle. There, flowers bloom in manicured beds, litter is quickly scooped up by workers in yellow jumpsuits, and local office workers on park benches type away on their laptops using the park's public wi-fi.

Just a half mile separates Dupont Circle from Farragut Square. So what explains the difference between the two parks? Different management. While Dupont Circle is directly overseen by the government (in D.C., that means the National Park Service, which has a $12 billion maintenance backlog), the city has handed the job of maintaining Farragut Square to a private entity called the Golden Triangle Business Improvement District. (Golden Triangle is the name that's been given to a forty-three-square-block section of downtown D.C. that surrounds Farragut Square.) Business improvement districts, or BIDs, are a form of governance that didn't exist fifty years ago but has spread across urban America with increasing speed. They are to commercial neighborhoods roughly what homeowner associations are to residential neighborhoods. That is, they are nonprofit entities controlled by local landlords that provide planning and supplemental municipal services to the area, funded by a tax-like fee that the landlords levy on themselves.

The building owners aren't spending this cash out of the kindness of their hearts—it's a thinly veiled scheme to jack up property values by making the area more desirable. Golden Triangle has succeeded at both: property prices have soared, and the quality of life in the area has improved. Golden Triangle spends upward of $2 million annually to hire street sweepers and "ambassadors" who roam the streets on Segways to guide lost tourists and keep an eye out for crime. Last year alone, the BID removed more than 64,000 bags of litter. To bring some character to this otherwise antiseptic slice of downtown D.C., Golden Triangle screens movies on the Farragut Square park lawn and installs public art: currently, six sculptures from Burning Man, the Nevada art and culture festival, are scattered throughout the area. From my office, I can spot landscapers planting flowers in the median and a woman in a "HOMELESS OUTREACH" T-shirt sitting cross-legged in conversation with a panhandler.

Results like these help explain the growing popularity of BIDs. New York City has the most, with seventy-five, more than half of which were created in the past two decades. D.C. has ten, and 70 percent of people who work in the city work in an area controlled by one of them. But BIDs aren't limited to the handful of thriving American cities—half the nation's roughly 1,500 BIDs are in cities of fewer than 100,000 people.

Despite their ubiquity and power, BIDs are largely invisible to the public—even to those who live and work in the zones they control. Part of the reason is that they tend to work so well. They are better able, or at least more willing, to make places more interesting and inviting than city governments typically are. But if you're like me, you're probably thinking that there's got to be a downside to outsourcing large swaths of cities to property-owning elites. And you're right. By hiking up property values, BIDs drive up rents, making office and retail space increasingly unaffordable for non-wealthy tenants. It's like gentrification, but with a crucial difference: whereas the people who lose out from gentrification are mostly low-income, minority residents priced out of their rental apartments, neighborhoods run by BIDs are largely commercial, so there typically aren't that many residents to displace. Rather, the main victims of BIDs are small businesses that can survive only if the rent on their offices or storefronts isn't too high.

In most cities, these businesses tend to be modest retail stores, like corner groceries, auto repair shops, family-owned restaurants, and neighborhood accountants and dental practices. In D.C., where the dominant industry is politics, the equivalent firms are modest nonprofits. These include obscure professional groups, like the National Assembly of State Arts Agencies (yes, a real entity, located a few floors above the Washington Monthly), or mission-driven outfits like the Washington Legal Clinic for the Homeless or the National Whistleblower Center.

For decades these operations have seen their rents climb from competition for office space with the creeping expansion of white-shoe law and lobbying firms representing wealthy corporate interests. BIDs have juiced that process by further helping elevate property values to the point where landlords—many of them multinational corporations—are vastly upgrading their properties with the aim of attracting higher-paying tenants and, ultimately, flipping the buildings for a nice profit. Each time an older, lower-rent downtown office building is converted to luxury status, it bumps up rents for the nonprofits competing over the reduced office space remaining at the low end.

One such building, on the western edge of the Golden Triangle, was a popular home for nonprofits until 2013, when all the tenants were kicked to the curb for a gut renovation. It now sports a shiny glass facade and a hybrid coffee and wine bar, but the rent is double what it was five years ago, putting it well out of reach for most nonprofits. Since 2010, "renovated buildings have replaced three to four entire city blocks," said Josh Hartman of the real estate firm Avison Young. "The small guys are being squeezed. It can be an existential problem." The nonprofits are forced to choose between moving out of downtown D.C. and away from the action they already struggle to be a part of, or closing altogether.

In other cities, the stakes are high in a different way. Small businesses have long been the sputtering engine of economic and job growth in the United States, and low-rent commercial space has served as both a Petri dish for start-ups and a rung on the ladder of mobility for families who own small businesses. But in many cities, especially those growing the fastest, BIDs are making it harder and harder for small, independent businesses to survive. The solution to this problem is not to outlaw BIDs, which do a lot of good. It's to make them more democratic.

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The seeds of business improvement districts were planted in the ashes of crumbling inner cities. After World War II, as African Americans migrated to northern cities, white people fled en masse for newly built suburbs. The population of Washington, D.C., peaked at 800,000 in the 1950s; by 2000, almost a third of the residents had left, taking much of the tax base with them and leaving behind a city plagued by crime and poverty. The charred remains of neighborhoods firebombed during the 1968 riots still languished some three decades later, as the nation's capital became the nation's murder capital, as well.

As Americans eschewed downtown stores for suburban malls, struggling property owners huddled together with local officials to figure out how to stop the hemorrhaging. They suggested privatization—then the rage—as a way to supplement diminished municipal services. The first BID, in Toronto, popped up in 1970, and four years later, one in New Orleans followed. From there, BIDs slowly inched their way across the U.S., and by 1996, D.C.'s city council passed the BID Act, paving the way for the district's ten BIDs. The premise is simple: Making neighborhoods cleaner and safer goes a long way toward bringing in customers.

"D.C. has to spread its resources evenly over sixty-four square miles," said Chris Leinberger, a professor at George Washington University who studies urbanism. "It wouldn't be fair to give one part of town preferential treatment. But in downtown D.C. or Georgetown, the level of service needed to compete and to create a really special place is much higher than what the city can provide."

The DowntownDC BID, which runs east from the White House to the Capitol, is by far the city's largest and wealthiest. When Rich Bradley founded the BID in 1997, the Verizon Center—where the Washington Wizards and Capitals play, now called the Capital One Arena—was just opening, but the area had office buildings and little else. "The workforce dropped by almost 60,000 people during the Clinton years," Bradley told me. "There were very few restaurants of any kind."

Two decades ago, more than 100 unkempt vacant lots were scattered around downtown; today, there are fewer than ten. Crime has dropped by a third since 1999. That's part of a broader decline, but the BID likely played a role: at least one academic study has found that BIDs are associated with a meaningful decrease in robbery and violent crime compared to neighborhoods without them.

When the Washington Convention Center, a brutalist eyesore, was demolished in the early 2000s, the DowntownDC BID began brainstorming what to put in its place. CityCenter, the eventual replacement, is a gleaming upscale emporium of forty high-end shops and restaurants cased in soulless, boxy architecture. The stores, which include Gucci, Dior, and Hermes, make CityCenter reek of conspicuous consumption and corporate soullessness. But, for all of its undeniable faults, it's the backbone of a walkable neighborhood to which, for the first time in decades, Washingtonians and tourists are actually flocking.

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On a balmy April afternoon, Michael Stevens, who runs the Capitol Riverfront BID in Southeast D.C., was giving me a tour of his domain. "Here's Nationals Park, the baseball stadium, and the Washington Navy Yard. The new ICON theater will go here." Pointing to his left, he showed me Audi Field, the new soccer stadium set to open in July. "The old Coast Guard building will be repurposed as apartments. There's a new condo building under construction over here, too."

I shivered. This whole tour was taking place not on the street, but in an air-conditioned tenth-floor conference room as, gripping a laser pointer, Stevens guided me through a ten-foot-long scale model of the Capitol Riverfront, dotted with tiny trees and a curving simulacrum of the Anacostia River. Outside, a forest of cranes marked the real-life construction projects in the works. A bespectacled sixty-four-year-old with a goatee and a southern drawl, Stevens is the mastermind of development in a region that, for more than a century, was D.C.'s industrial armpit. "It's a complete neighborhood, built from scratch," he remarked with pride.

Most Washingtonians don't know this patch of Southeast D.C., bounded by I-695 to the north and the Anacostia River to the south, as Capitol Riverfront, a moniker that's a bit of focus-grouped branding from Stevens and his team. It's still more widely known as the Navy Yard or "Near Southeast," or, maybe, "that area by the ballpark."

You wouldn't know it now, but this was the city's first industrial neighborhood. Starting in 1799, warships were manufactured at the Washington Navy Yard, along the Anacostia, but a vibrant neighborhood never coalesced. By the 1980s, there were plans to tear it all apart to build a mall. In the '90s, the area was designated a Superfund site after toxic waste leeched into the soil and water. Fast-food chains, car repair shops, and gay warehouse nightclubs were just about the only businesses still around.

"There used to be Saturdays and Sundays when I would walk around taking pictures for three or four hours and might see one or two other people who weren't in cars," said Jacqueline Dupree, who, since 2003, has been writing and photographing the neighborhood for her blog, JDLand. "There was just nobody, except construction workers."

In the late '90s, the military relocated 4,000 workers to the Navy Yard and sold off some extra unused land to private developers. A few office buildings popped up to accommodate all the defense contractors. Then, in 2007, the Department of Transportation opened a new, $300 million headquarters, followed, a year later, by the Washington Nationals stadium, which put the neighborhood on the map for locals for the first time. Almost simultaneously, these new landlords, sensing opportunity, banded together to start the BID, with Michael Stevens as president.

A decade ago, drug deals were openly negotiated in the shadows of the Navy Yard complex, and, according to one study done at the time, just 6 percent of workers and residents called the area “safe.” In 2006, more than 160 cars were broken into. Among Stevens’s first moves was to hire street sweepers and security to buzz around the neighborhood. In the past year and a half, not a single car has been robbed, and nearly 90 percent of people who spend time here call it safe.

As office buildings rose and residents trickled in, one major problem was that there wasn’t enough public transit to accommodate them. While the Navy Yard metro stop has been a fixture in the neighborhood since the early ’90s, bus routes mostly passed it over. So Stevens and his team started to lobby the city to add more. Ten bus lines now service the area, including one that zips back and forth between the Navy Yard and Union Station, D.C.’s main transit hub.

The increase in public transit brought residents, but businesses didn’t immediately follow. So, in the same conference room where he and I spoke, Stevens has wooed new retail tenants, cobbling together a neighborhood where visitors do more than just parachute in for a baseball game. In 2012, the BID helped convert an old industrial building into shops and restaurants, including a brewpub that fills up on weekends and where you can find, if it’s your thing, guava- and passion-fruit-flavored beer. Another draw is Yards Park, along the banks of the Anacostia. Once an awkwardly shaped, abandoned scrap of land, the park is now a genuinely beautiful public space, where a futuristic-looking pedestrian bridge spans a large wading pool full of splashing children on warm days. The net effect has been a population boom: 8,000 people live here now, making Capitol Riverfront the city’s fastest-growing neighborhood. Today, block after block of the Capitol Riverfront is filled with colossal glass office towers and upscale apartment buildings with rooftop terraces that overlook Nationals Park.

Partly because of Stevens’s focus on attracting businesses, thirteen new restaurants opened up last year, including Rasa, a stylish fast-casual Indian restaurant. “Michael Stevens took more than an hour to walk us through the neighborhood and answer all our questions,” said Sahil Rahman, a cofounder of the restaurant. “He helped us choose to open up here.”

If all goes to plan, even more changes could be afoot: Capitol Riverfront is one of four neighborhoods that D.C. has offered to Amazon as the location for their second headquarters, which would bring in 50,000 more employees. Even without Amazon, the population is expected to swell to 20,000 within the next decade, which would make it the city’s most densely populated neighborhood—built on land that not too long ago was mostly vacant or decrepit lots.

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Coney Island, New York, is a different story—a historic neighborhood, defined by commerce, that has fallen on hard times. Tucked at the southernmost tip of the Brooklyn waterfront, Coney Island was once a thriving summer destination for New Yorkers seeking a city escape. But five years after Hurricane Sandy ripped apart the boardwalk, the neighborhood still hasn’t recovered. Vacant storefronts line Mermaid and Neptune Avenues. Most of the remaining businesses, many with deep roots in this insular community—three generations of Wilenskys have run Wilensky Hardware since 1920—are struggling to stay afloat. Coney Island's median household income, a sliver below $30,000, is the second lowest in Brooklyn.

"This is old-school New York," Daniel Ioannou, a lifelong resident, said. "Starbucks hasn't moved in here yet."

Coney Island, in other words, could really use a BID. Yet when the Alliance for Coney Island, a nonprofit coalition of local businesses, proposed one last fall, some local merchants revolted. More than sixty business owners have signed a petition signaling their opposition to the plan. Their reasoning is simple: the rising property values that BIDs promise could mean higher rents that would drive them out of business.

The man leading the charge, Edwin Cosme, owns Hair For U, a salon on Mermaid Avenue sandwiched between a pharmacy and an accountant's office. "This is an unfair tax on the local businesses," said Cosme, a lifelong Coney Island resident with a distinct Brooklyn accent. "It's going to help the amusement parks, but it's not going to help me."

With pro bono help from the Brooklyn Law School Community Development Clinic, Cosme is making his grievances heard, drafting a letter to his city councilman sketching out his worry that Coney Island will turn into "yet another Brooklyn neighborhood that pushes out its longtime residents due to rising rent and costs of living."

Existing small businesses can be first to feel the impact when BIDs are formed. It's no surprise, then, that they are so vocal in opposing them. A proposed BID in Alexandria, Virginia, was scrapped last year after small businesses mobilized against it. In Manhattan's Chinatown, a public discussion about a BID ended in fistfights.

Property owners agree to tax themselves to pay for a BID, but they can easily just pass that cost on to their tenants. (Some leases explicitly specify that tenants pay all the property taxes.) On average, property values rise 15 percent faster in areas with BIDs than in those without them. For struggling small businesses, that translates into higher rents.

"BIDs end up being the most problematic in low-income neighborhoods where the business owners are just eking out a living," said Sharon Zukin, a sociologist at Brooklyn College. "They don't really have the money to contribute to a sizable budget that would pay for things like street cleaning and holiday lighting." In a ploy to bring in new customers, BIDs market areas in ways that favor trendy newcomers at the expense of established businesses. A small hair salon like the one Cosme owns doesn't do much for a BID keen on cozying up to moneyed Millennial shoppers. Ceding more control of commercial districts to the wealthiest coterie of property owners means a preference for disproportionately upscale businesses.

BIDs also accelerate the chain-ification of retail, because chains have the ability to subsidize a new location until a customer base develops. Small businesses don't have that luxury. In CityCenter, the gargantuan development that's the crown jewel of the DowntownDC BID, there are thirty stores that wrap around the building; by my count, all but a couple are chains.

Stacey Sutton, a professor of urban planning at the University of Illinois at Chicago, set out to investigate just how businesses are faring in New York City neighborhoods with BIDs relative to similar ones without them. She wasn't able to find any clear evidence that BIDs improve the prospects of retailers, and in neighborhoods that have a high number of small businesses, sales declined 22 percent and employment dropped 19 percent compared to areas without BIDs. "BIDs may do well at attracting new businesses," Sutton told me, "but they're not necessarily sustaining or helping the businesses that are there grow."

The goal shouldn't be to artificially prop up Edwin Cosme's shop—individual small businesses come and go, after all—but rather to preserve the environment in which future hair salons and hardware stores in Coney Island can thrive. Small businesses, historically a vital component of American job creation and upward mobility, have been under siege for decades, squeezed by the forces of consolidation, financialization, and technological change. (See Stacy Mitchell, "The Truth About Big Business"). Nationally, the number of small retailers has declined by 40 percent over the past twenty years. Last year, more stores closed up shop than in any other year in American history. Small businesses have enough challenges without the additional stress of a BID.

Coney Island is just the type of neighborhood that could suffer from a BID. The bones of a forty-story luxury apartment building, set to open next year, looms over Cosme's storefront, a reminder of the kind of creeping gentrification that he worries a BID would accelerate. "The business owners are the ones who are going to bear the brunt of this BID," he tells me. "We don't want this. We didn't ask for this."

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The privatized structure of BIDs may raise liberals' hackles, but it's clear that BIDs can be a useful tool to remake neighborhoods into places where people actually want to spend their time. Many big-city mayors—who are overwhelmingly Democratic—have thrown their weight behind them. D.C. Mayor Muriel Bowser recently doled out grants totaling $300,000 to five neighborhoods thinking about forming their own BIDs. (One of the grantees, Dupont Circle, with the decaying park, will start collecting taxes from business owners in the fall.)

Still, there are real downsides to BIDs for renters and small business owners, who will not benefit from rising property values and may ultimately be pushed out of the area. Luckily, this isn't a hugely difficult problem to remedy. The best, and easiest, way to revamp how BIDs are run is through city halls; they're the ones who legislate what BIDs can and can't do, while holding them accountable to the public. But too often, they renege on that responsibility.

Cities have to reauthorize BIDs every five years, but they tend to essentially rubber-stamp the proposals and then forget they exist in the intervening years. Only a few times have BIDs really run amok—in the 1990s, New York's Grand Central Partnership was caught paying homeless people $1 an hour for grueling jobs, and a decade later, the head of New York's Washington Heights BID was ousted after revelations that, for eleven years, he had earned $117,000 for a do-nothing job while living large in the Poconos. Political scientist Abraham Unger has found that, in New York, the department of small business services regulates BIDs while simultaneously advocating on their behalf. (It’s as if the EPA were also tasked with lobbying for more coal mines.)

The required BID reauthorizations provide the perfect moment to start holding BIDs accountable and to remake them into something more than just property value–boosting machines. The local governments that allow BIDs to form should force them to consider the interests of the community beyond just landlords. They could mandate that a certain percentage of businesses in the district be independent, or that BIDs provide below-market rent to nonprofits and small businesses, who are most at risk of being harmed by higher rents. It would be analogous to laws that set aside a certain number of units in new apartment buildings for low-income renters.

Really, the best way for BIDs to look out for the interests of small businesses is to reserve places for them on the boards that make the decisions about how BIDs are run. BID-enabling laws tend to specify that a majority of the voting members be property owners, which inevitably fosters resentment from powerless small businesses—and runs counter to the constitutional ideal that everyone should have the same voting power. In Washington, a city where license plates are engraved with the slogan “No taxation without representation,” you would think that the city council would have already realized that the power structure of BIDs might benefit from some restructuring.

Depending on what a city allows, BIDs can take just about any form. “BIDs are a neutral instrument,” said Zukin. “They can be used for whatever the legislation in that locality says they can be used for. BIDs can do almost anything.” So, rather than just letting BIDs do their thing unregulated, cities should be coaxing them to broaden their work. BIDs could be part of an aggressive agenda to boost the affordable housing stock. Especially in poorer neighborhoods, they could be training young residents as tomorrow’s entrepreneurs to take over when business owners die without successors—a problem that leads many of the local businesses to shut down.

BIDs in Europe offer a framework for how they might become more inclusive here in the U.S. In the Netherlands and the United Kingdom, where BIDs have taken off recently, business owners, not landlords, control and pay into the BID; unless a majority of business owners approve of it, a BID doesn’t get implemented.

“BIDs have done a remarkable job at economic development,” said Chris Leinberger, the George Washington University professor. “But now cities need to tell them to add to the scope of their work. They should also be looking at social equity.”

When children are taught the basics of American government in elementary school, the role of local government is typically a footnote. Washington and state capitals, we’re told, are where the wheels of government really turn. But today, a great deal of innovation is happening in metro areas, where most Americans live, and where the overwhelming majority of the country’s economic output is generated: the GDP of the ten largest cities exceeds that of thirty-six states combined.

“Cities are in a radical state of evolution, because so much more is demanded of them,” said Bruce Katz of the Brookings Institution and the author of The New Localism. “They are now responsible for solving most of society’s hardest problems, and they need more sophisticated mechanisms than just government alone to design and deliver.”

BIDs are one of these mechanisms. But even as metro economies thrive, crime remains low, and once-dilapidated regions blossom anew, you don’t have to look too hard to see the lingering woes. The rent is too damn high, putting big cities and good jobs out of reach for many working- and even middle-class residents. Public transit systems are crumbling and chronically underfunded. The wounds of segregation have been slow to heal.

BIDs were drawn up at a moment when cities were reaching for the defibrillator to resuscitate their downtowns. That era has passed. Can BIDs now adapt to meet the current challenge?