THE ECONOMY AND COMMERCIAL REAL ESTATE MARKETS IN THE WASHINGTON METRO AREA

MAY 2013

DELTA ASSOCIATES
A Transwestern Company

PREPARED FOR: rma THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE

AGENDA

1. Regional Economy
2. Sequestration Update
3. Washington Area Apartment Market
4. Washington Area Housing Market
5. Washington Area Condominium Market
6. Washington Area Office Market
7. Conclusions and Opportunities

Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE MARKETS IN THE WASHINGTON METRO AREA

REGIONAL ECONOMY

DELTA ASSOCIATES
A Transwestern Company

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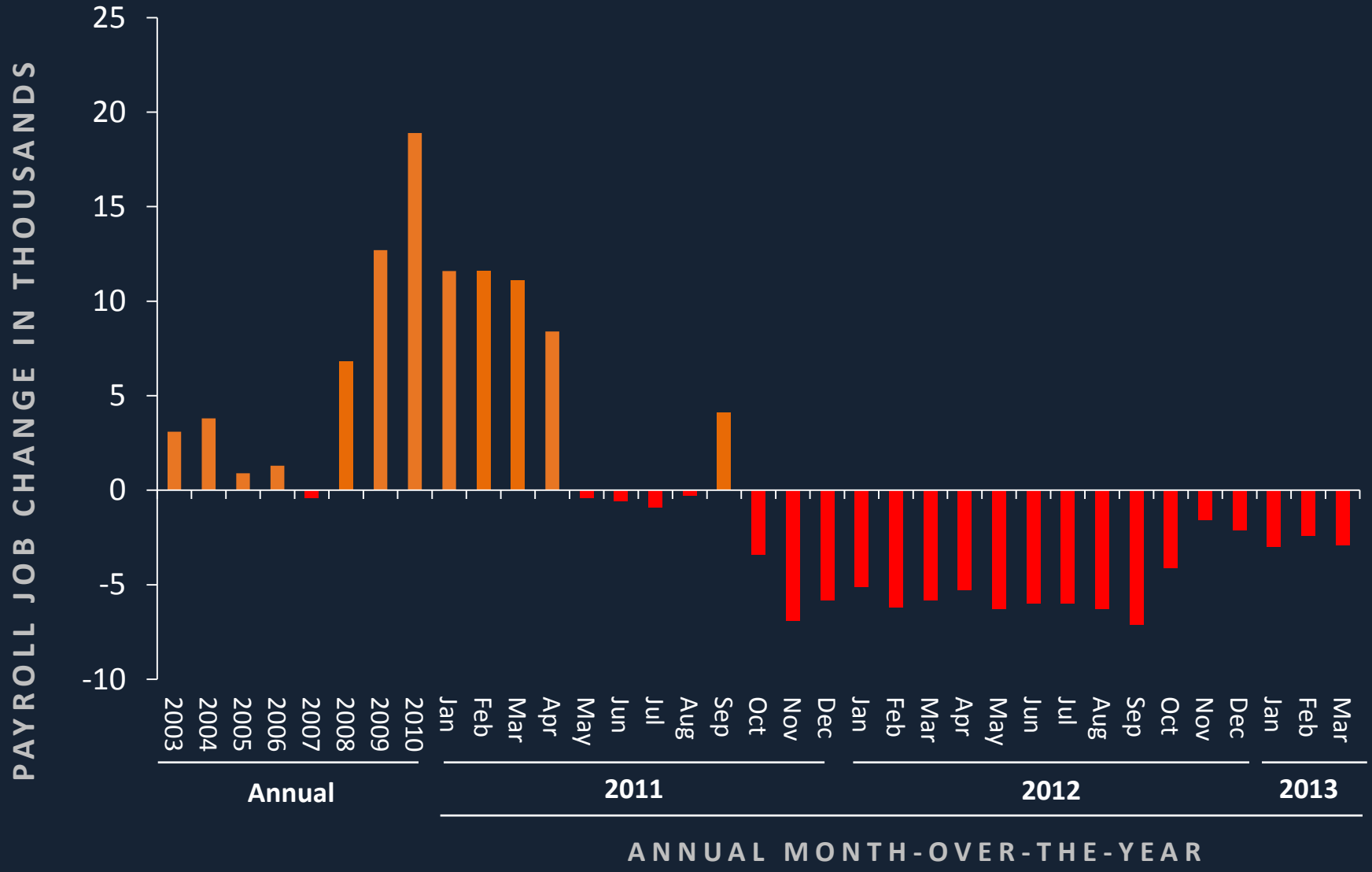
VULNERABILITY

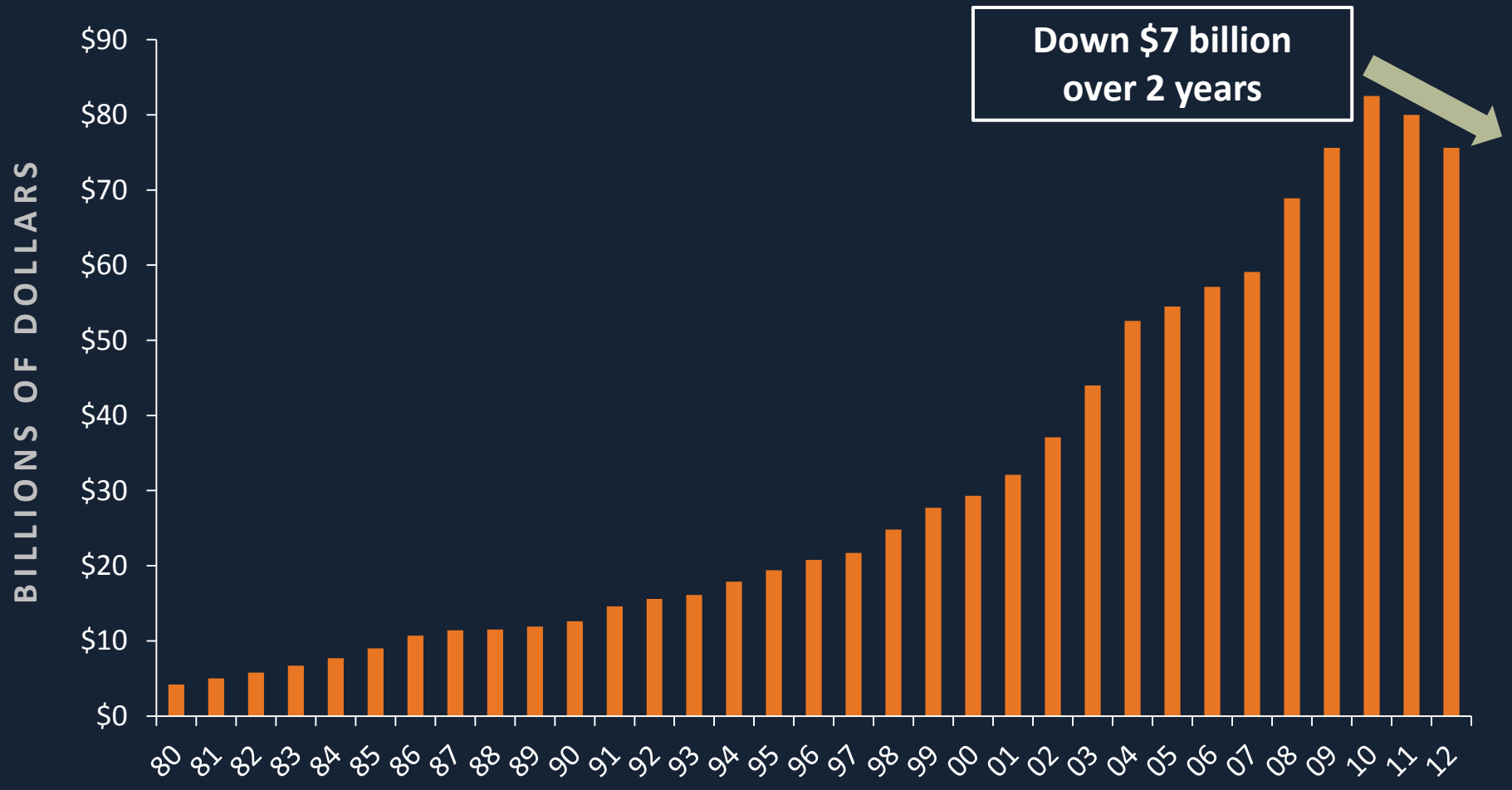
Federal Government Payroll Job Change
Washington Metro Area



Source: U.S. Bureau of Labor Statistics, Delta Associates; May 2013.

VULNERABILITY

Federal Procurement Spending
Washington Metro Area – 1980-2012

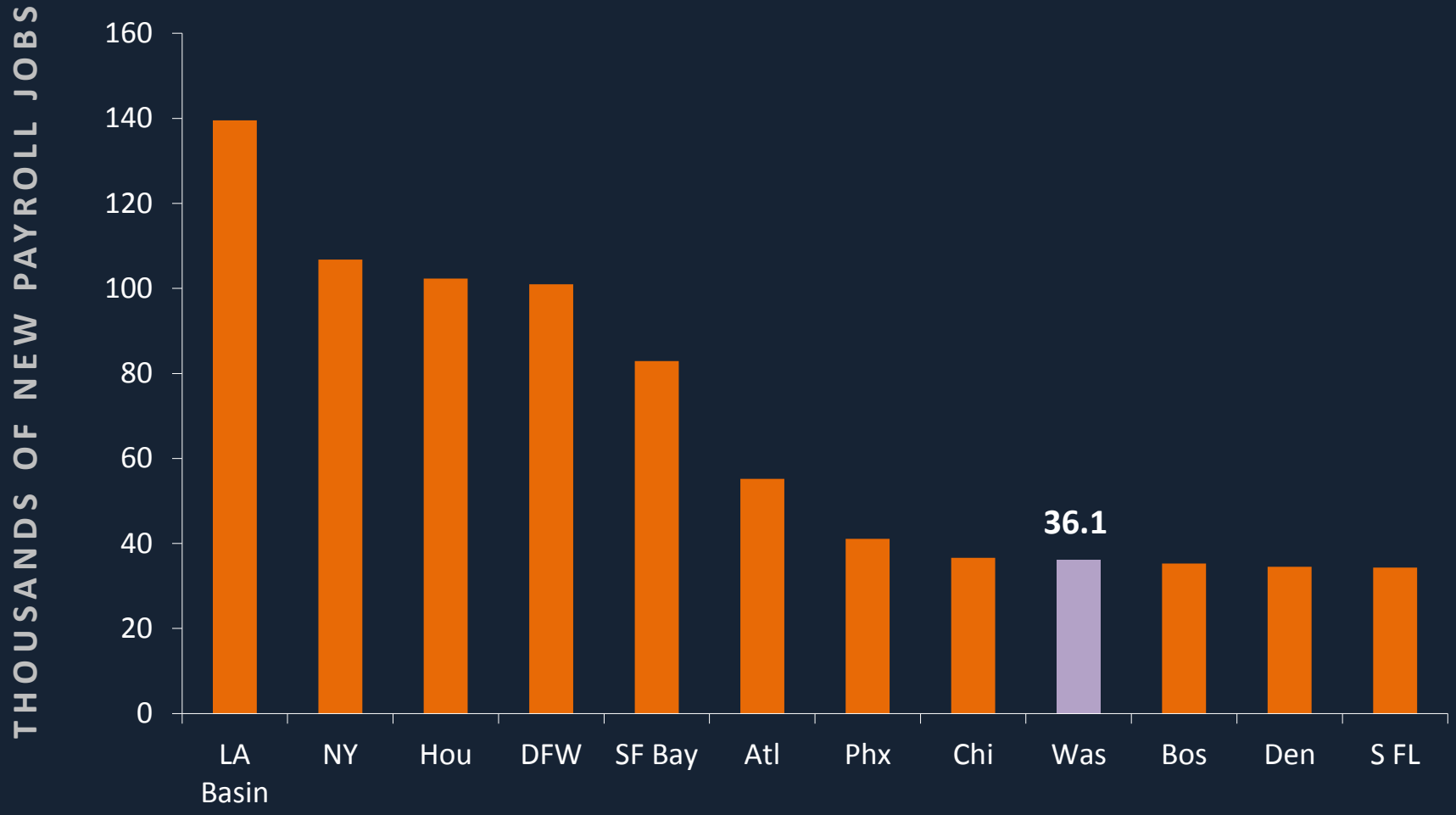


Source: GMU CRA, U.S. Census, Delta Associates; May 2013.

PAYROLL JOB GROWTH

Large Metro Areas

12 Months Ending March 2013



Source: U.S. Bureau of Labor Statistics, Delta Associates; May 2013.

PRIVATE SECTOR GROWTH

Organizations Moving to or Expanding in the Washington Metro Area

amazon.com

BECHTEL

SIEMENS

Hilton

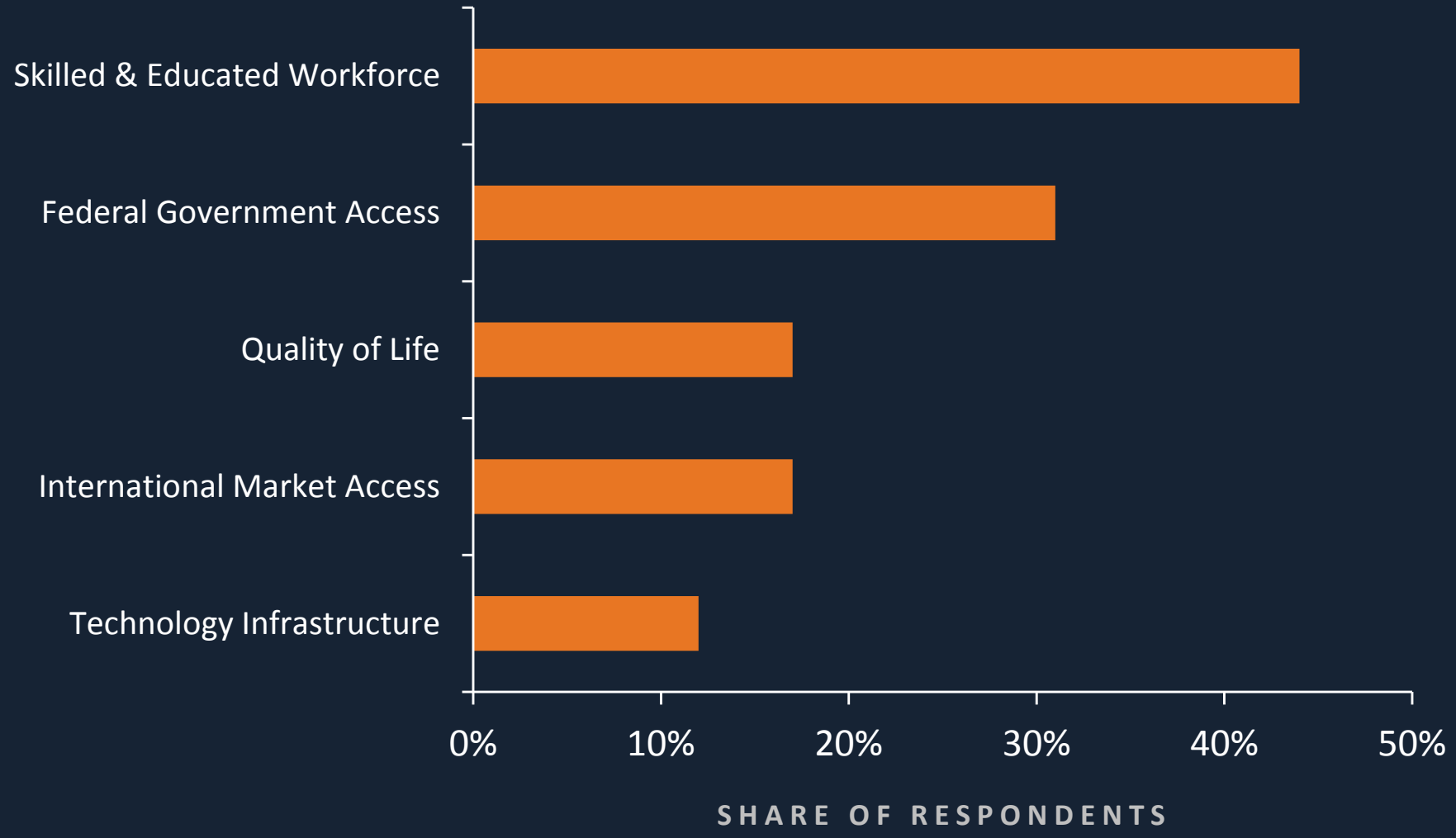
INOVA

JOHNS HOPKINS UNIVERSITY

Source: Amazon.com, Bechtel, Hilton, INOVA, Johns Hopkins University, Siemens, Delta Associates; May 2013.

PRIVATE SECTOR GROWTH

Primary Reasons Companies Relocate to Area
Washington Metro Area

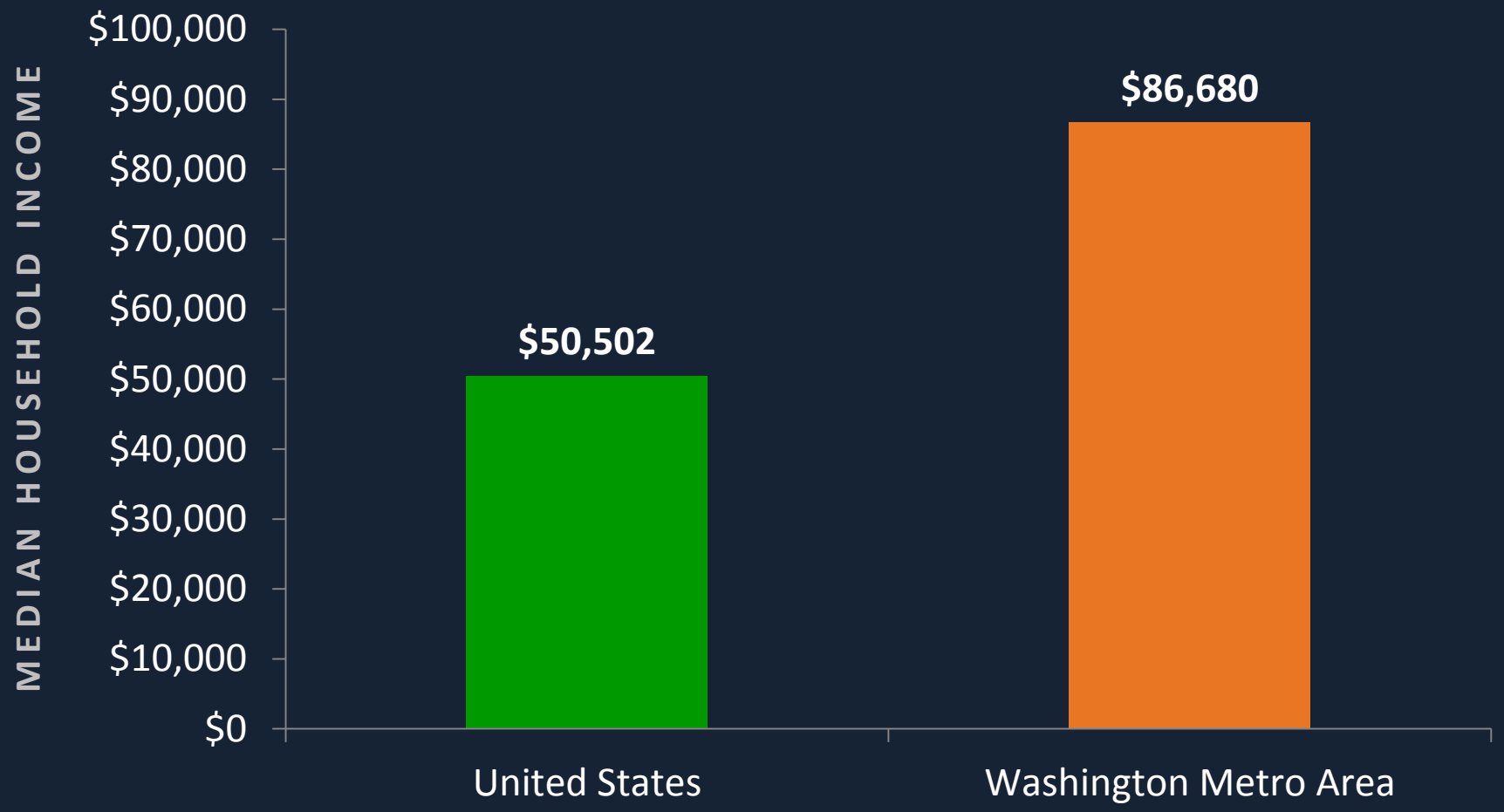


Source: MWCOG, Delta Associates; May 2013.

Note: Totals more than 100% because of multiple responses.

PRIVATE SECTOR GROWTH

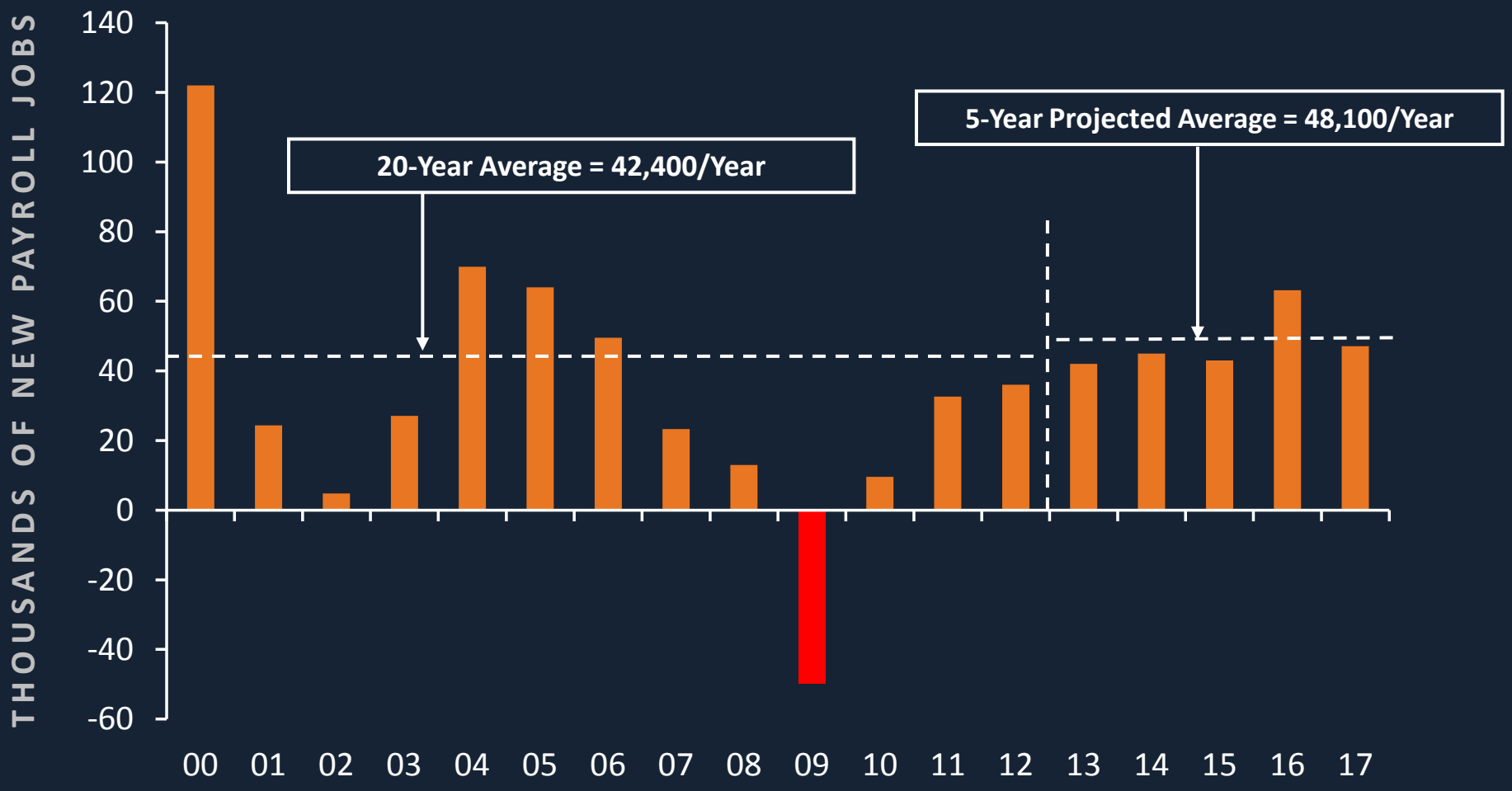
Median Household Income | 2011



Source: U.S. Census Bureau, Delta Associates; May 2013.

PAYROLL JOB GROWTH

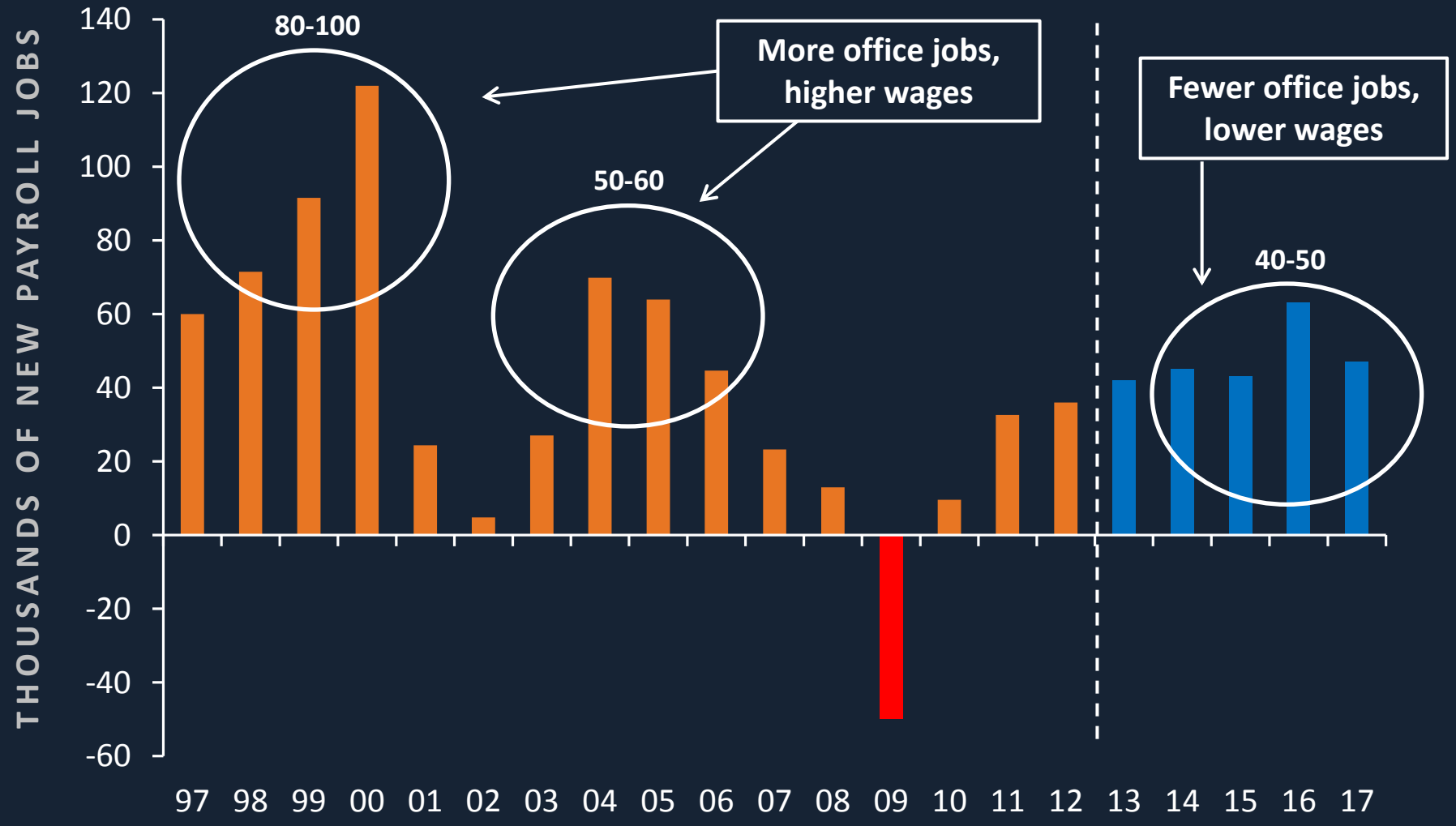
Washington Metro Area | 2000-2017



Source: U.S. Bureau of Labor Statistics, Dr. Stephen Fuller, Delta Associates; May 2013.

PAYROLL JOB GROWTH

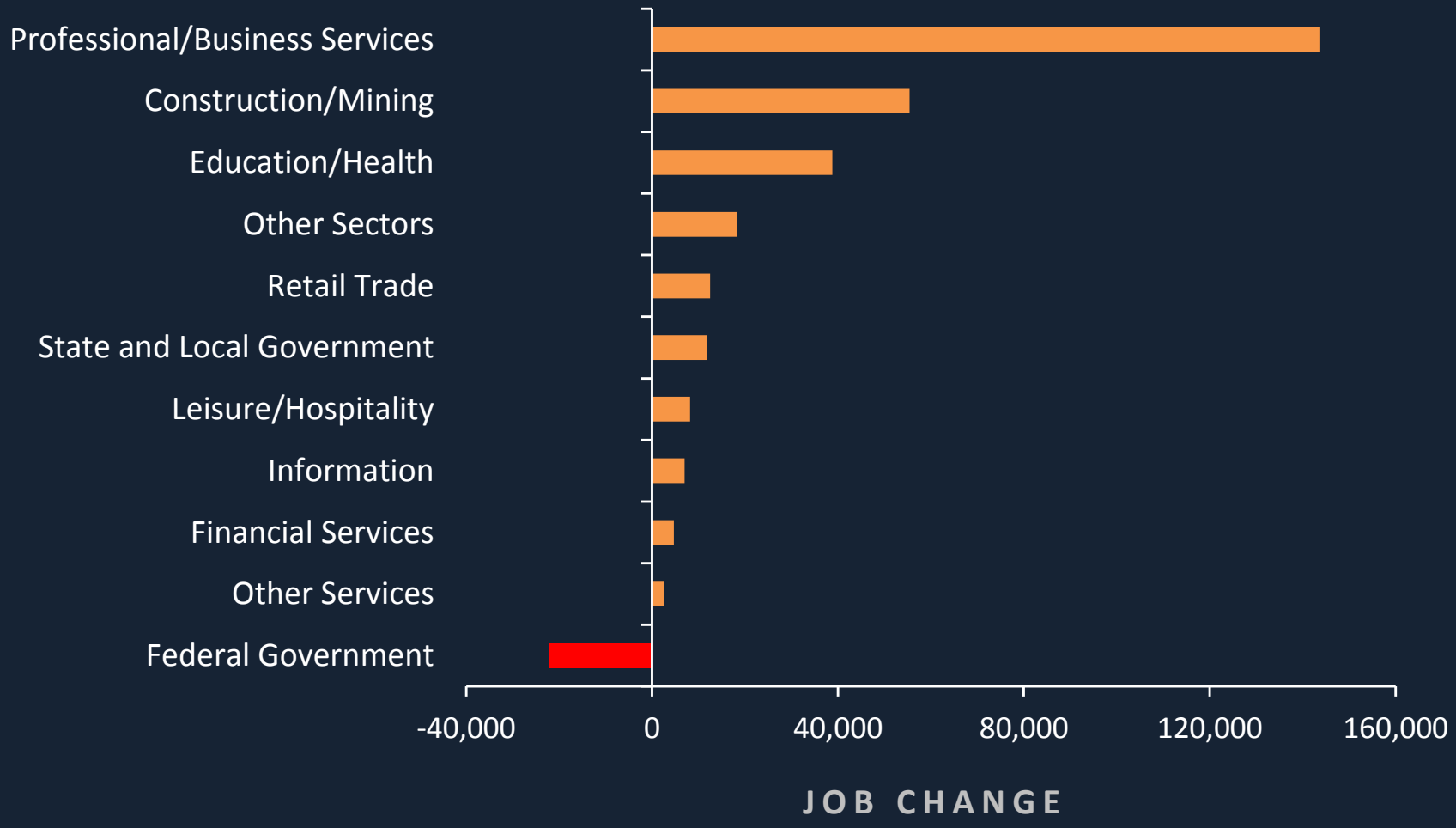
Comparing Expansion Cycles
Washington Metro Area – 1997-2017



Source: U.S. Bureau of Labor Statistics, Dr. Stephen Fuller, Delta Associates; May 2013.

PROJECTED PAYROLL JOB GROWTH

Washington Metro Area | 2012-2017



Source: Dr. Stephen Fuller, Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE MARKETS IN THE WASHINGTON METRO AREA

SEQUESTRATION UPDATE

DELTA ASSOCIATES
A Transwestern Company

PREPARED FOR: rma THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE

SEQUESTRATION UPDATE

- Implementation began on March 1, 2013
- So far, economic impact on Washington area has not been as severe as was widely expected
  - Federal government relying more on furloughs than layoffs
  - Only affects seven months of government's 2013 fiscal year, rather than nine, as originally planned
- Still a concern due to spending cuts in future years
- Non-sequestration budget changes, such as payroll tax increase, have had limited impact on consumer spending thus far, but the threat remains
- Could contractors consolidate into the Washington area?

Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE
MARKETS IN THE WASHINGTON METRO AREA

WASHINGTON AREA APARTMENT MARKET

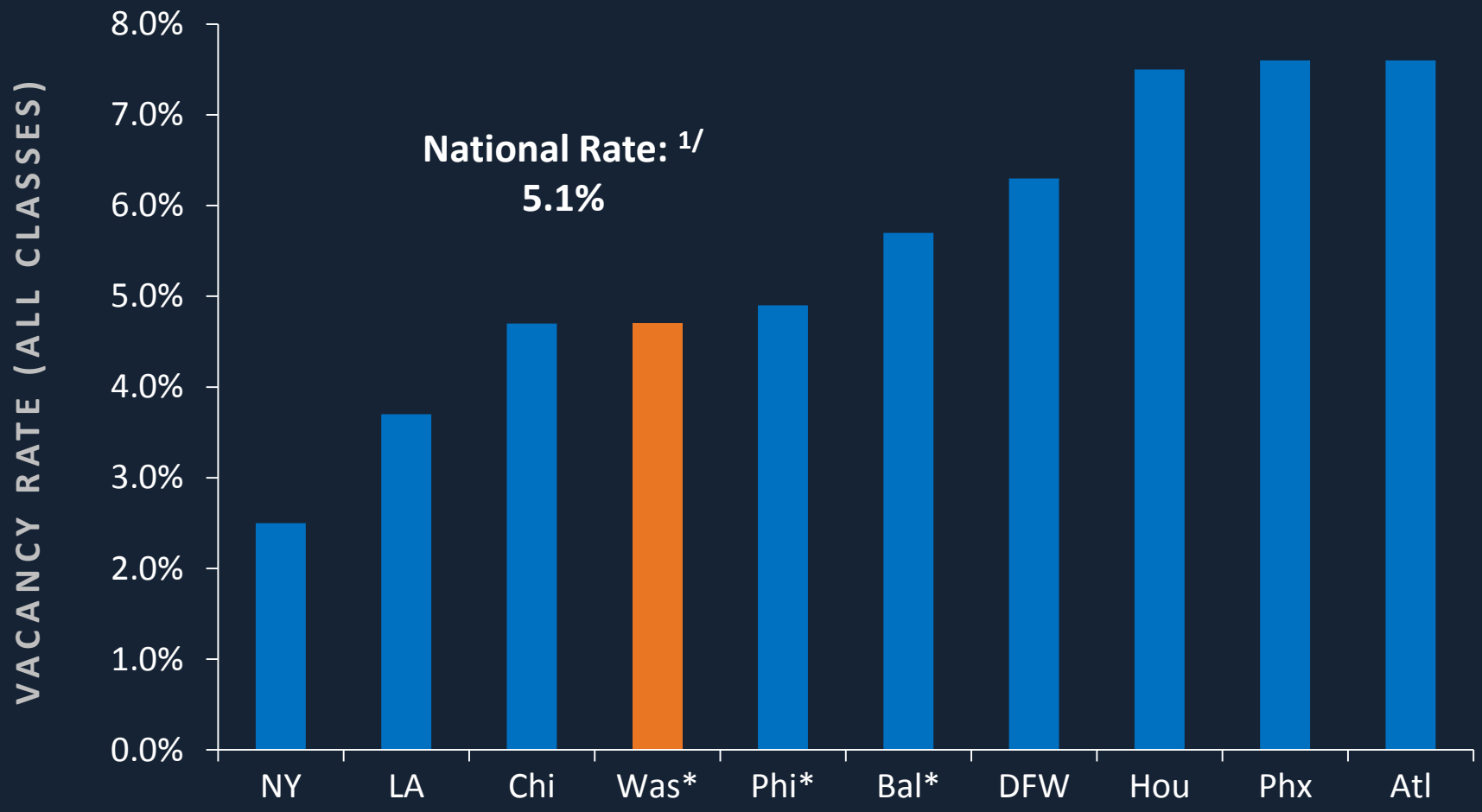
DELTA ASSOCIATES
A Transwestern Company

PREPARED FOR: rma THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE

APARTMENT VACANCY RATES

Major Apartment Markets



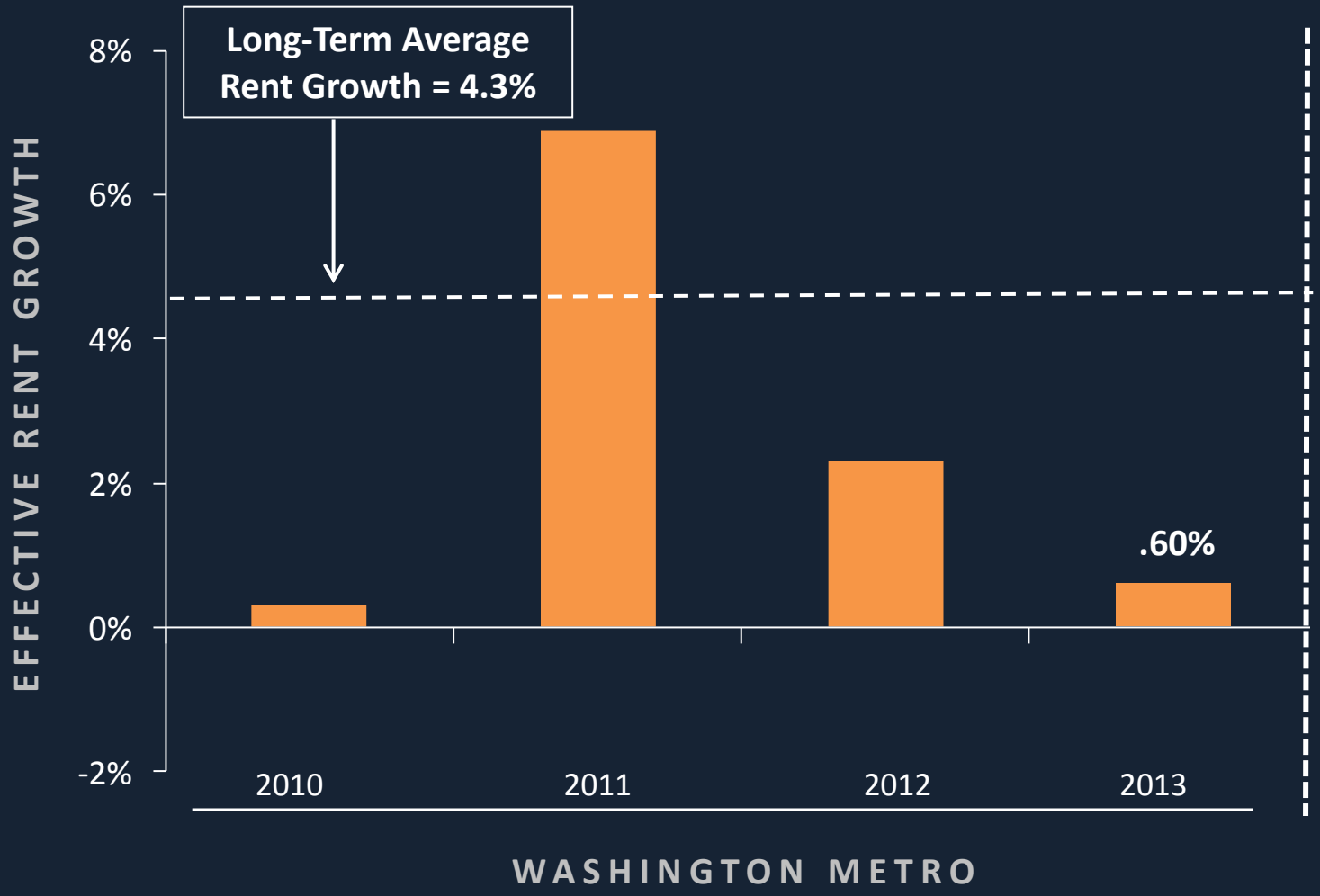
Source: MPF, Delta Associates; May 2013.

1/ The 57 largest apartment markets in the U.S.

** Year-end 2012 data except for Washington, Philadelphia, and Baltimore, which are as of first quarter 2013.*

ANNUAL RENT GROWTH CLASS A APARTMENTS

Washington Metro Area | 2010-2013*

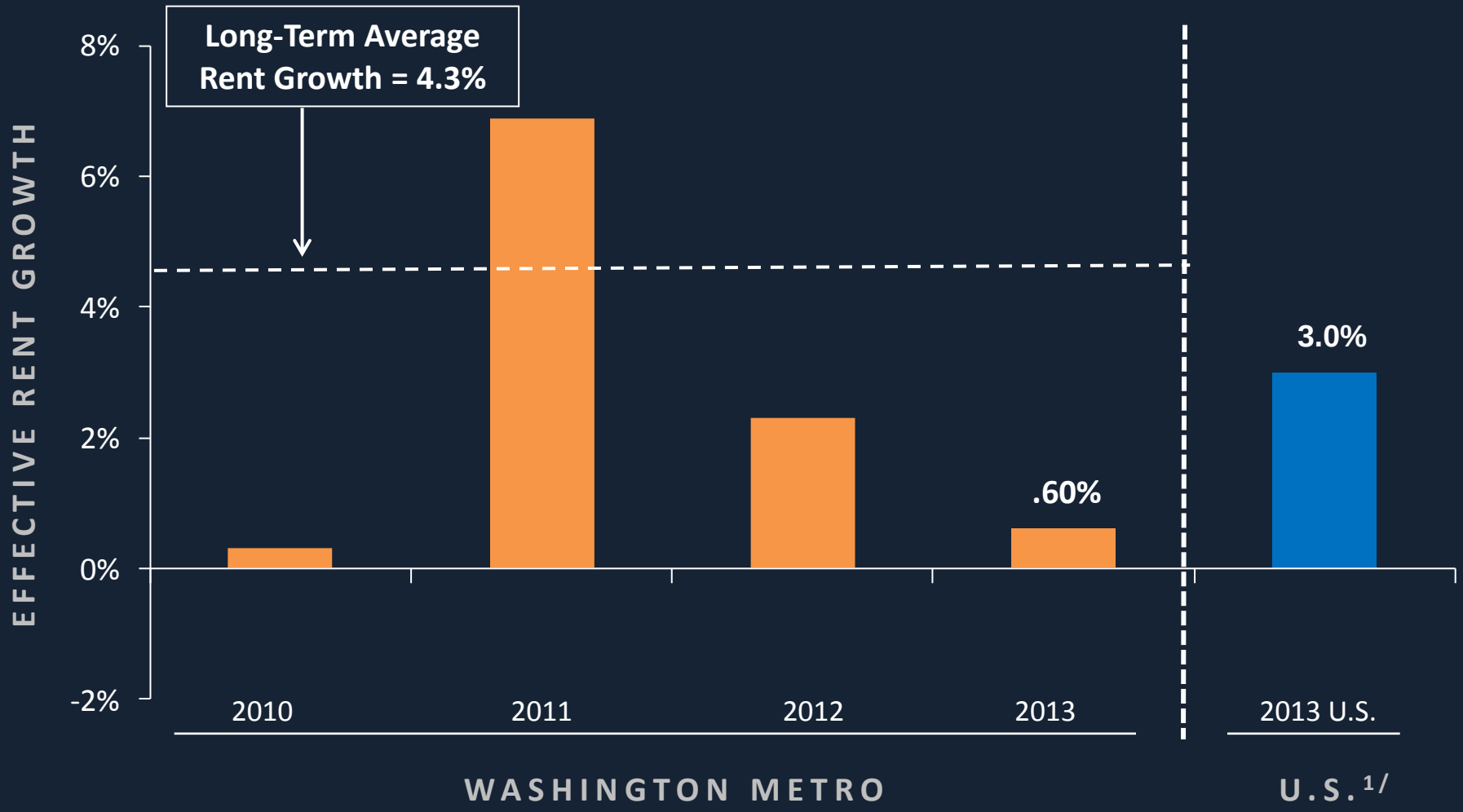


Source: Delta Associates; May 2013.

**12 months ending March of each year.*

ANNUAL RENT GROWTH CLASS A APARTMENTS

Washington Metro Area | 2010-2013*



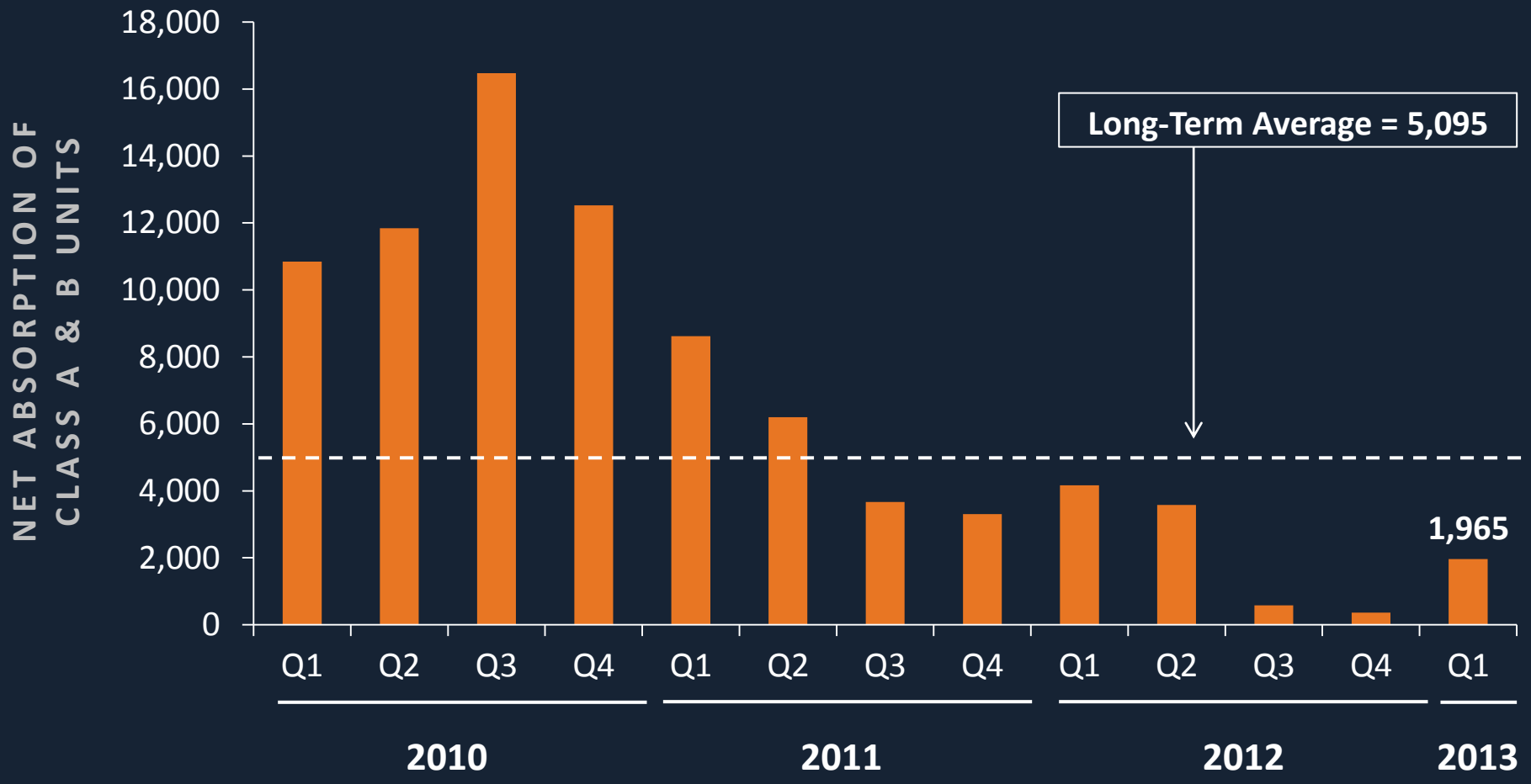
Source: Delta Associates; May 2013.

1/ MPF Research.

**12 months ending March of each year.*

ANNUAL NET APARTMENT ABSORPTION

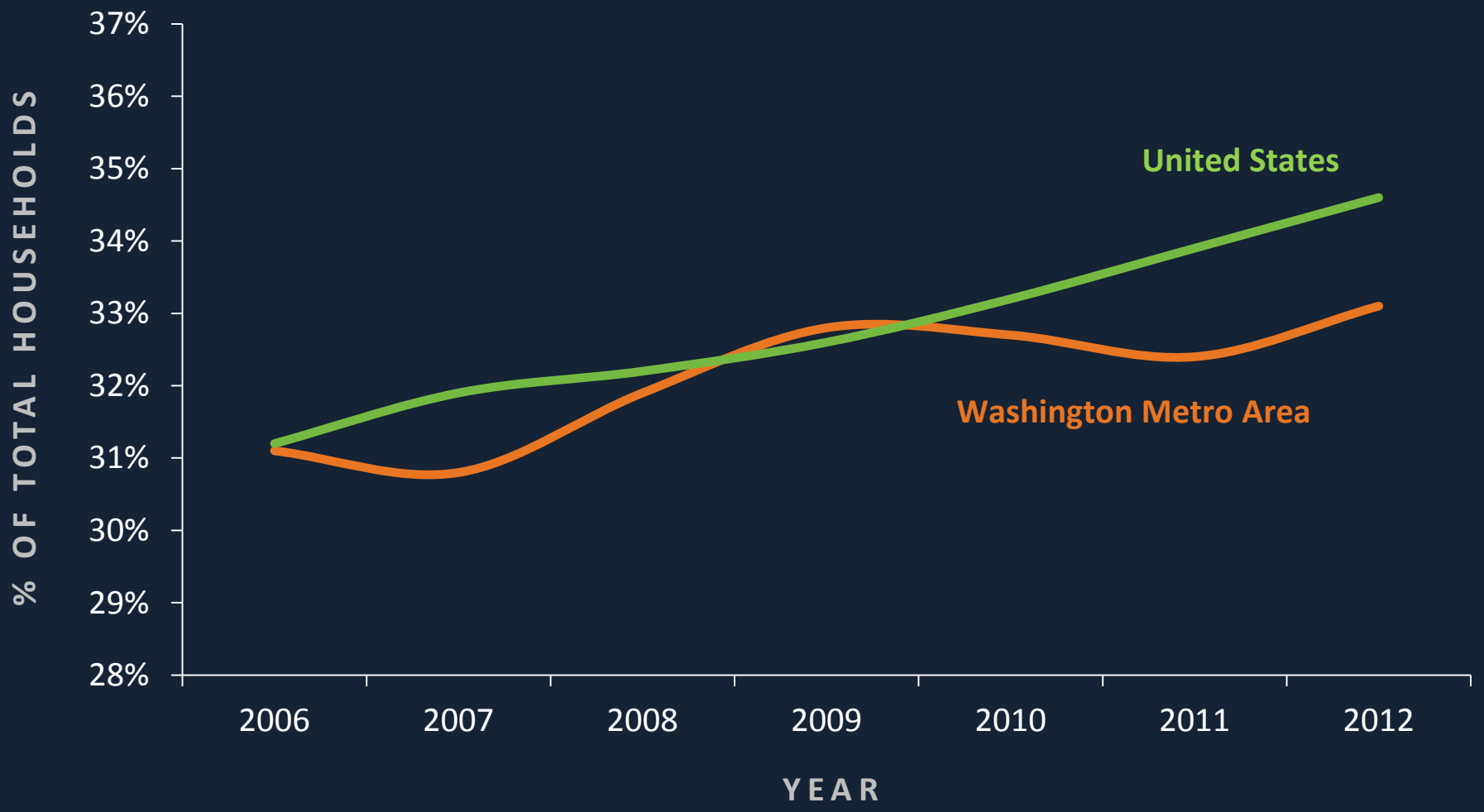
Class A & B Units | Washington Metro



Source: Delta Associates, May 2013.

RENTER HOUSEHOLDS

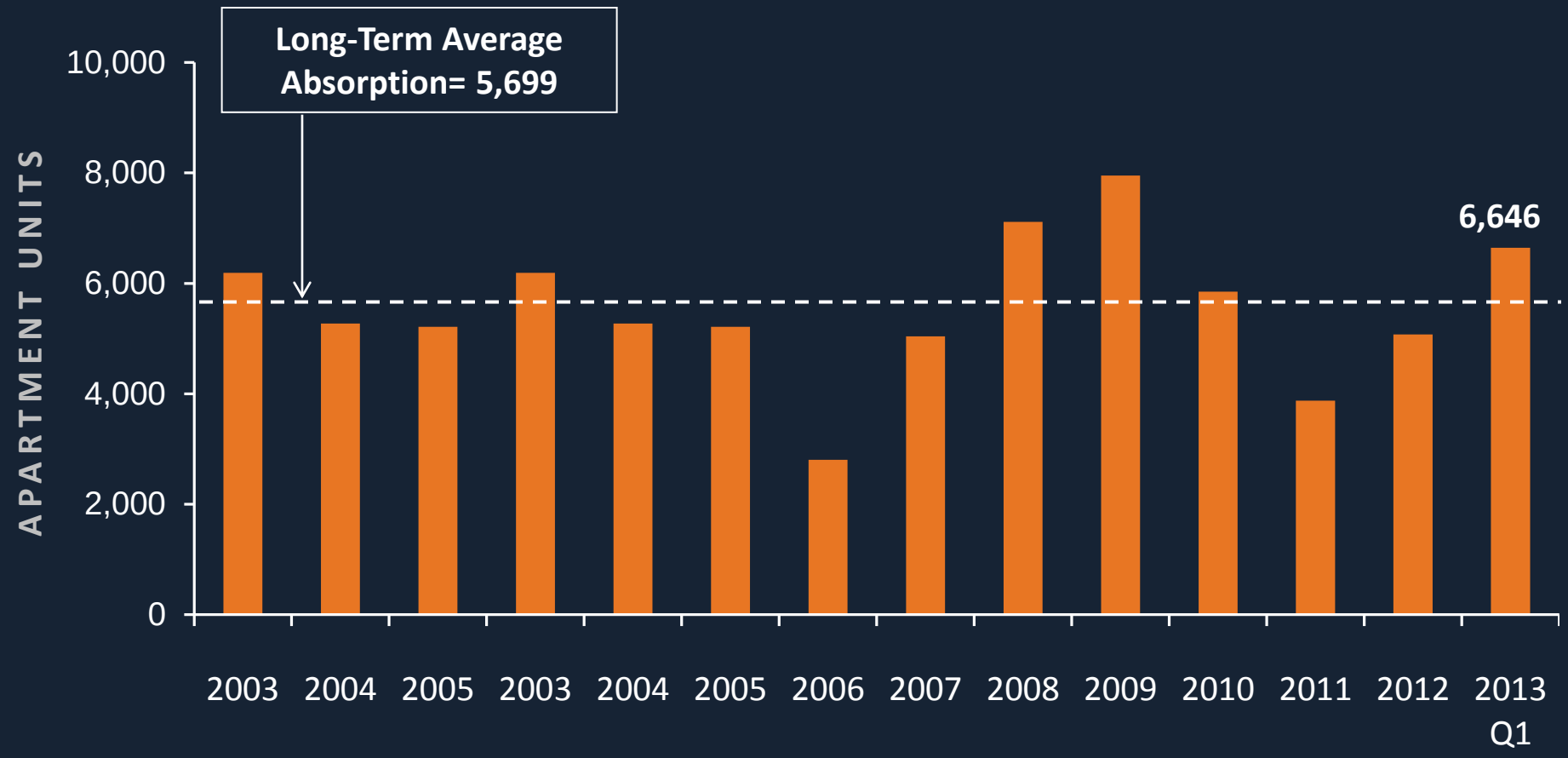
Washington Metro Area vs. U.S.



Source: U.S. Census, Delta Associates, May 2013.

CLASS A APARTMENT ANNUAL NET ABSORPTION

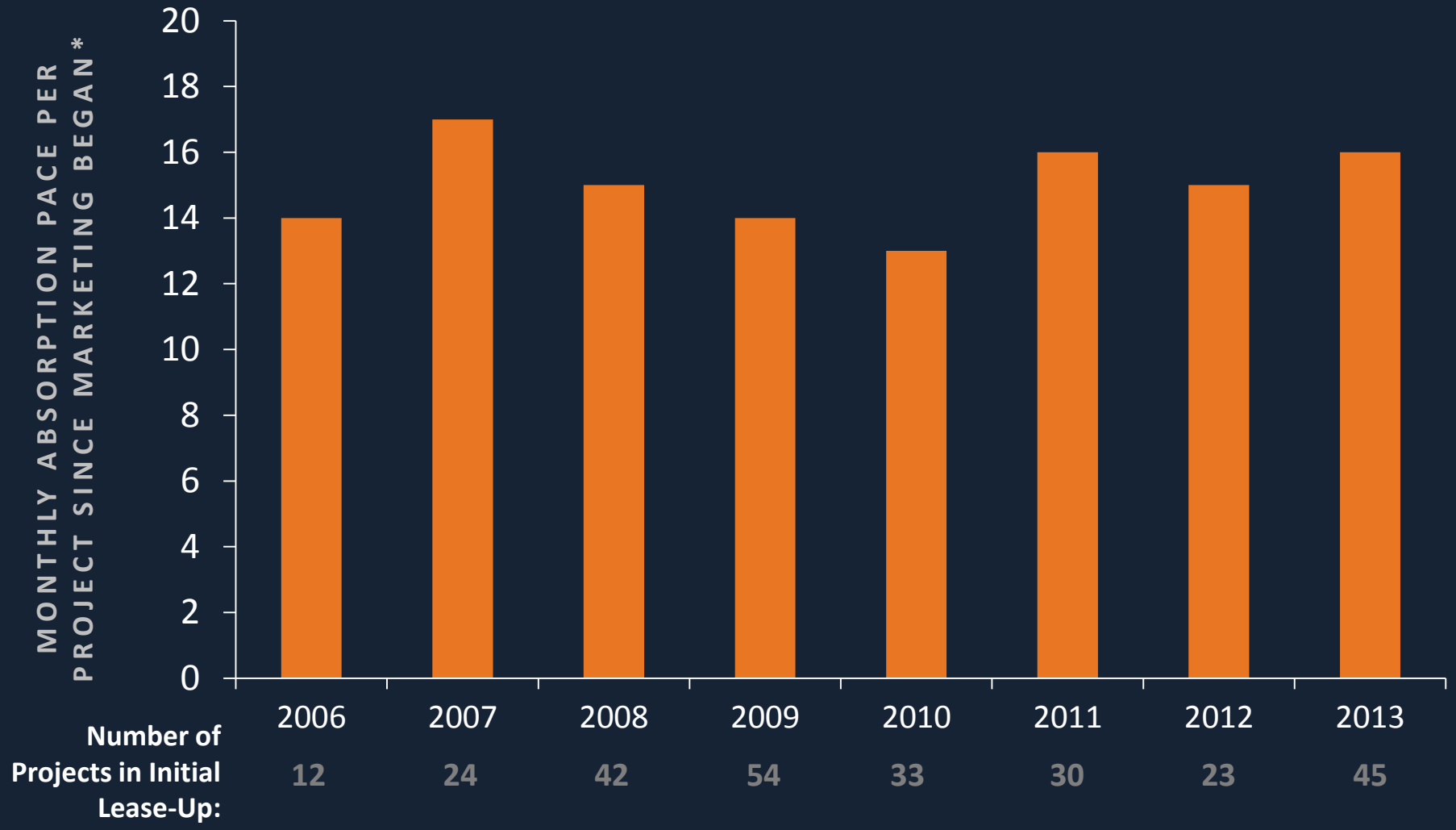
Washington Metro Area | 2003-First Quarter 2013



Source: Delta Associates; May 2013.

ABSORPTION PACE PER PROJECT PER MONTH

For Projects in Initial Lease-Up | Washington Metro

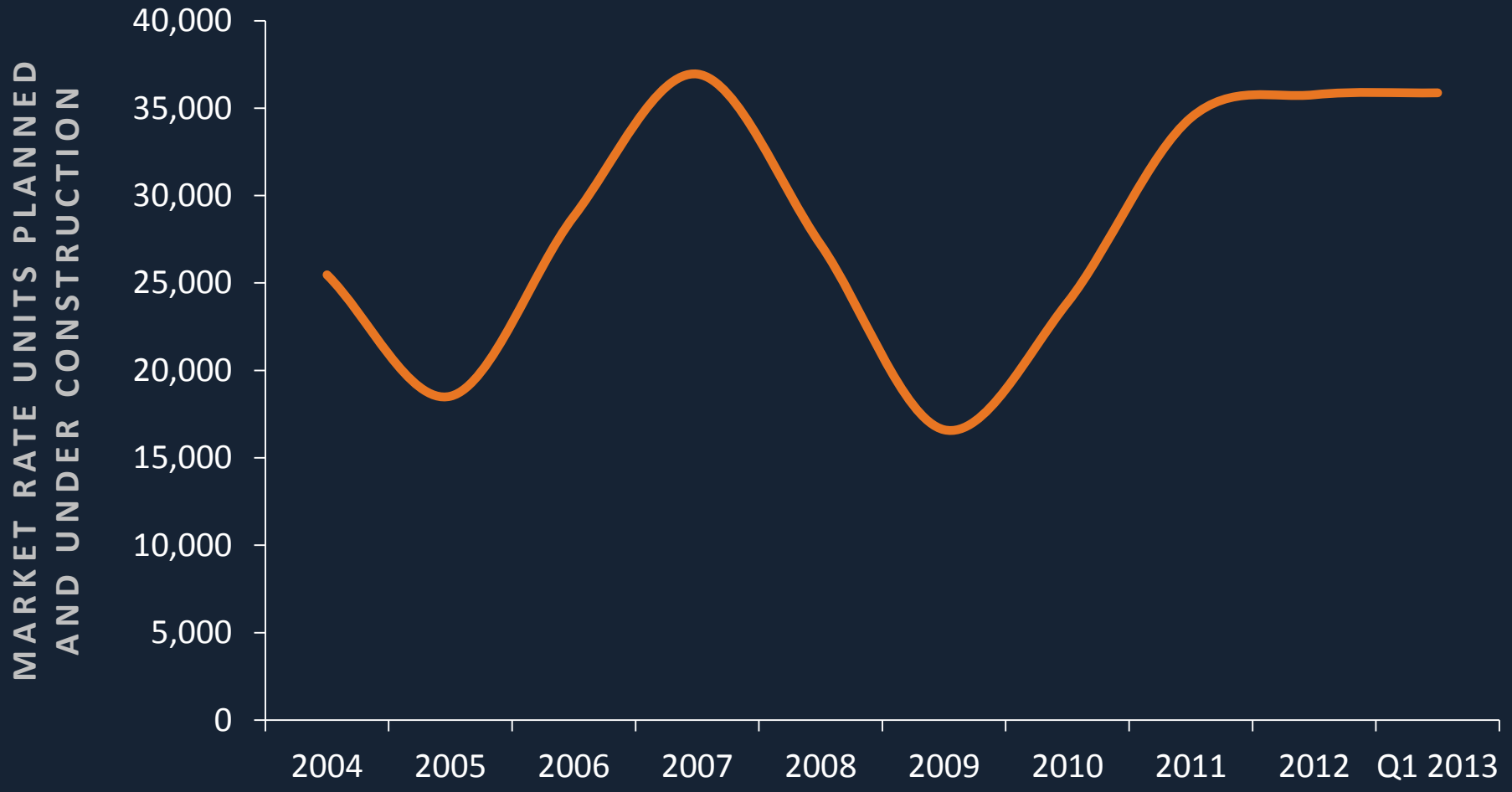


Source: Delta Associates; May 2013.

** 12 months ending in March*

MARKET RATE APARTMENT DEVELOPMENT PIPELINE

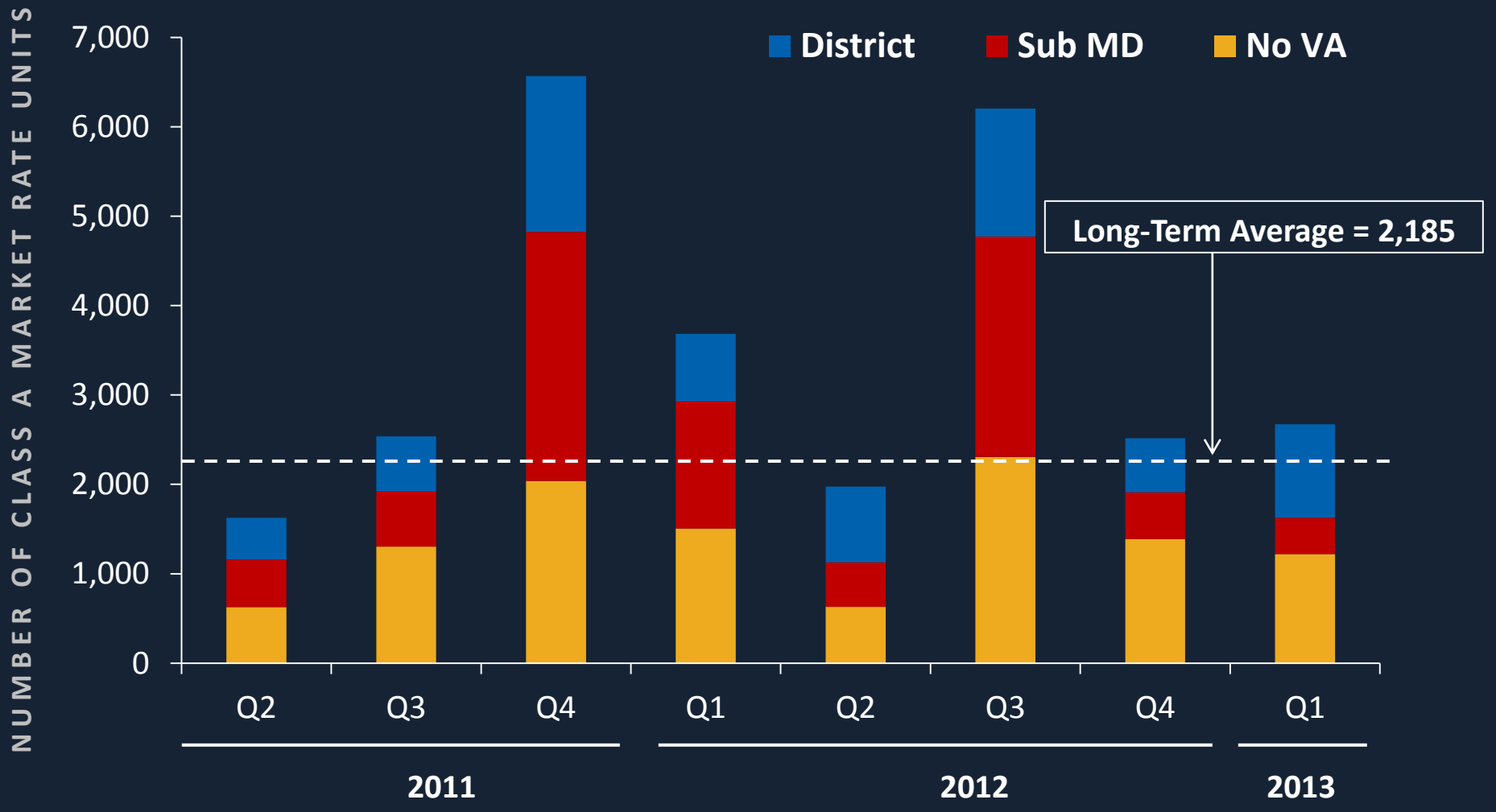
Washington Metro Area | 2004 – First Quarter 2013



Source: Delta Associates, May 2013.

CLASS A APARTMENT UNIT STARTS

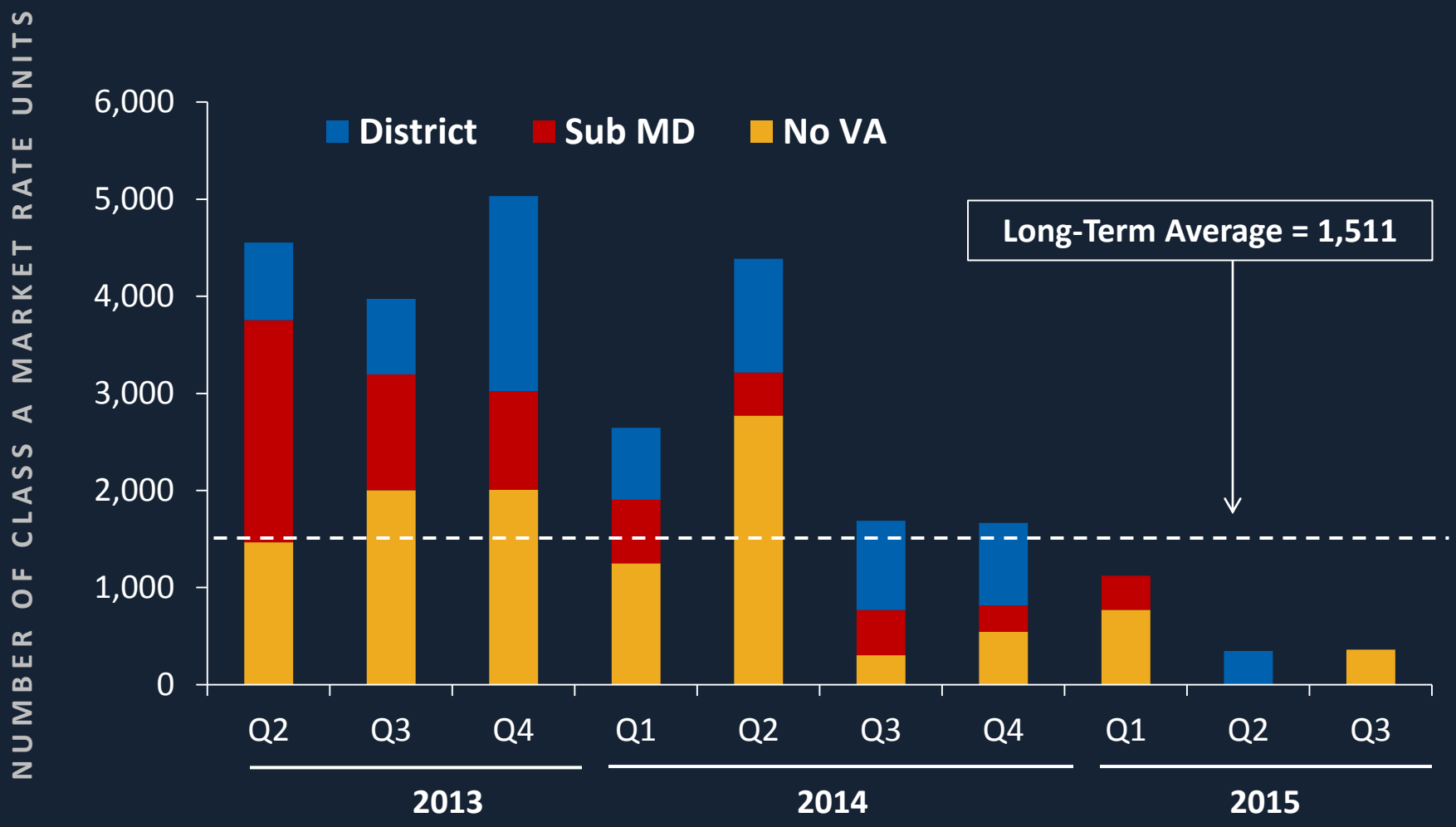
Washington Metro Area | 2011-2013



Source: Delta Associates, May 2013.

PROJECTED DELIVERIES

Projects Currently Under Construction
Washington Metro | 2013-2015

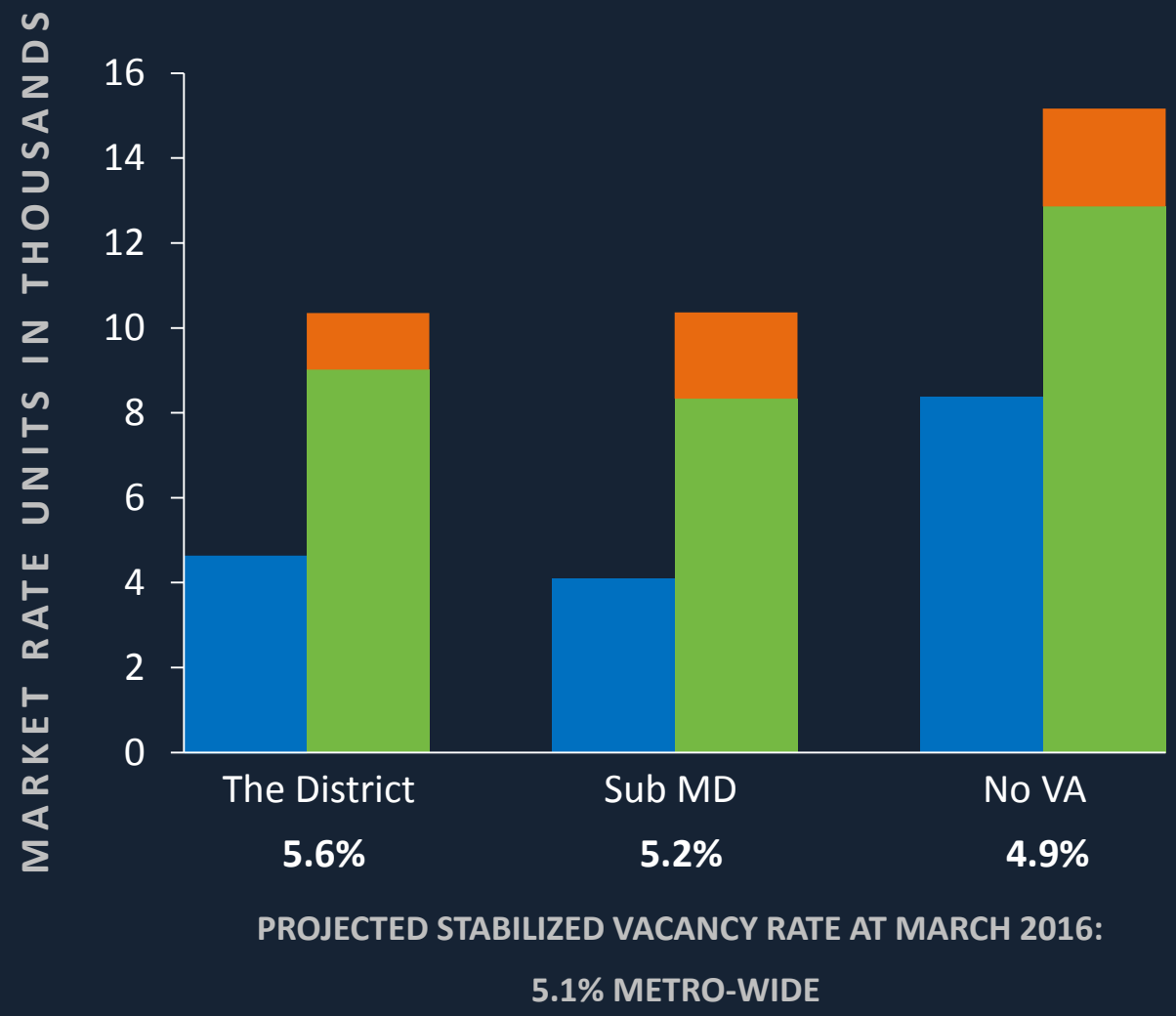


Source: Delta Associates, May 2013.

DEMAND AND SUPPLY PROJECTIONS

Washington Metro Class A Apartment Market

March 2013 – March 2016



PROJECTED STABILIZED VACANCY RATE AT MARCH 2016:

5.1% METRO-WIDE

DEMAND

Net Absorption:
5,700/Year = 17,100

SUPPLY

Planned and may deliver by 3/16: 5,667 units

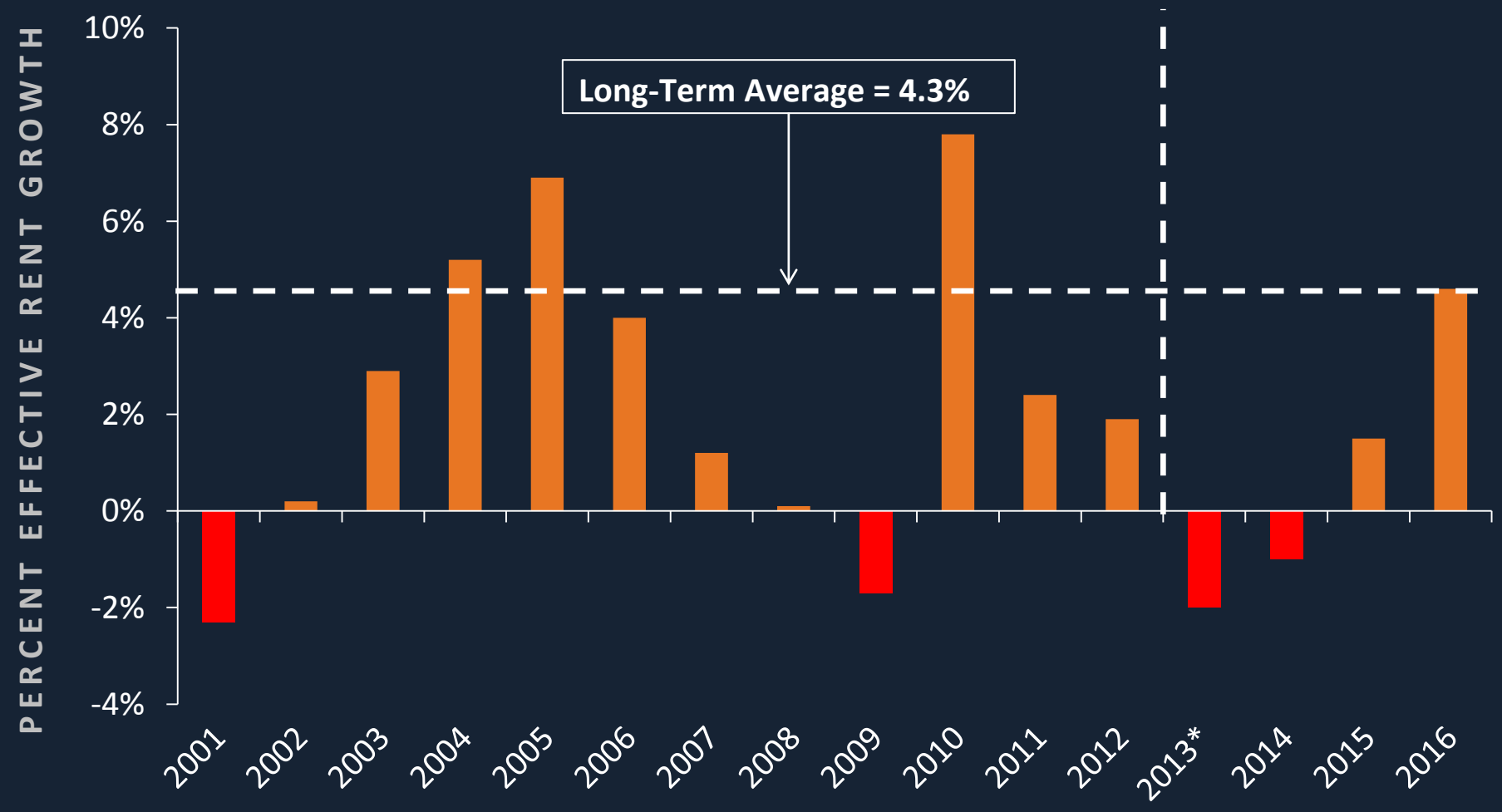
Under construction: 30,211 units

Total = 35,878 units

Source: Delta Associates, May 2013.

ANNUAL CLASS A APARTMENT RENT GROWTH

Washington Metro | 2001-2016



Source: Delta Associates, May 2013.

** Annual rent growth at Q1 2013 is 0.3%*

IN THE MEANTIME:

Compete in Stronger Submarkets With Better Design

- Pet-centric amenities: pet care center, dog-walking area
- Interactive media station in club room and electronic concierge notification system
- Built-in audio system
- Flexible furniture, movable islands, to maximize small unit size
- Bike storage, bike/car sharing infrastructure
- Outdoor living space to extend summer season: movie screen, screened-in porch, firepit, etc.

Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE
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WASHINGTON AREA HOUSING MARKET

DELTA ASSOCIATES
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FOR-SALE HOUSING MARKET INDICATORS

Washington Metro Area | First Quarter 2013

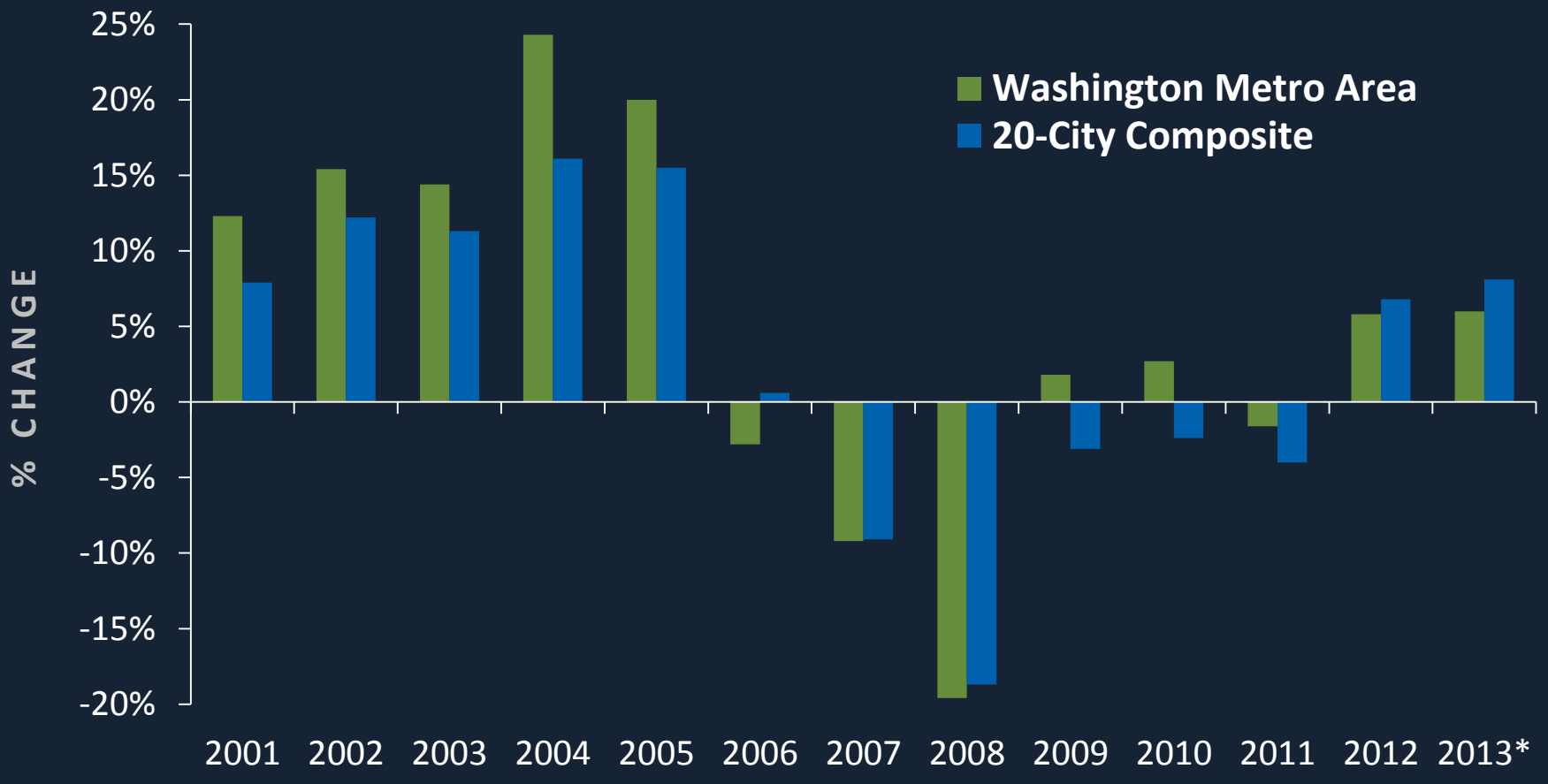
	Q1 2013	CHANGE VS. Q4 2012	CHANGE VS. Q1 2012
Q1 AVG. SALES PRICE	$417,665	↓ 1.4%	↑ 9.2%
Q1 SALES (UNITS)	11,823	↓ 13.1%	↑ 7.8%
Q1 DAYS ON MARKET	60	↑ 3	↓ 23
SALES PACE*	1.9 Months	↓ 0.2 Months	↓ 1.3 Months

Source: MRIS, Delta Associates; May 2013.

**Sales pace at March 2013. Pace is ratio of total for-sale inventory to current month's sales.*

CHANGE IN HOME PRICES

Washington Metro Area vs. 20-City Composite

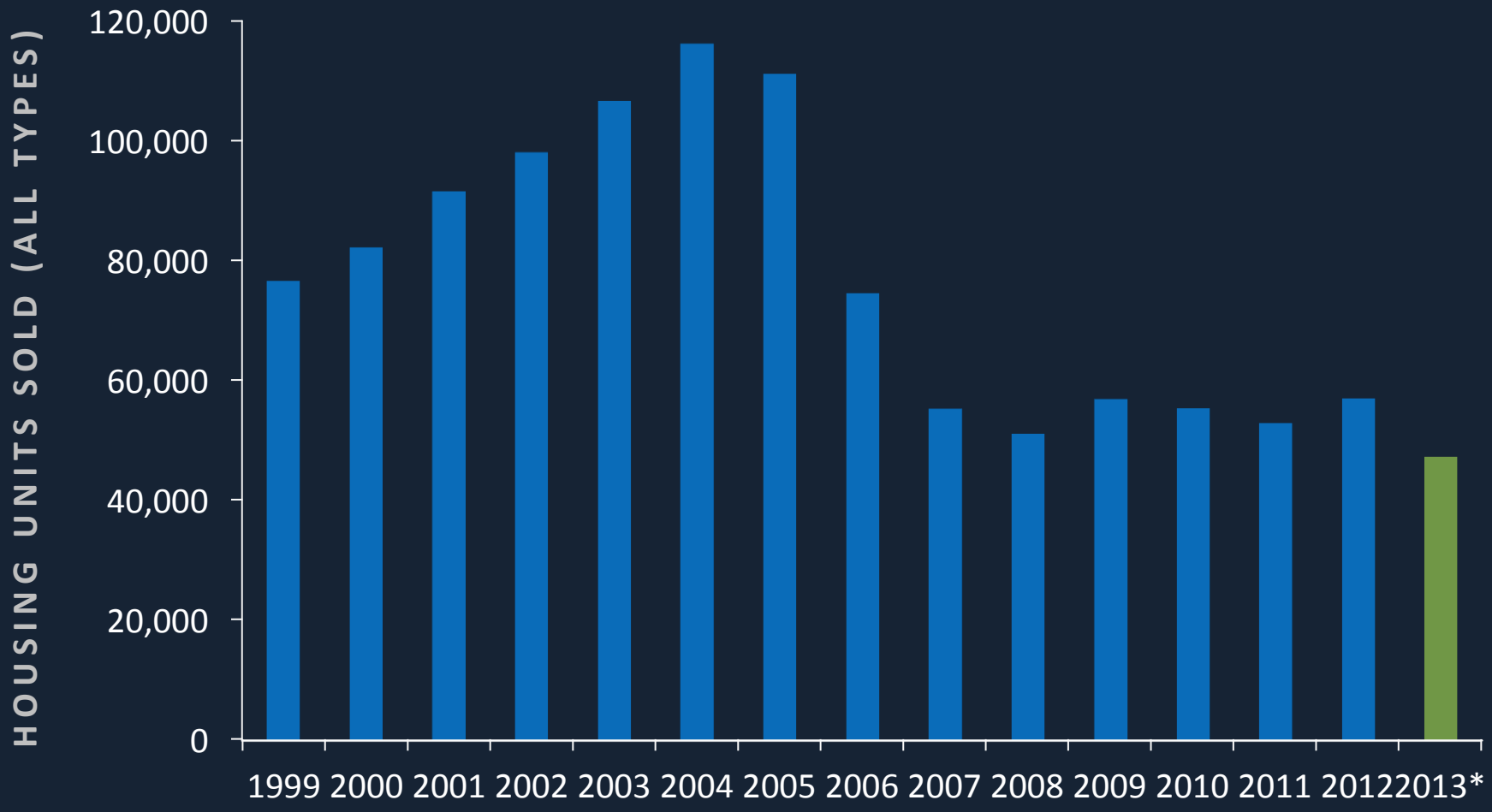


Source: Case-Shiller/Standard & Poor's, Delta Associates; May 2013.

**12 months ending January 2013.*
Note: Seasonally adjusted purchase-only index.

RESALE VOLUME

Washington Metro Area

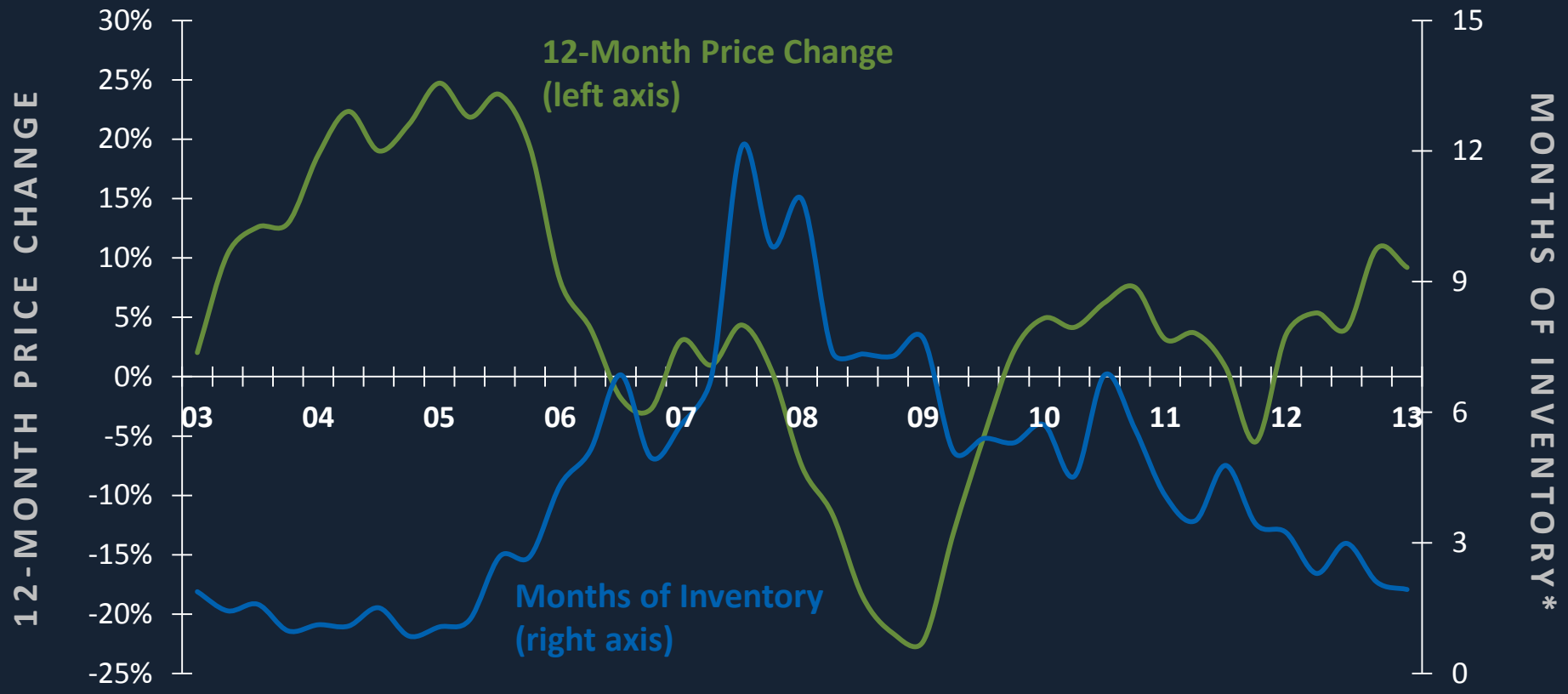


Source: MRIS, Delta Associates; May 2013.

**Annualized.*

PRICE CHANGE AND INVENTORY

Washington Metro Area



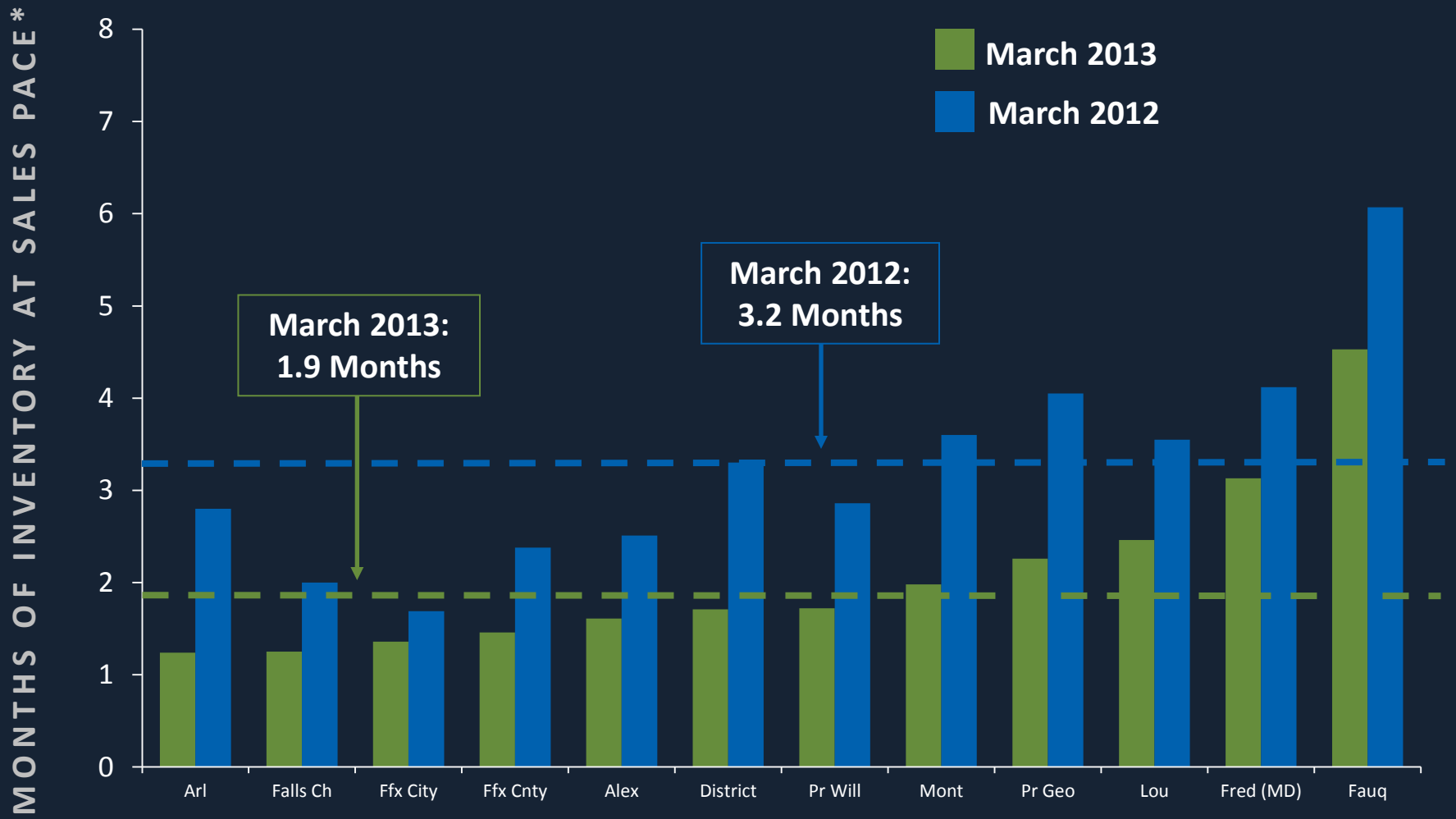
Source: MRIS, Delta Associates; May 2013.

**Months of inventory at current sales pace for last month in each quarter.*

MONTHS OF FOR-SALE INVENTORY

Washington Metro Area

March 2013 vs. March 2012

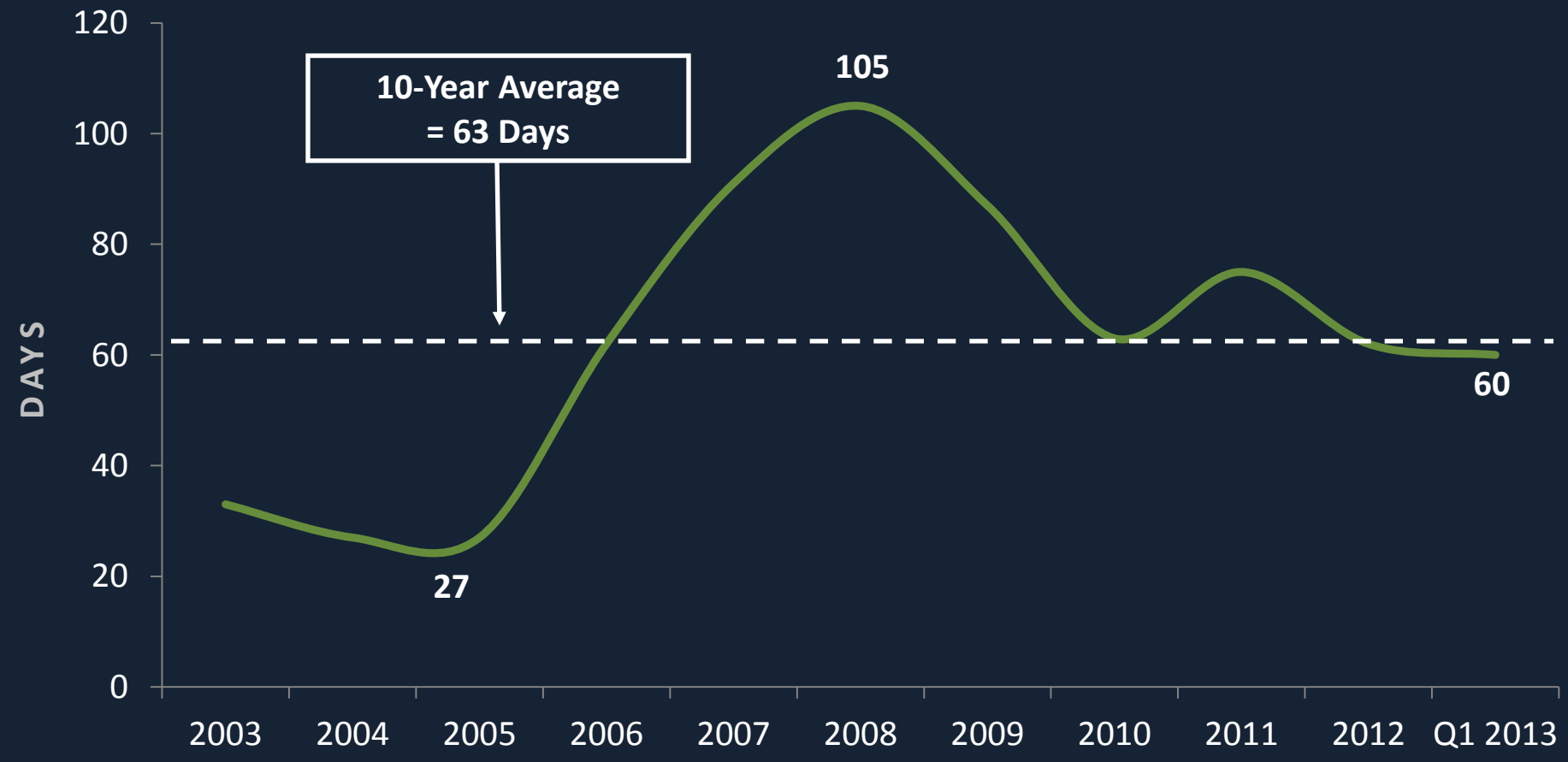


Source: MRIS, Delta Associates; May 2013.

**Pace is ratio of total for-sale inventory to current month's sales.*

AVERAGE DAYS ON MARKET FOR EXISTING HOUSES

Washington Metro Area



Source: MRIS, Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE
MARKETS IN THE WASHINGTON METRO AREA

WASHINGTON AREA CONDOMINIUM MARKET

DELTA ASSOCIATES
A Transwestern Company

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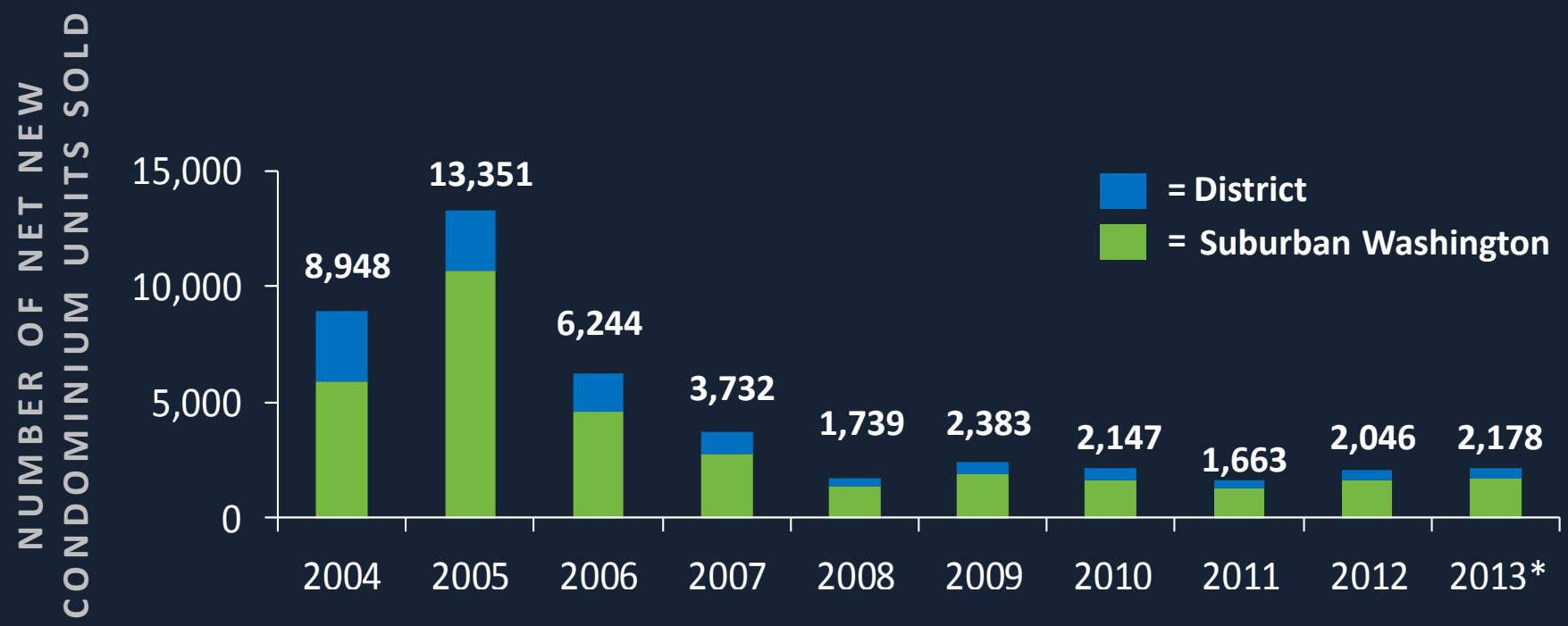
NEW CONDOMINIUM UNIT SALES ACTIVITY

Washington Metro Area | 2004-2013



Source: Delta Associates; May 2013.

**12 months ending March 2013.*

ANNUAL CONDOMINIUM RESALES TREND

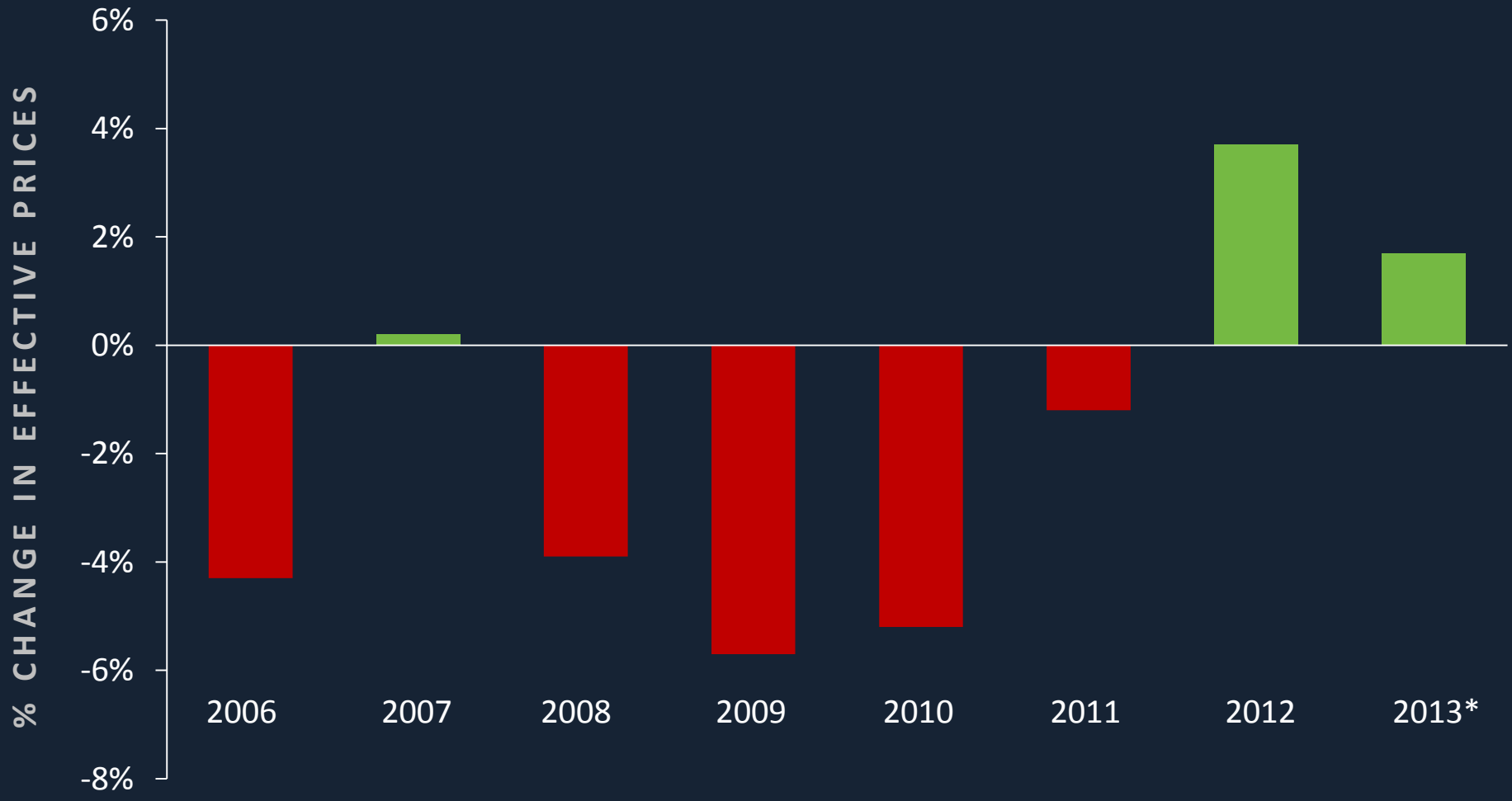
Washington Metro Area | 2008-2013

Source: Delta Associates; May 2013.

**12 months ending February 2013.*

NEW CONDOMINIUM SALES PRICE CHANGE

Washington Metro Area | 2006-2013

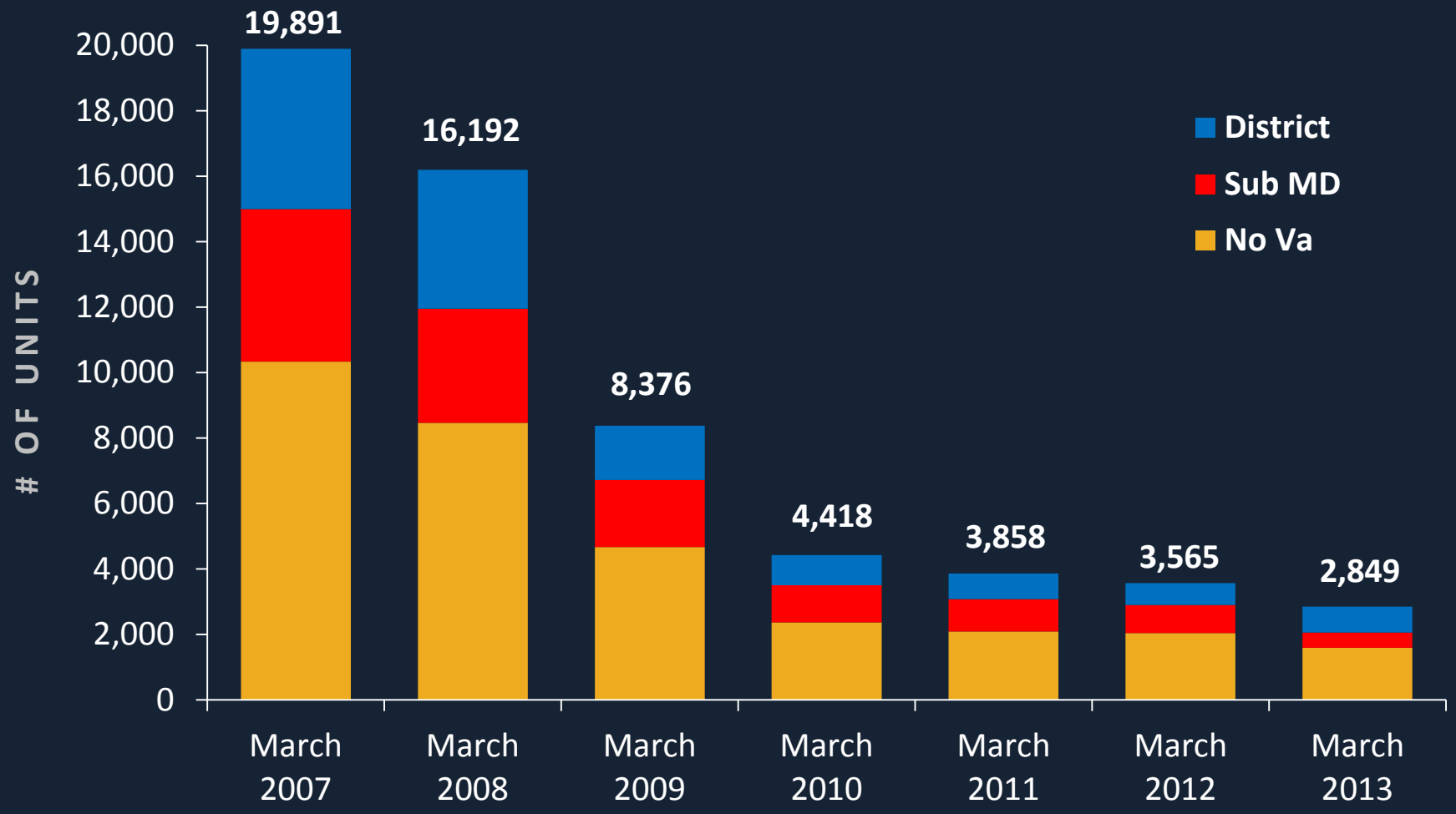


Source: Delta Associates; May 2013.

** 12 months ending March 2013.*

NEW CONDOMINIUMS ACTIVELY MARKETING OR UNDER CONSTRUCTION

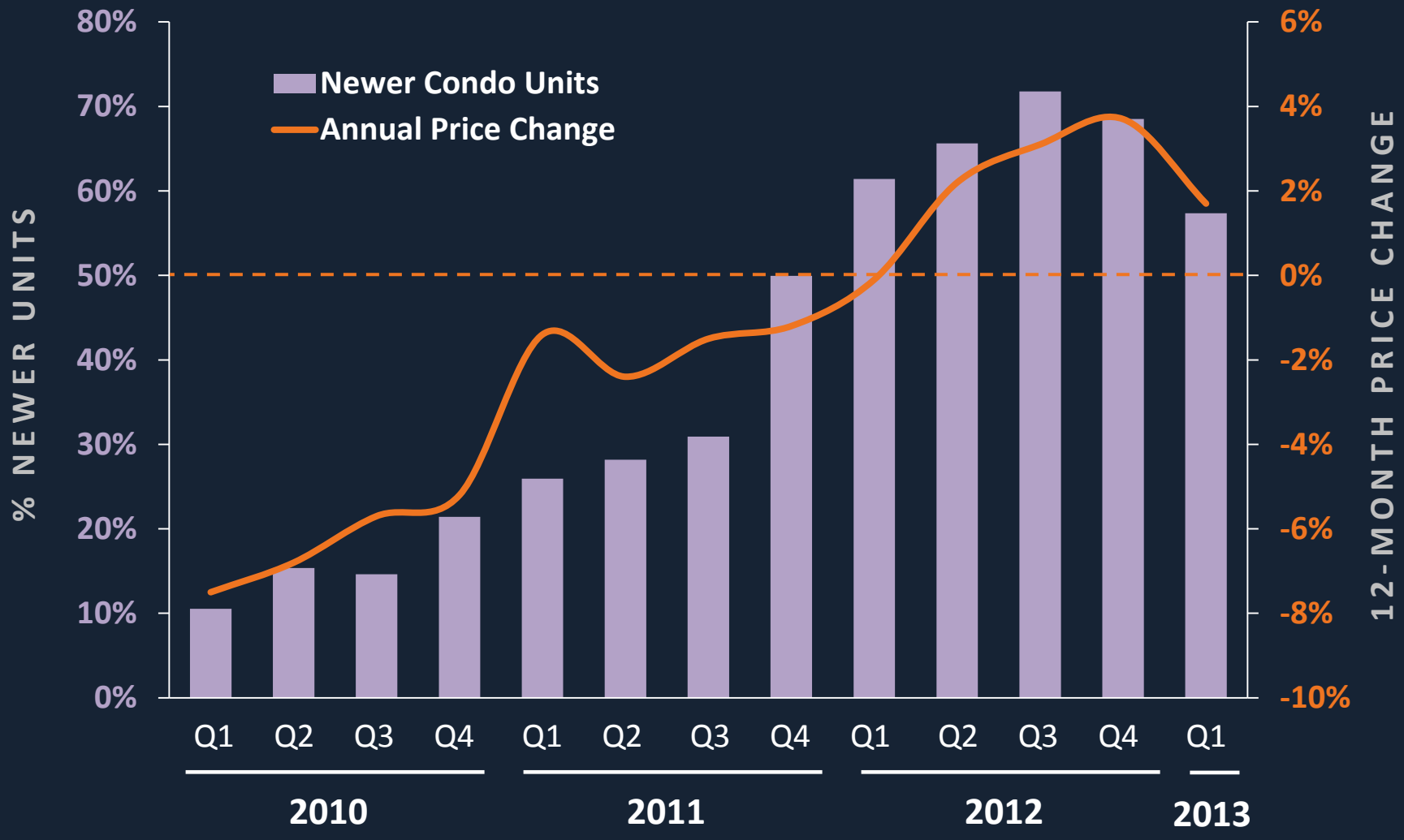
Washington Metro Area | March 2007 – March 2013



Source: Delta Associates; May 2013.

NEWER CONDOMINIUM UNITS* AS A PERCENT OF TOTAL INVENTORY AND 12-MONTH PRICE CHANGE

Washington Metro Area | 2010-2013

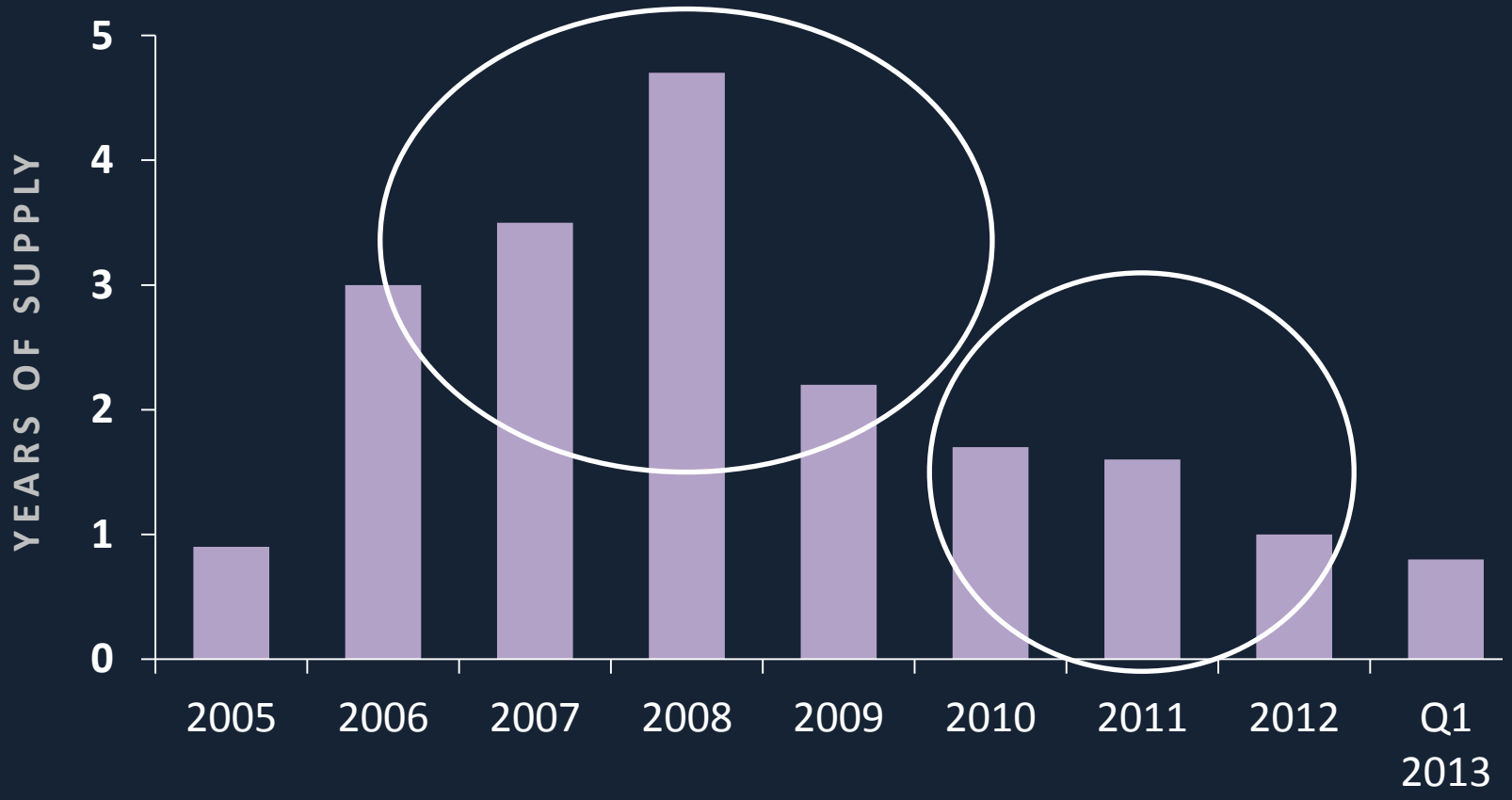


Source: Delta Associates; May 2013.

** Defined as units two years old or less.*

YEARS OF NEW CONDOMINIUM SUPPLY

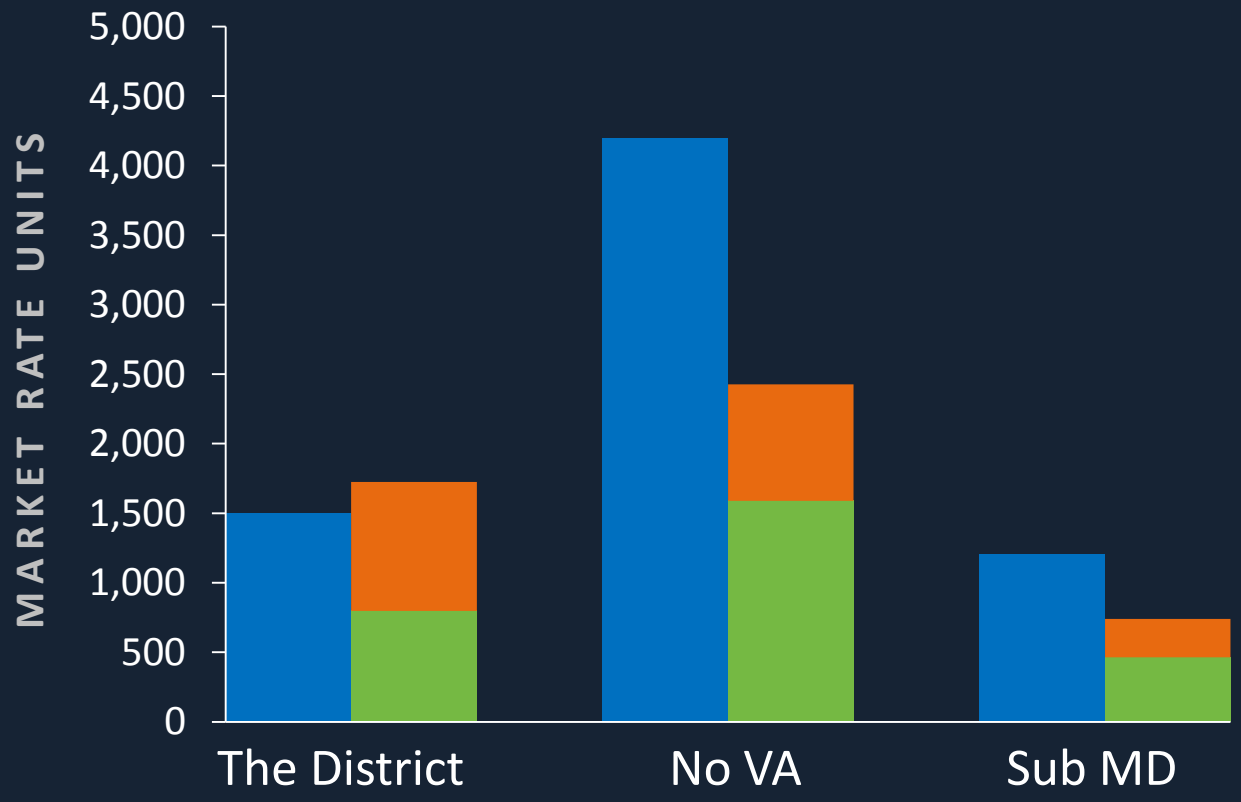
Washington Metro Area | 2005-2013



Source: Delta Associates; May 2013.

CONDOMINIUM DEMAND AND SUPPLY PROJECTIONS

Washington Metro Area | 1st Quarter 2013 – 1st Quarter 2016



DEMAND

Net Sales:
2,300/Year = 6,900 units

SUPPLY[1]

Planned and may deliver by 3/16: 2,043 units

Under construction and/or marketing: 2,849 units [2]

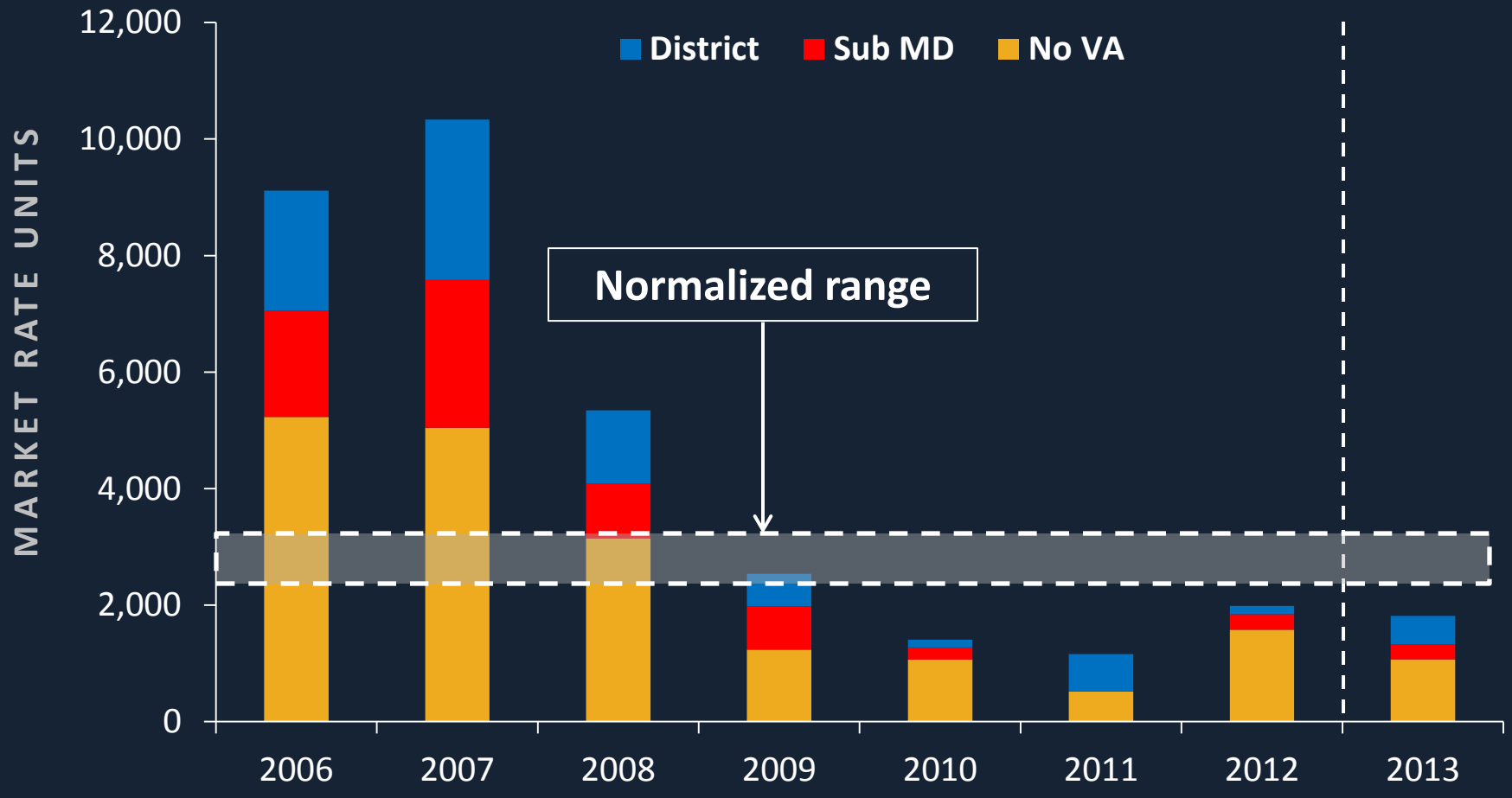
Total = 4,892 units

[1] Probable supply after projected attrition.
[2] Includes unsold units at projects selling.

Source: Delta Associates; May 2013.

CONDOMINIUM DELIVERIES

Washington Metro Area | 2006-2013



Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE
MARKETS IN THE WASHINGTON METRO AREA

WASHINGTON AREA OFFICE MARKET

DELTA ASSOCIATES
A Transwestern Company

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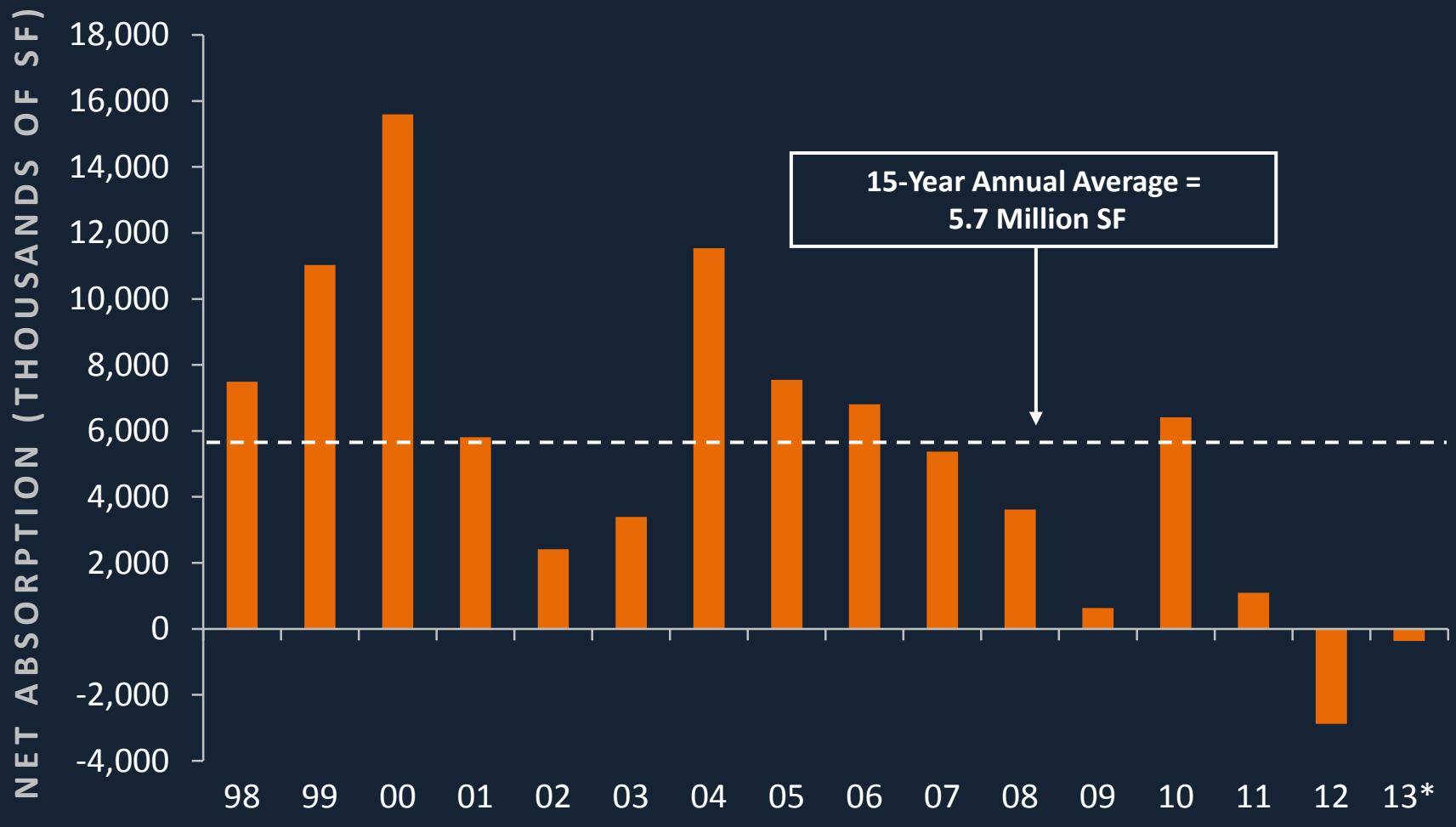
rma
THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE

OFFICE NET ABSORPTION

Washington Metro Area

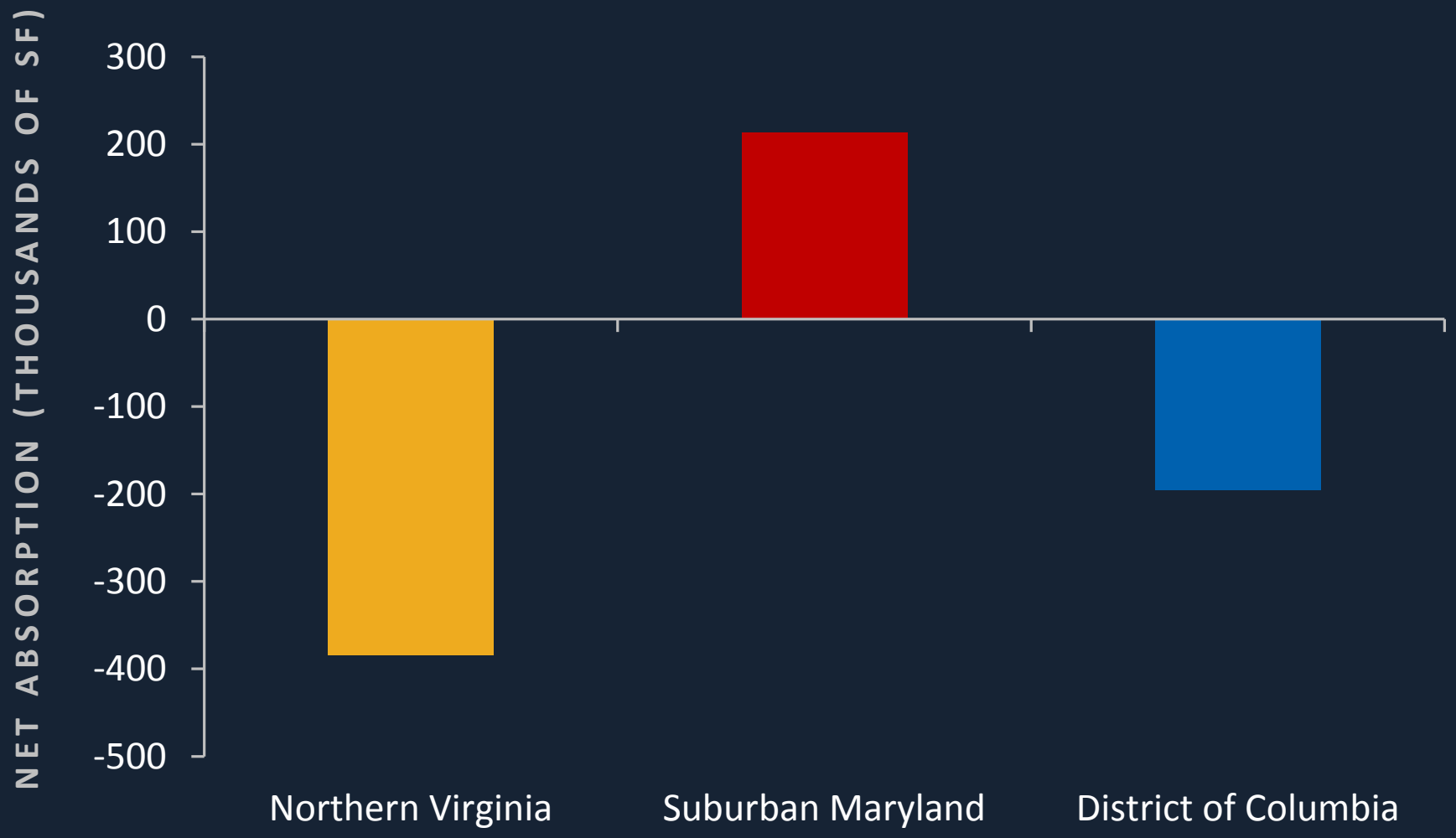


Source: Delta Associates; May 2013.

**January through March 2013.*

OFFICE NET ABSORPTION

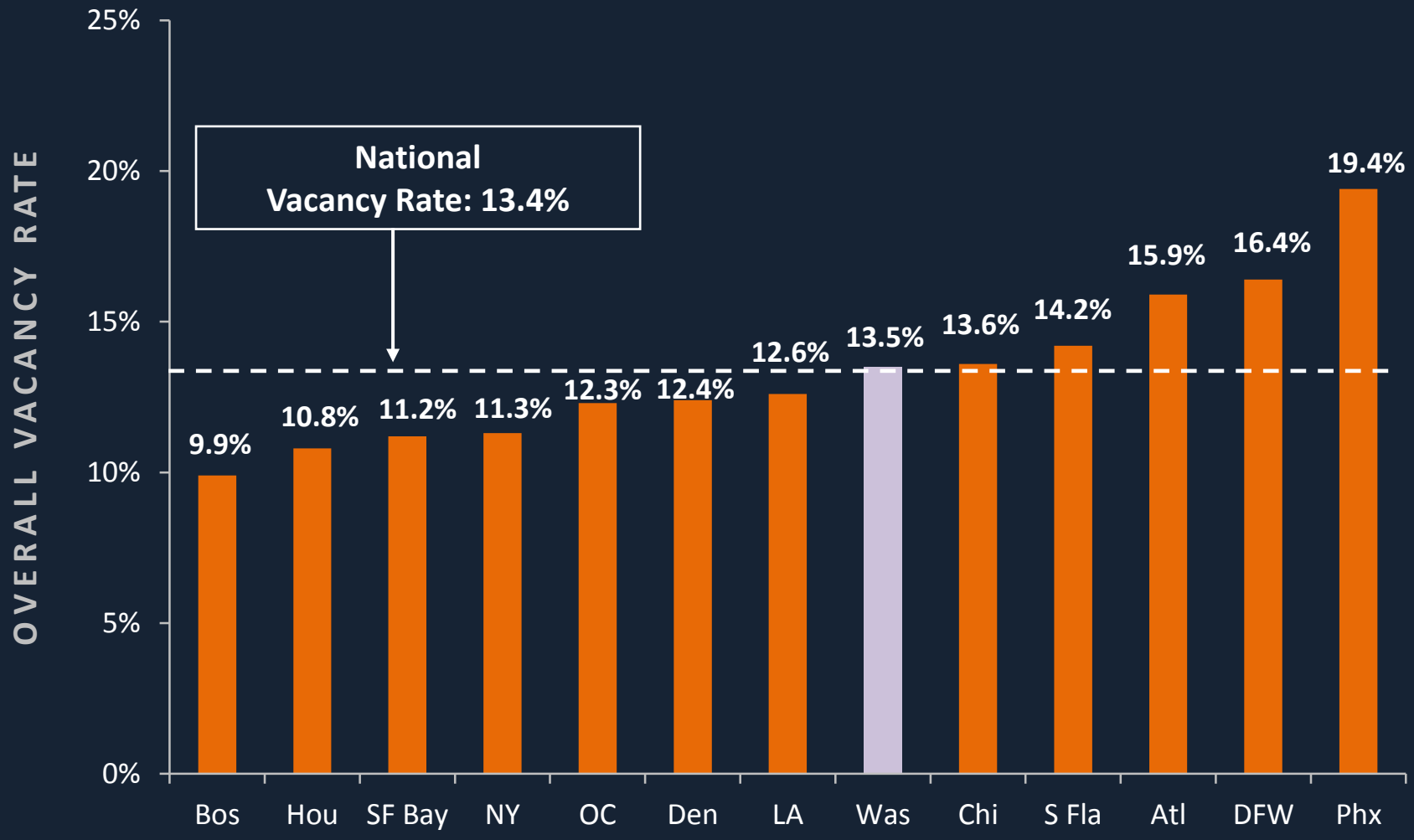
Washington Metro Area | January – March 2013



Source: Delta Associates; May 2013.

OFFICE VACANCY RATES

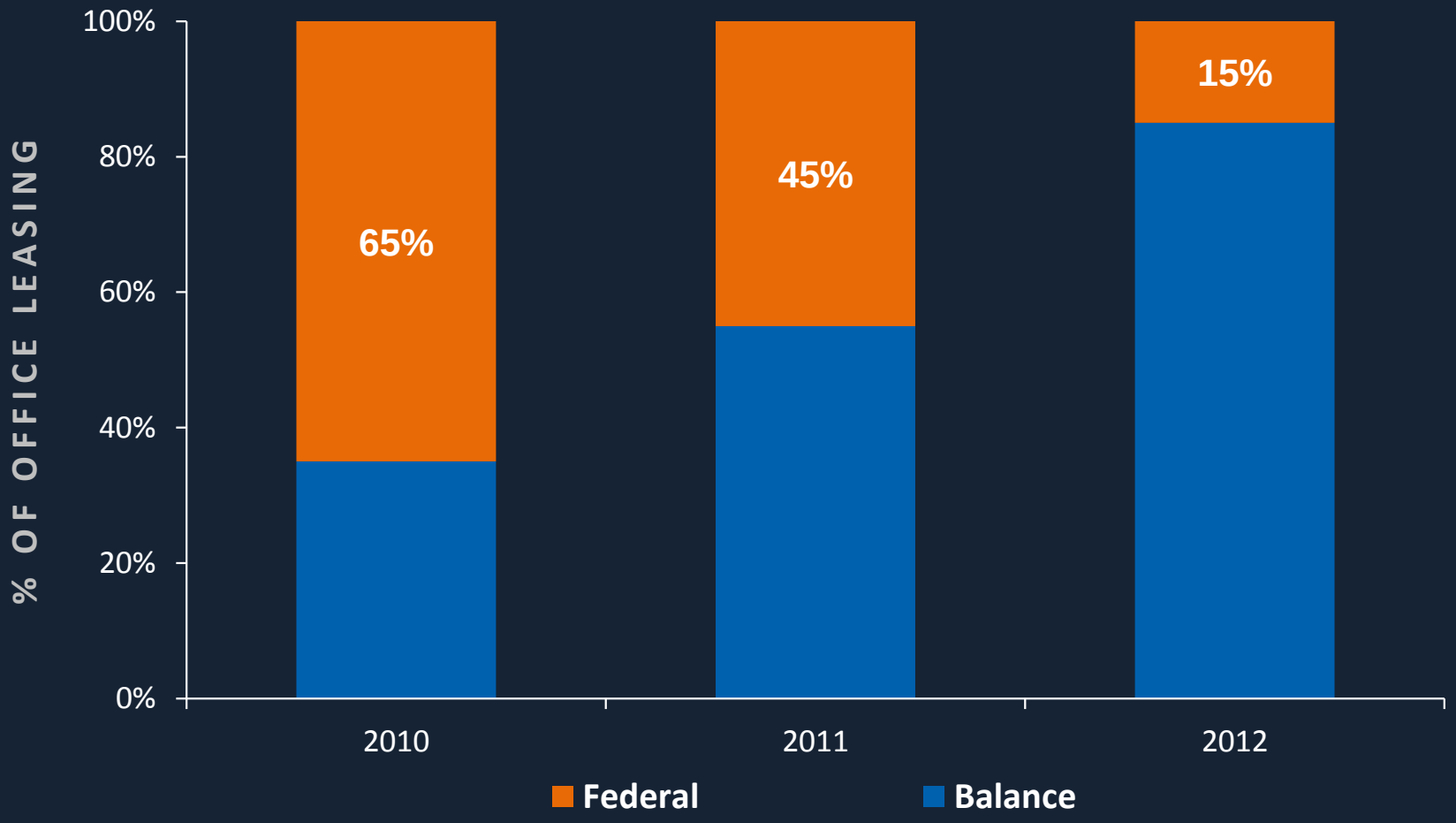
Selected Metro Areas | First Quarter 2013



Source: CoStar, Delta Associates; May 2013.

OFFICE LEASING BY SECTOR

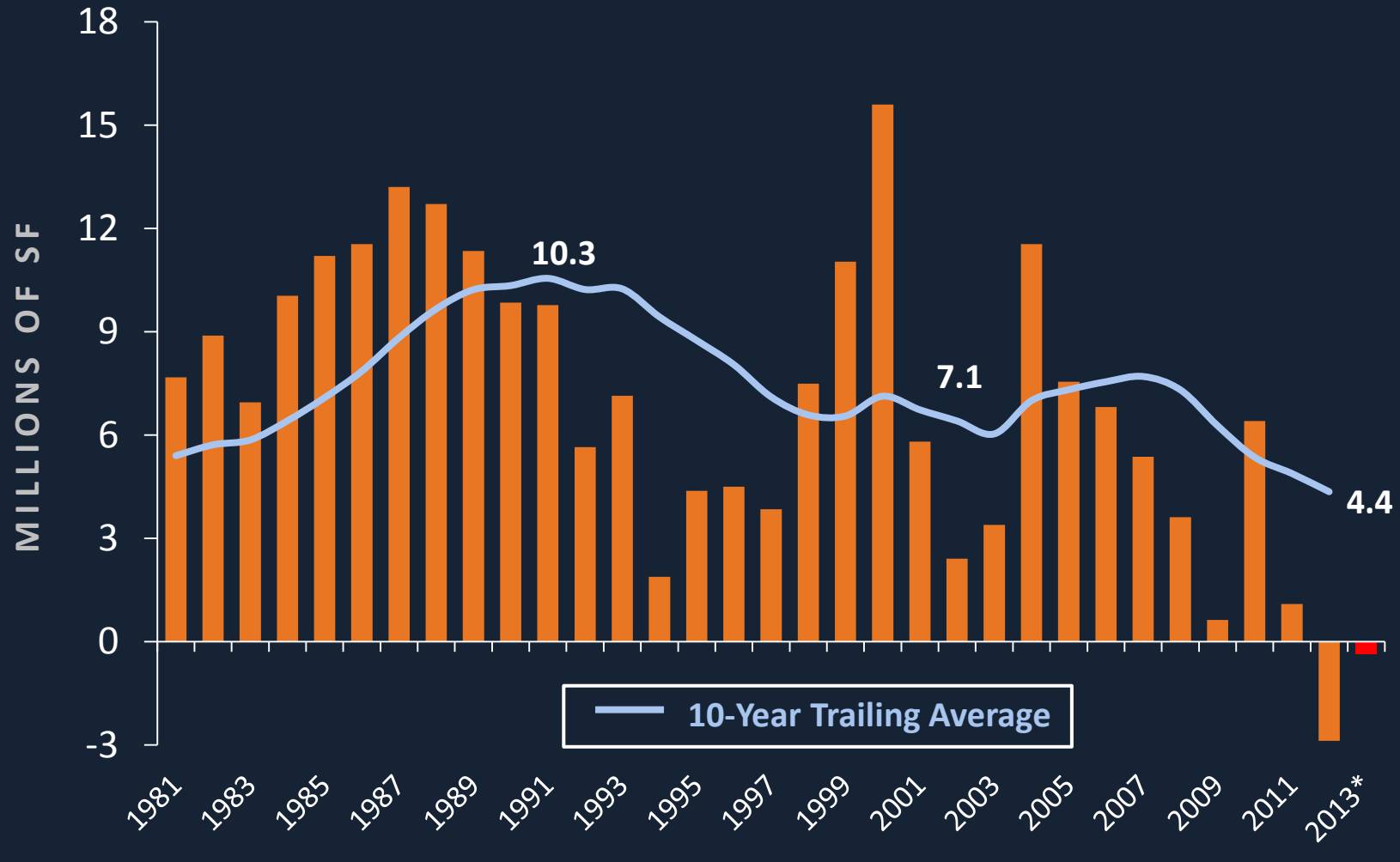
Washington Metro Area



Source: CoStar, Delta Associates; May 2013.

OFFICE NET ABSORPTION

Washington Metro Area

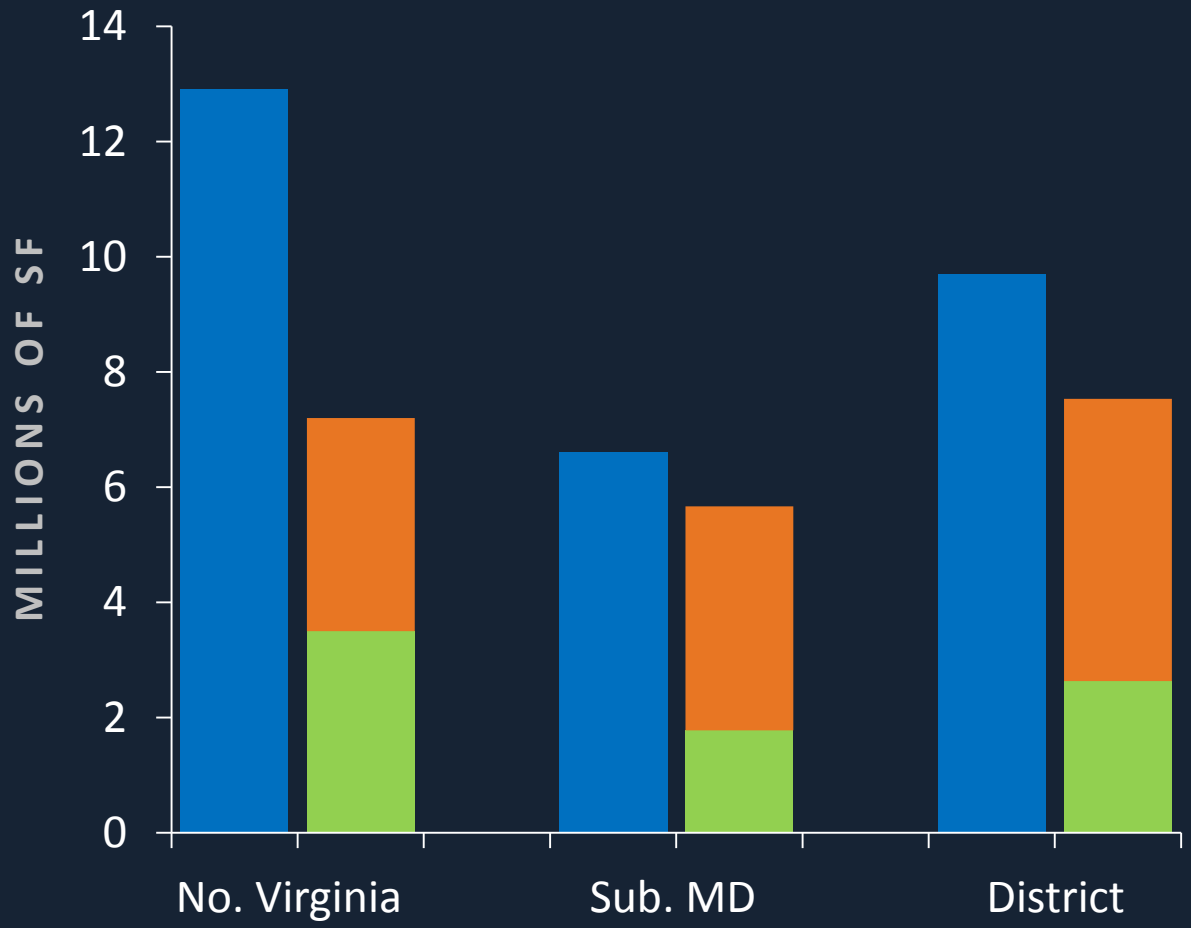


Source: Delta Associates; May 2013.

**January through March 2013.*

OFFICE DEMAND AND DELIVERIES

Washington Metro Area
Five Years Ending December 2017



DEMAND

= 29.2 million SF

DELIVERIES

= Planned and may deliver by 12/17: 12.5 million SF

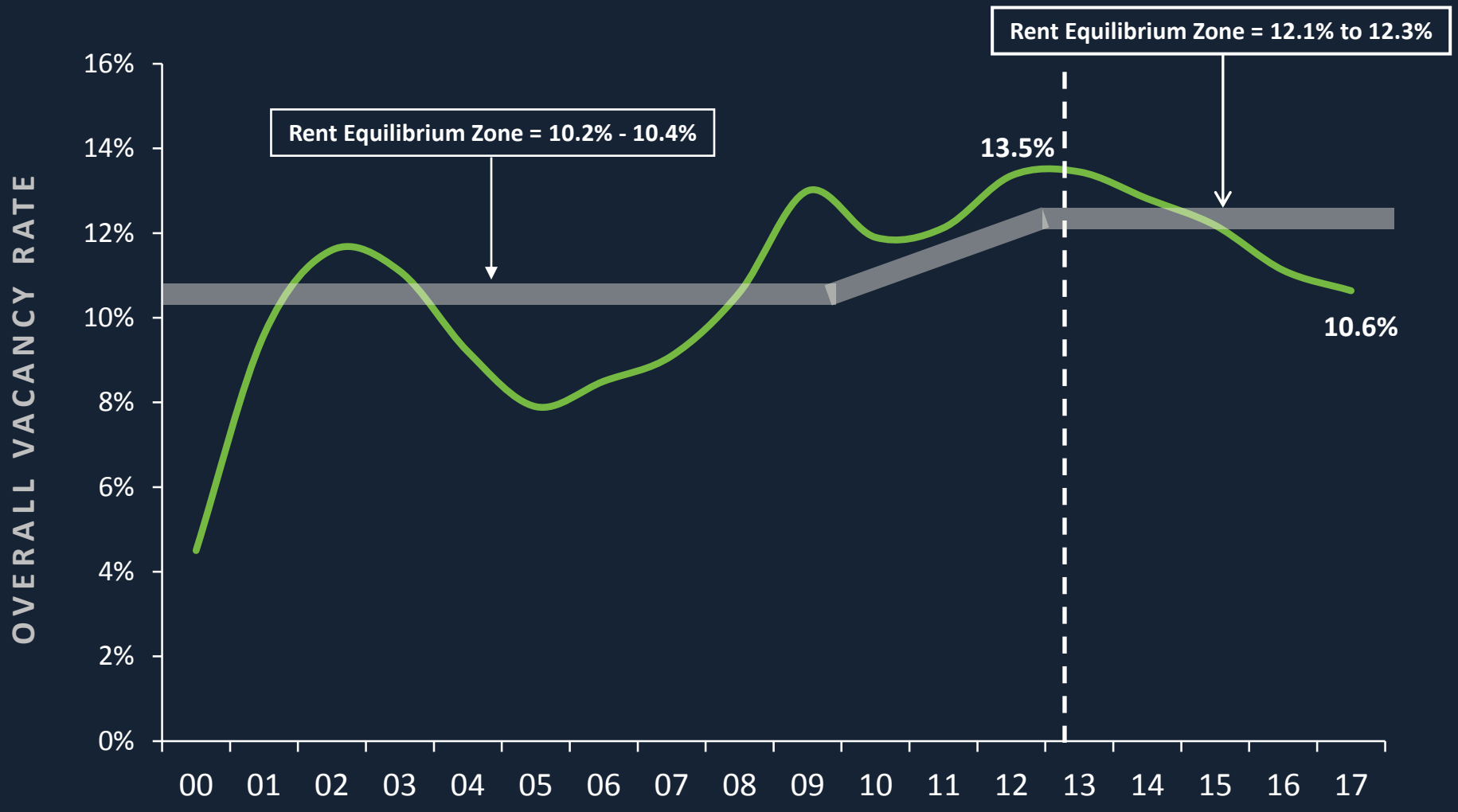
= Under construction: 8.0 million SF

Total = 20.5 million SF

Source: Delta Associates; May 2013.

OVERALL OFFICE VACANCY RATE

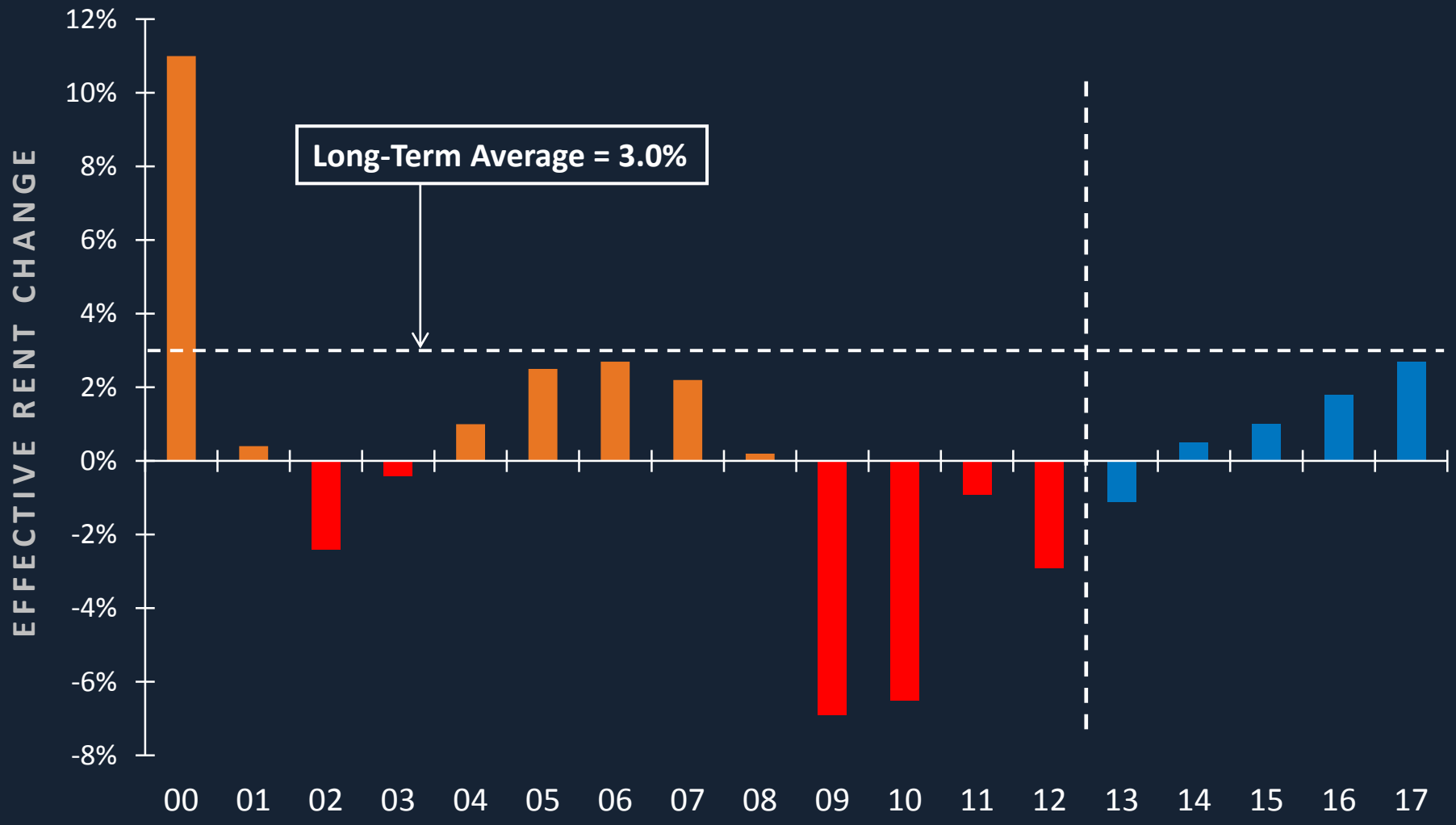
Washington Metro Area



Source: CoStar, Delta Associates; May 2013.

OFFICE EFFECTIVE RENT CHANGE

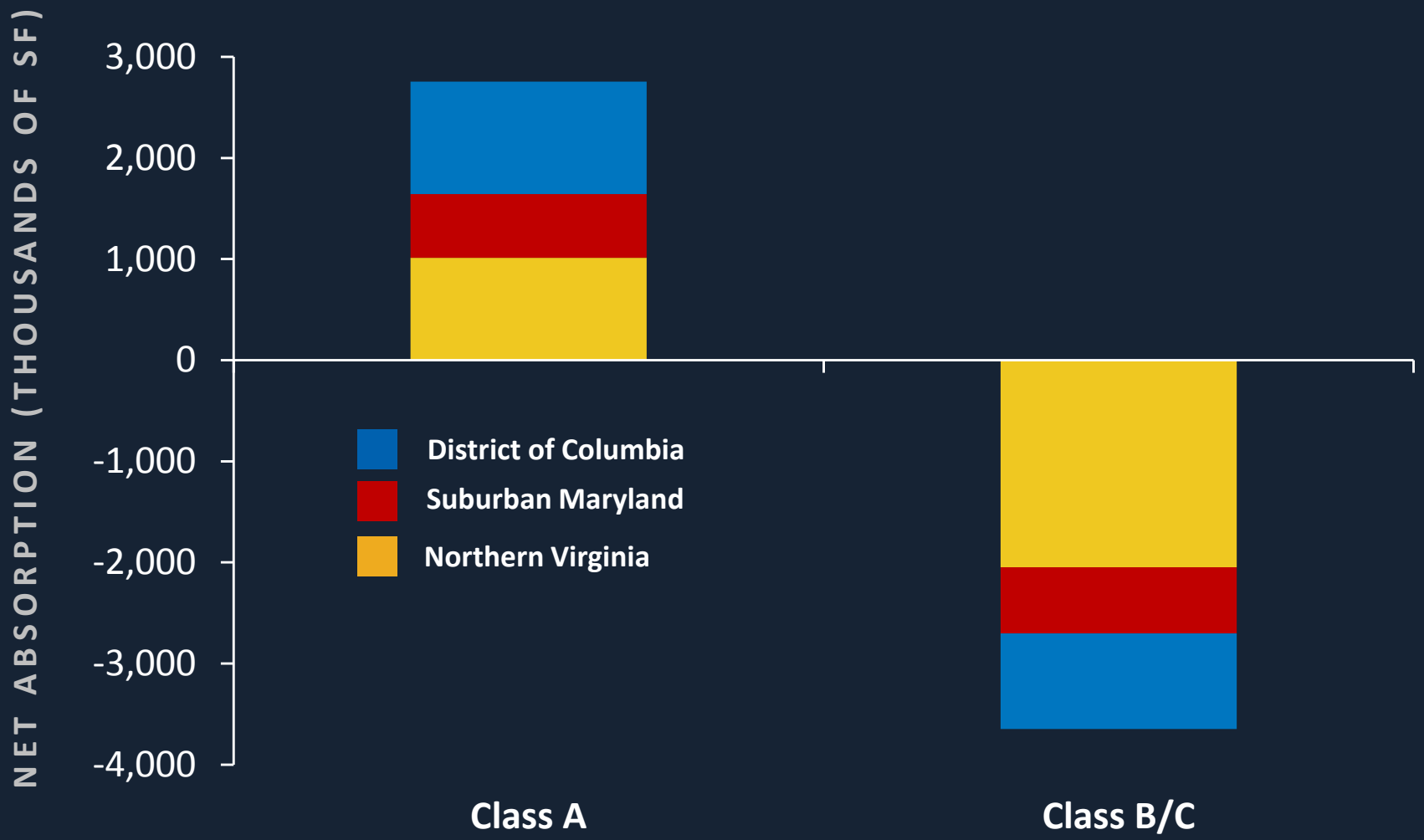
Washington Metro Area



Source: Delta Associates; May 2013.

OFFICE NET ABSORPTION BY CLASS OF SPACE

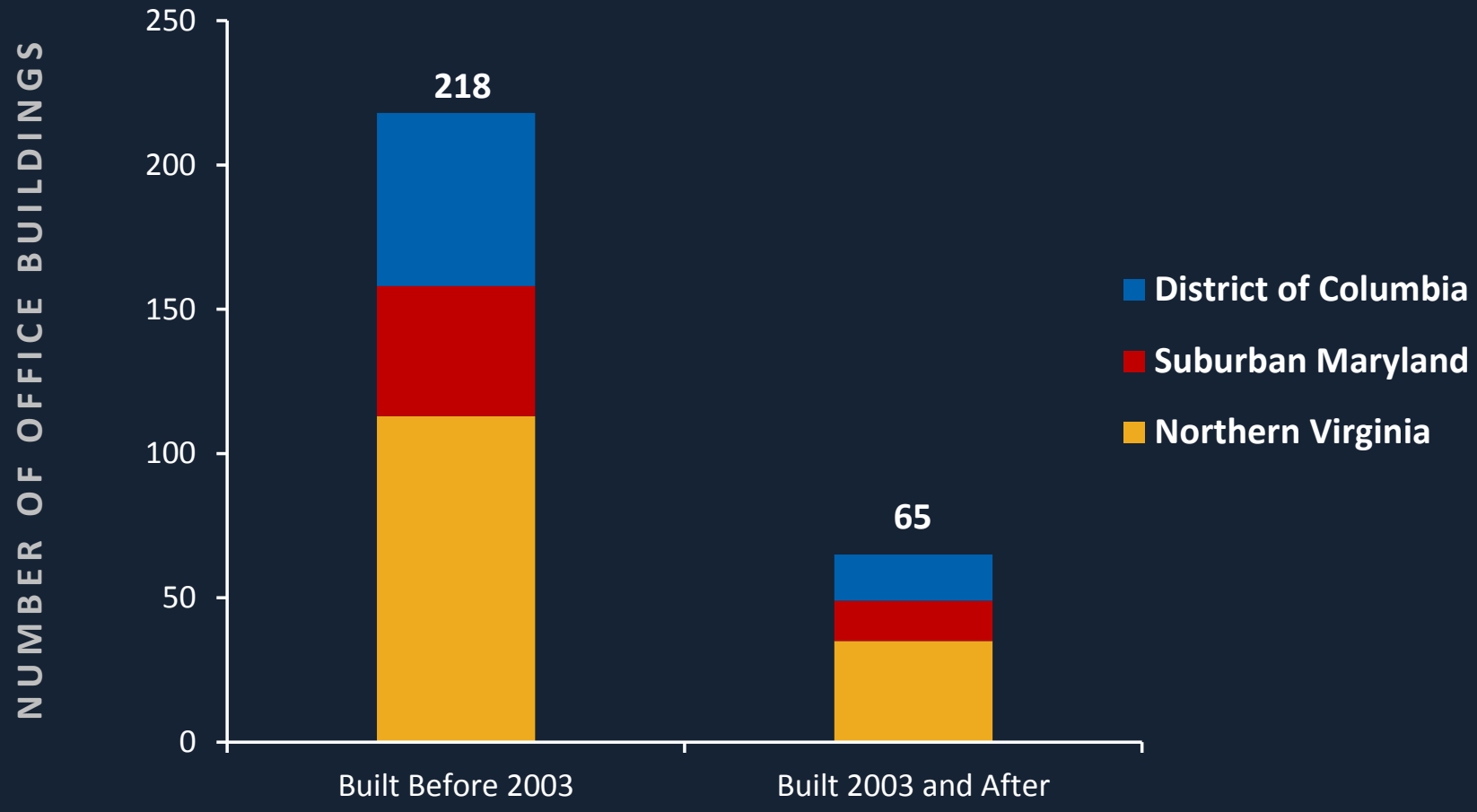
Washington Metro Area | Annual Average 2011-2012



Source: Delta Associates; May 2013.

CONTIGUOUS BLOCKS OF AVAILABLE SPACE 50,000 SF AND GREATER

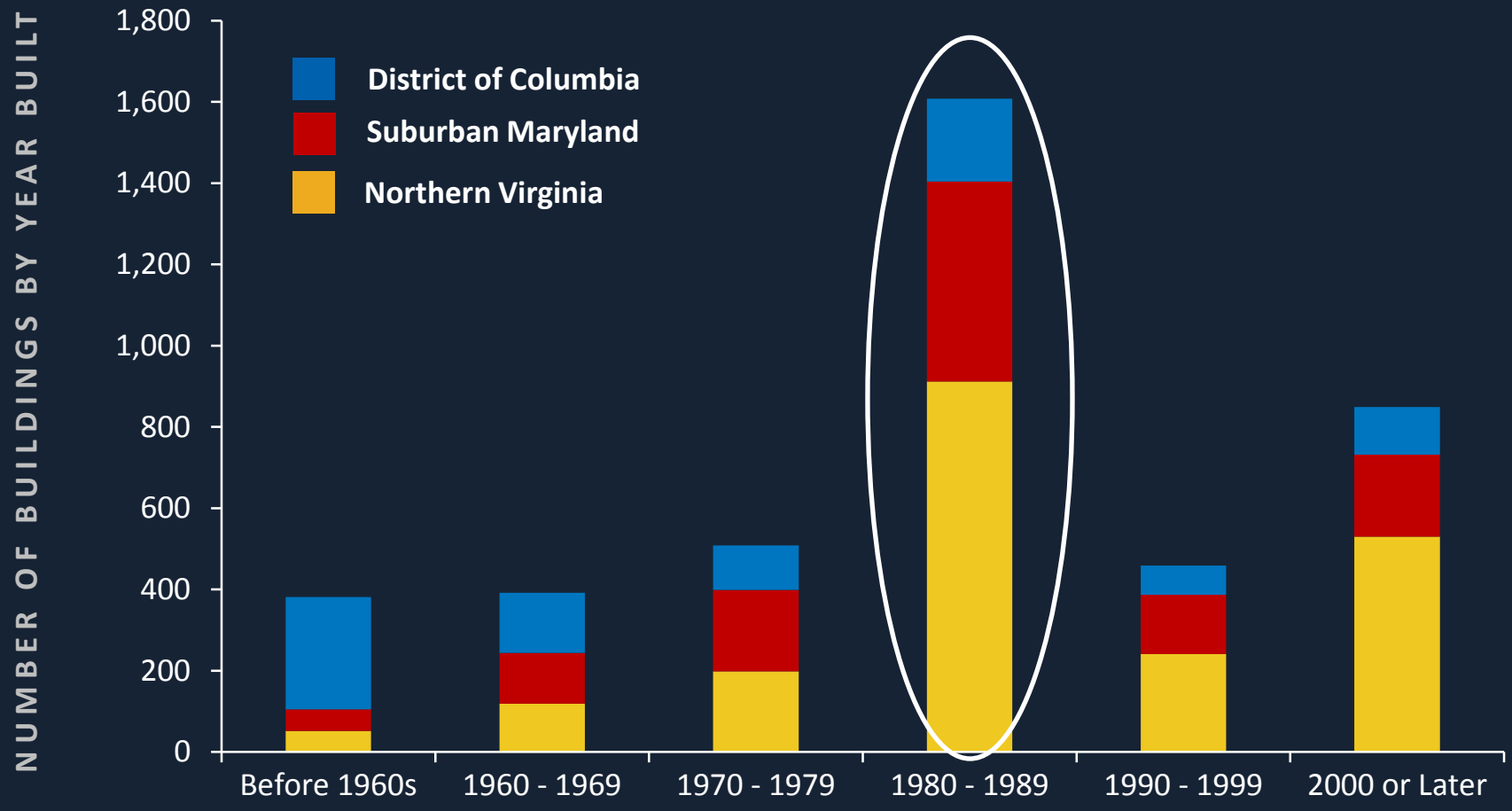
Washington Metro Area | April 2013



Note: Includes buildings under construction or renovation.
Source: CoStar, Delta Associates; May 2013.

NUMBER OF OFFICE BUILDINGS

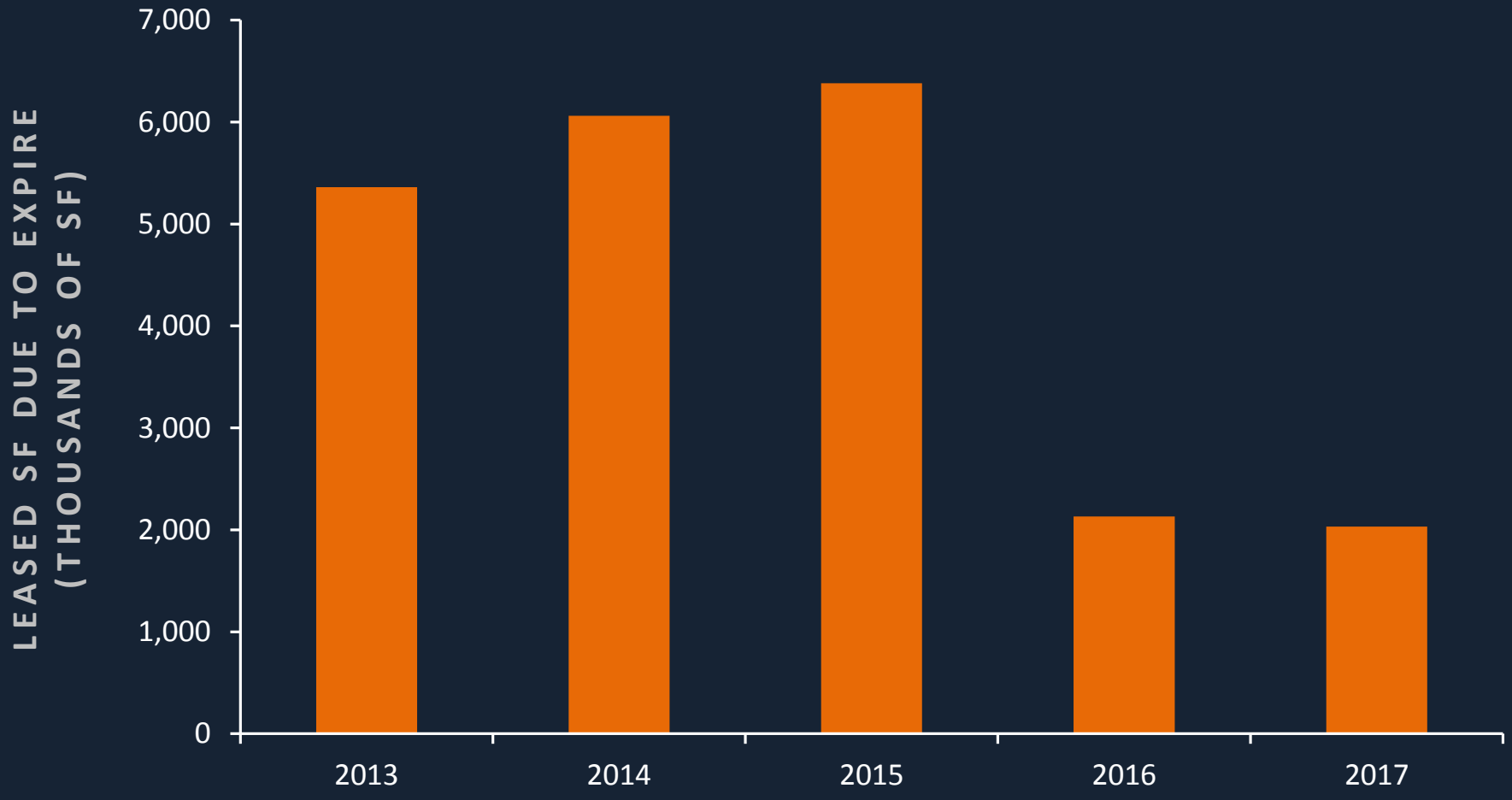
Washington Metro Area | By Year Built



Source: CoStar, Delta Associates; May 2013.

GSA OFFICE LEASE EXPIRATIONS

Washington Metro Area



Source: GSA, Delta Associates; May 2013.

OFFICE AMENITIES IN DEMAND

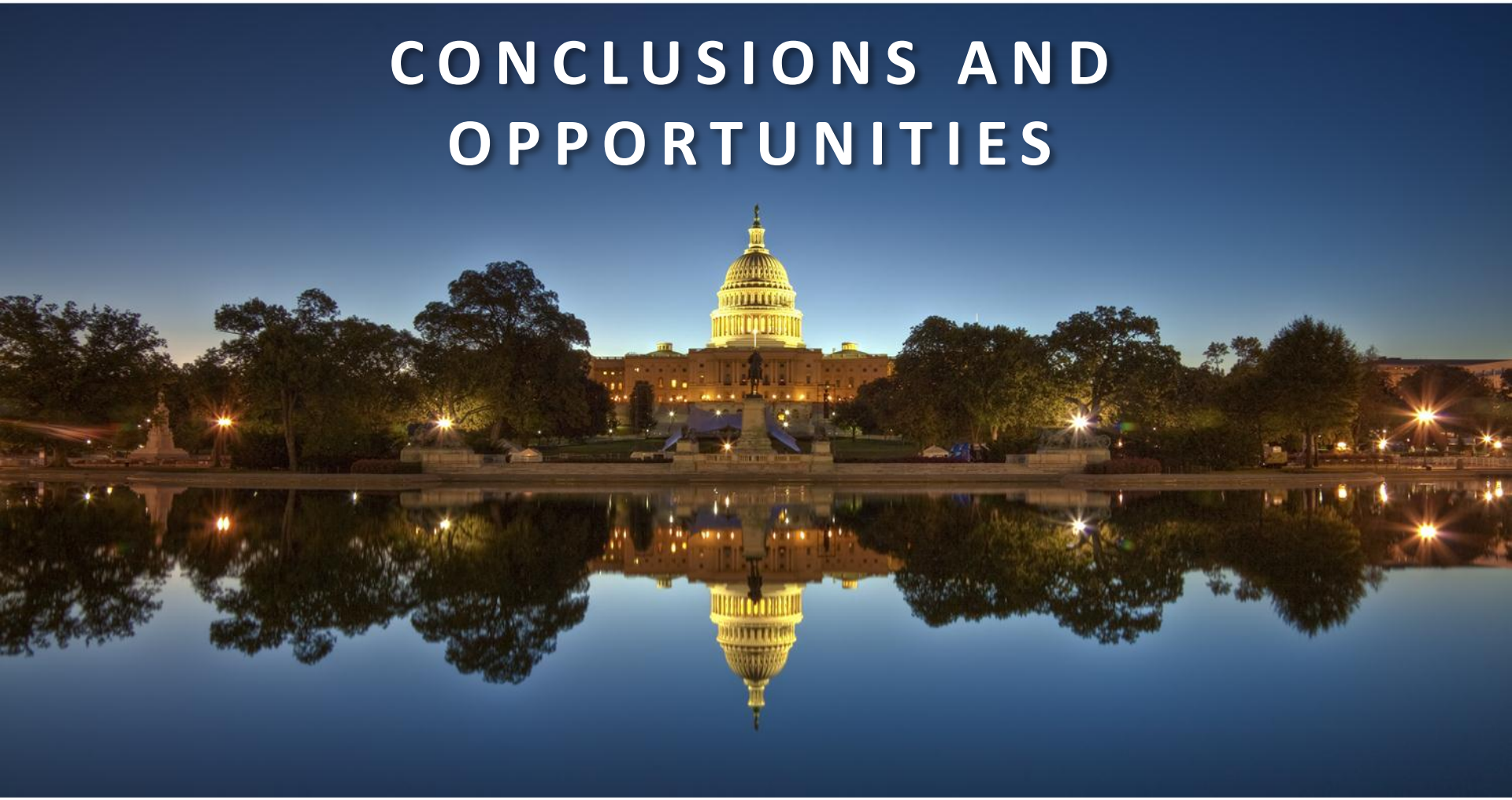
Washington Metro Area | 2013

- Wireless hot spots
- Rooftop terrace
- LEED certification
- Fitness centers
- Floor-to-ceiling windows
- Ground-floor retail
- Charging stations and Zip cars
- Conference facilities

Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE
MARKETS IN THE WASHINGTON METRO AREA

CONCLUSIONS AND OPPORTUNITIES



DELTA ASSOCIATES
A Transwestern Company

PREPARED FOR: rma THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE

CONCLUSIONS AND OPPORTUNITIES

- Prepare for a modest expansion period through 2016-17 – weaker than prior cycles but strong enough to support a healthy real estate market
- Sequestration remains a concern, but private sector growth is likely to continue at a modest pace, bolstered by headquarters relocations
- Apartment rent declines are likely in 2013 before the market regains traction in 2014-15; after deliveries slow in late 2013 the market could quickly become under-supplied again
- The housing market is well into recovery; price increases are likely to continue at a moderate level in 2013
- New condominium price increases are likely to continue in 2013
- Office demand is likely to remain light in 2013; we look to 2015 before demand gains significant traction
- The most appealing opportunities include efficient, customizable office product and smaller apartment units with modern amenities

Source: Delta Associates; May 2013.

THE ECONOMY AND COMMERCIAL REAL ESTATE MARKETS IN THE WASHINGTON METRO AREA

MAY 2013

DELTA ASSOCIATES
A Transwestern Company

PREPARED FOR: rma THE RISK MANAGEMENT ASSOCIATION

PRESENTED BY: SANDY PAUL, CRE