

IN THE SUPERIOR COURT OF THE DISTRICT OF COLUMBIA
Civil Division

DISTRICT OF COLUMBIA,
a municipal corporation,
400 6th Street NW
Washington, DC 20001,

Plaintiff,

v.

RED OAK CAPITAL HOLDINGS, LLC,
5925 Carnegie Boulevard, Suite 110
Charlotte, NC 28209

Defendant.

Civil Action No.: _____

COMPLAINT

JURY TRIAL DEMANDED

Plaintiff the District of Columbia (the “District”) brings this action against Defendant Red Oak Capital Holdings, LLC for discriminatory practices that violate the Human Rights Act (“HRA”), D.C. Code §§ 2-1401.01, *et seq.*, by treating tenants differently based on their source of income, while also diminishing the supply of vital, rent-controlled housing in the District. In support of its claims, the District states as follows:

INTRODUCTION

1. The District of Columbia faces a housing crisis. Affordable housing stock has trended downward while rents have trended upward, squeezing out low- and moderate-income renters.

2. Housing subsidy programs, including housing vouchers provided through the Housing Choice Voucher Program (“HCVP”) and other programs, provide critical affordable housing options for lower-income District residents who qualify for and receive them (“subsidized tenants”).

3. But the supply of subsidized housing is limited, and many low- and moderate-

income District residents who require affordable housing either do not have a subsidy or are on waitlists for subsidies. These “unsubsidized tenants” may struggle financially because the high cost of housing often forces them to pay rent that is more than half their monthly income.

4. Rent-stabilized housing, commonly referred to as “rent control,” provides a much-needed stopgap for unsubsidized tenants with limited means. In the District, rent control caps annual rent increases for apartments constructed before 1976. There are approximately 75,000 rent-stabilized units spread across 2,200 buildings in the District, comprising about 36% of all rental units.

5. In 2020, the most recent year for which data is available, the median rent in the District was \$2,554 per month for non-rent-controlled units, compared to \$1,442 per month for rent-controlled units.

6. A landlord may obtain an exemption from rent control for a particular unit when the unit is rented to a subsidized tenant. This exemption allows the landlord to charge more rent than the landlord would be able to charge an unsubsidized tenant for the unit. Specifically, when a subsidized tenant rents a unit in a rent-controlled building and the landlord obtains an exemption from rent control, the rent is determined based on rent for comparable units in non-rent-controlled buildings. The exemption applies for as long as the subsidized tenant lives in the unit and maintains their subsidy.

7. Some District developers have exploited this exemption to maximize profits: they buy rent-controlled properties with the intent of leasing exclusively to subsidized tenants at higher subsidized rates while shutting out unsubsidized tenants who would lease at lower rent-controlled rates.

8. Defendant Red Oak Capital Holdings, LLC (“Red Oak”) provides loans to developers who employ this discriminatory business model.

9. Red Oak's approach to this type of lending begins with an appraisal based on the explicitly discriminatory premise that the developer will exclude unsubsidized tenants from the property in order to ensure greater rental income from subsidized tenants.

10. Red Oak then values and approves the loan based on the developer's representation that it will operate on the same discriminatory premise—i.e., the developer pledges to exempt units from rent control by leasing exclusively to subsidized tenants and excluding unsubsidized tenants.

11. Red Oak incorporates this discriminatory representation into the loan through financial terms that anticipate the property will generate rental income higher than the developer could generate by leasing at rent-controlled rates.

12. To help ensure the developer earns this anticipated rental income, Red Oak maintains the power to approve rent rates for the life of the loan.

13. Red Oak's practices violate the HRA in two respects: (1) its appraisals violate the HRA by discriminating against unsubsidized tenants based on their source of income; and (2) its practice of lending based on this model violates the HRA by having the effect of denying unsubsidized tenants housing based on their source of income.

14. As a result of these illegal lending practices, Red Oak prevents unsubsidized tenants who need affordable housing from renting more than 300 rent-controlled units across the District in Wards 4, 5, 6, 7, and 8, even while the developers Red Oak funds pocket public dollars intended to create *more* affordable housing options, not *less*.

15. In this action, the District seeks declaratory and injunctive relief, restitution, damages, civil penalties, costs, and attorney's fees against Red Oak for engaging in unlawful lending practices that shut out unsubsidized tenants who are in need of affordable housing.

PARTIES

16. Plaintiff District of Columbia is a municipal corporation empowered to sue and be sued and is the local government for the territory constituting the permanent seat of the government of the United States. The District is represented by and through its chief legal officer, the Attorney General for the District of Columbia. The Attorney General has general charge and conduct of all legal business of the District and all suits initiated by and against the District and is responsible for upholding the public interest. D.C. Code § 1-301.8l(a)(1). The Attorney General is expressly authorized to enforce the HRA. D.C. Code § 2-1403.16a.

17. Defendant Red Oak Capital Holdings, LLC is a North Carolina limited liability company with a principal place of business at 5925 Carnegie Boulevard, Suite 110, Charlotte, NC 28209. Red Oak provides loans to buyers and developers of multifamily residential properties in multiple jurisdictions around the country, including in the District of Columbia.

JURISDICTION

18. This Court has subject matter jurisdiction over this case pursuant to D.C. Code § 11-921(a) and under the HRA, D.C. Code § 2-1403.16a(a).

19. This Court has personal jurisdiction over Red Oak pursuant to D.C. Code § 13-423(a)(1) because it transacts business in the District and pursuant to § 13-423(a)(5) because it has an interest in real property in the District.

FACTUAL ALLEGATIONS

I. The Importance of Affordable Housing in the District

20. The District is in an affordable housing crisis. For many District residents, high rents consume a disproportionate share of household expenditures. In recent years, the District's rental housing market has become more expensive while the availability of affordable rental housing has plunged.

21. According to the US Census Bureau, in 2024 more than 23% of District renters spent more than half of their monthly income on rent.

22. Housing programs intended to combat this crisis, including rent control and housing vouchers, are increasingly important to low-income District tenants seeking to obtain affordable housing and navigate the high cost of living.

23. The Council of the District of Columbia created the Rent Stabilization Program decades ago to preserve affordable rental housing in the District. D.C. Code §§ 42-3501.01, *et seq.*

24. Under the District's rent control program, annual rent increases are limited to 2% over the Consumer Price Index, with a maximum cap, unless an exception applies. Landlords are also limited in the amount rent can be increased when there is a vacancy. Rent control applies to a building; tenants do not have to independently qualify for it. This ensures that tenants who may not qualify for or cannot participate in the District's subsidized housing programs can still obtain affordable housing.

25. Because rent increases in rent-stabilized housing are capped, rent control protects District residents against rapidly increasing housing costs. Rent control thus provides affordability and stability for many tenants who can better predict rent increases and budget accordingly. Research suggests that this price stability in rent-controlled housing leads to longer tenancies and fewer evictions.

26. Rent control protections apply to all rental housing in the District built before 1976, unless a specific exclusion or exemption applies. Under District law and regulation, landlords must register all rental units with the Rental Accommodations Division ("RAD") at the District's Department of Housing and Community Development as either subject to or exempt from rent control, and must disclose to prospective tenants who apply to lease a unit whether the unit is rent-controlled or eligible for an exemption to rent control.

27. Housing subsidy programs, such as HCVP, are a complement to rent control, offering a critical lifeline to the District's poorest residents.

28. Under these programs, subsidized tenants pay a portion of their income toward rent for an apartment on the private market and the voucher funder, usually the Federal or District government, pays the rest of the rent directly to the landlord.

29. Depending on the subsidy program, a maximum monthly rent is set by the program funder. These programs guarantee consistent, reliable rents to landlords.

30. Under current District law, when a rent-controlled unit is leased to a subsidized tenant the landlord can apply to RAD to exempt the unit from rent control. Once exempted, the rent control cap no longer applies to the subsidized tenant. Because subsidy programs set their rent rates based on market conditions, the amount paid under subsidy programs is typically above what landlords can charge non-subsidized tenants in rent-controlled units.

31. Recently, some property development companies have exploited this regulatory scheme, subverting the District's efforts to maintain affordable housing options for unsubsidized tenants.

32. These developers acquire rent-stabilized buildings, attempt to buy out or otherwise remove existing tenants who lease at rent-controlled rates, and then seek to maximize the number of subsidized tenants to exempt the unit from rent control and permit the landlord to charge higher rent.

33. This practice is limiting the supply of affordable housing for unsubsidized tenants. By leasing rent-stabilized units exclusively to subsidy holders, these developers exempt those units from rent control and thus eliminate whole buildings as affordable housing options for unsubsidized tenants. Hundreds, if not thousands, of apartments affordable to unsubsidized tenants are effectively removed from the rent-controlled market every year.

34. With this scheme, these developers circumvent rent control and discriminatorily shut out its intended beneficiaries—unsubsidized tenants with limited means who cannot afford the higher rates that subsidized tenants can afford using their subsidies.

II. Red Oak’s Role in Reducing Affordable Housing Options in the District

35. Red Oak provides short-term bridge loans to buyers and developers of multifamily properties around the country, including in the District.

36. Red Oak makes some of these bridge loans to District developers who purchase distressed, rent-controlled multifamily housing based on the premise that the developers will renovate the properties and then maximize rental income by leasing exclusively to subsidized tenants who rent at higher rates.

37. Red Oak explicitly touts this lending model.

38. At a real estate conference in 2022, Red Oak CEO Gary Bechdel reportedly claimed that this model is attractive specifically because of the additional revenue that investors can recoup from high rent rates for units leased by subsidized tenants. “D.C., from what we’ve seen, is the best at this program [...] They have the most money.”

39. Red Oak also touts this lending strategy prominently on its website in describing its transactions in the District. Red Oak points to the “significant potential for value creation due to higher subsidized HCVP rental rates” and explains to potential investors that “units under the [voucher] program tend to generate greater rents than could be achieved on the open market.”

40. Red Oak is aware that the properties purchased with its loans could not achieve their expected revenue projections if the developers rented to unsubsidized tenants at rent-controlled rates.

41. Red Oak’s own appraisals for these properties frequently rely on revenue projections built on the assumption that unsubsidized tenants will be excluded from all or most of

the units. The appraisals explicitly note that rents paid through the District's subsidized voucher programs are almost always higher than rents in the District's rent-controlled market.

42. By funding business plans that require developers to charge non-rent-controlled rates, Red Oak has effectively prevented unsubsidized tenants, including those with limited means, from leasing in the rent-controlled buildings that developers purchase with these loans.

43. To ensure that developers meet their revenue projections for these buildings, Red Oak retains the ability to dictate the rent rates for all units.

44. On at least seven occasions, Red Oak has based its in-house appraisal of a rent-controlled building in the District on the expectation that future tenants would have a subsidy. These buildings include Jennifer Apartments,¹ 1017 17th Place NE,² The Wiltshire Apartments,³ Hawaii Avenue,⁴ Minnesota Commons,⁵ 1525 19th St SE,⁶ and Wilmington Place SE.⁷ All of these buildings were purchased by developers with a Red Oak bridge loan. Collectively, these buildings have more than 300 units.

45. At the Wiltshire Apartments and 1525 19th St SE, Red Oak appraised and then lent to the developers based on the developers' representations that they would actively remove existing tenants and reoccupy the building exclusively with subsidized tenants charged above the rent-controlled rate.

46. At the Wiltshire Apartments, Red Oak was particularly focused on "the schedule [the borrower] envisions as to when he will be able to replace legacy tenants under lease with future HCVP higher rental tenants. That will be the key to his loan exit prospects."

¹ 1413-1415 Tuckerman St NW, Washington DC 20011, with 65 units in Ward 4.

² 1017 17th Place NE, Washington, DC 20002, with 8 units in Ward 5.

³ 819 E Capitol Street SE, Washington, DC 20003, with 17 units in Ward 6.

⁴ 89-93 Hawaii Ave NE, Washington, DC 20011, with 22 units in Ward 5.

⁵ 4069-4089 Minnesota Ave NE, Washington, DC 20019, with 123 units in Ward 7.

⁶ 1525 19th Street SE, Washington, DC 20020, with 26 units in Ward 8.

⁷ 102-108 Wilmington Pl SE, Washington, DC 20032, with 48 units in Ward 8.

47. At Hawaii Avenue, Minnesota Commons and 1017 17th Place NE, Red Oak appraised and then lent to property developers based on representations that they would develop or renovate the then-empty properties and, following renovation, rent solely to subsidized tenants, to the exclusion of unsubsidized tenants.

48. At Jennifer Apartments and Wilmington Place SE, Red Oak extended loans for at least partially occupied buildings with the expectation that the developers would exclusively rent to subsidized tenants going forward.

49. For example, Red Oak made the decision to lend to the developer of Wilmington Place in part based on “the recent approval by the Wash[ington] DC Housing Authority to substantially increase housing choice voucher rents,” which the developer promised “will be in effect at 100% of the completed units.”

50. By appraising properties based on revenue projections that require renting exclusively to subsidized tenants, Red Oak has effectively shut out unsubsidized tenants from hundreds of affordable housing units across over half a dozen District properties.

CAUSES OF ACTION

COUNT ONE

Appraising Real Property Based on Source of Income in Violation of the Human Rights Act, D.C. Code § 2-1402.21(a)(3)

49. The District re-alleges the foregoing paragraphs of this Complaint as if fully set forth herein.

50. The HRA is a broad remedial statute enacted “to secure an end . . . to discrimination” in the District on the basis of 23 protected traits, including source of income. D.C. Code § 2-1401.01.

51. Under the HRA, it is an unlawful discriminatory practice to “appraise a property” “based on the actual or perceived . . . source of income” of any individual. D.C. Code § 2-

1402.21(a)(3).

52. The HRA defines “source of income” broadly to encompass income from all legal sources, including subsidies and vouchers. *See* D.C. Code § 2-1401.02(29).

53. By appraising the value of multiple properties across the District based on the premise that units at the properties will be leased exclusively to subsidized tenants, to the full or partial exclusion of unsubsidized tenants, Red Oak has based its appraisals on the source of income of the properties’ prospective tenants, in violation of D.C. Code § 1402.21(a)(3).

COUNT TWO

Implementing Policies that Have the Effect of Discriminating in Housing Based on Source of Income, in Violation of the Human Rights Act, D.C. Code § 2-1402.68

54. The District re-alleges the foregoing paragraphs of this Complaint as if fully set forth herein.

55. Under the HRA, it is an unlawful discriminatory practice “based on the actual or perceived . . . source of income” to “interrupt or terminate, or refuse or fail to initiate or conduct any transaction in real property.” D.C. Code § 2-1402.21(a)(1).

56. Under the HRA’s Effects Clause, “[a]ny practice which has the effect or consequence of violating any of the provisions of this chapter shall be deemed to be an unlawful discriminatory practice.” D.C. Code § 2-1402.68.

57. Red Oak has engaged in the practice of underwriting and issuing multiple loans for rent-controlled properties based on the assumption that the developers will lease exclusively to subsidized tenants. These loans are therefore based on projected revenues that can only be realized by leasing to subsidized tenants and excluding unsubsidized tenants.

58. In the terms of its loans, Red Oak has maintained the right to control rent rates at the subject properties, further ensuring that developers lease to subsidized tenants to maximize profit.

59. These practices have had the effect of causing developers to refuse or fail to initiate and conduct transactions in real property (i.e., leases) based on the source of income of unsubsidized tenants, in violation of D.C. Code §§ 2-1402.21(a)(1) and 2-1402.68.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff the District of Columbia respectfully requests that the Court:

- a. Declare that Red Oak's conduct violates the HRA;
- b. Permanently enjoin Red Oak, pursuant to D.C. Code § 2-1403.16a(e), from violating the HRA, including prohibiting the company from:
 - i. Appraising properties based on the premise that the developers will make leasing decisions for prospective tenants based on their source of income;
 - ii. Extending loans to developers with an expressed intent to lease to prospective tenants based on their source of income;
 - iii. Engaging in any other appraising or lending practices that have the effect of limiting prospective tenants from entering into leases at buildings purchased with Red Oak funds based on the tenant's source of income.
- c. Order Red Oak to pay the District civil penalties of \$10,000 for each violation of the HRA, pursuant to D.C. Code § 2-1403.16a(c)(1), in a total amount to be proven at trial;
- d. Award the District its reasonable attorneys' fees and costs, pursuant to D.C. Code § 2-1403.16a(e); and
- e. Grant such other and further relief as this Court deems appropriate.

JURY DEMAND

The District of Columbia demands a jury trial.

Dated: February 20, 2026

Respectfully submitted,

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