

# TRENDLINES<sup>®</sup> WASHINGTON

Trends in Washington Commercial Real Estate

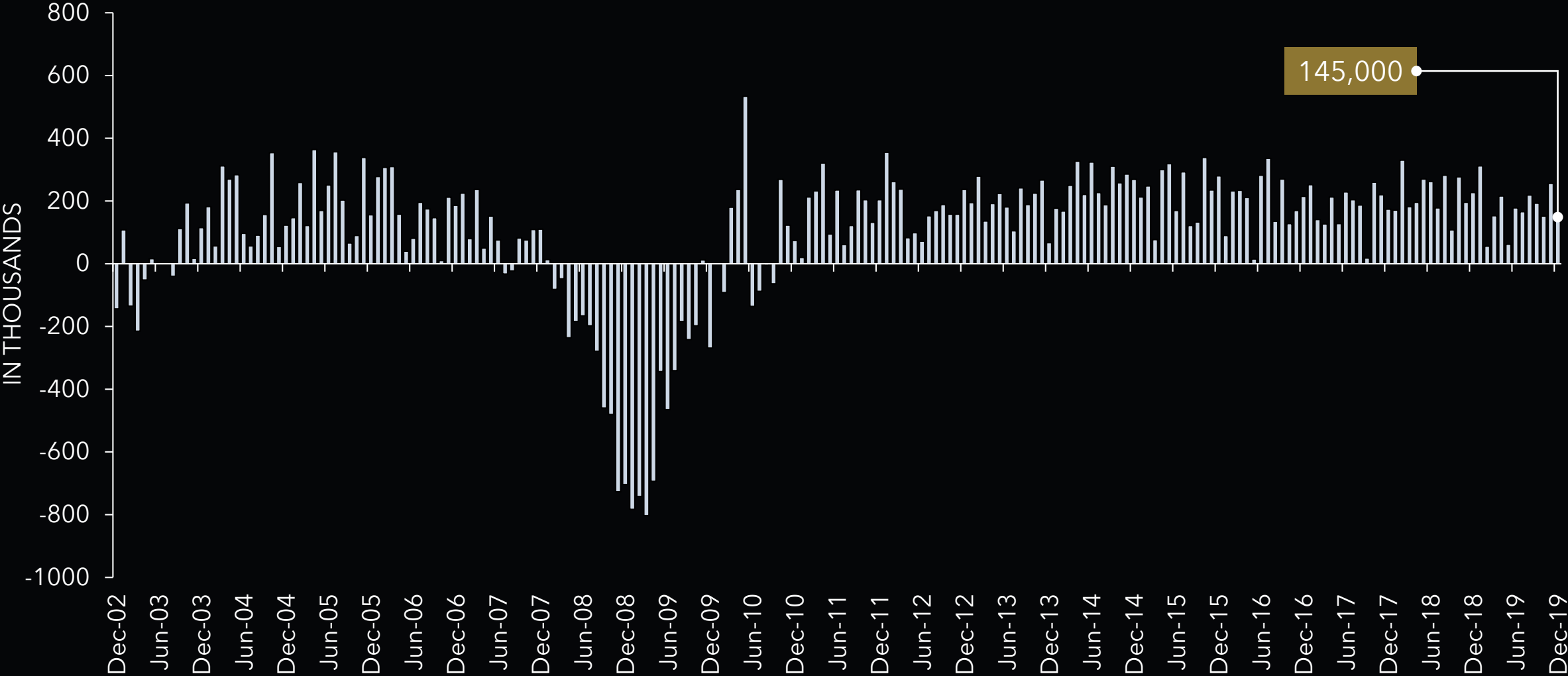
# 2020



# THE ECONOMY

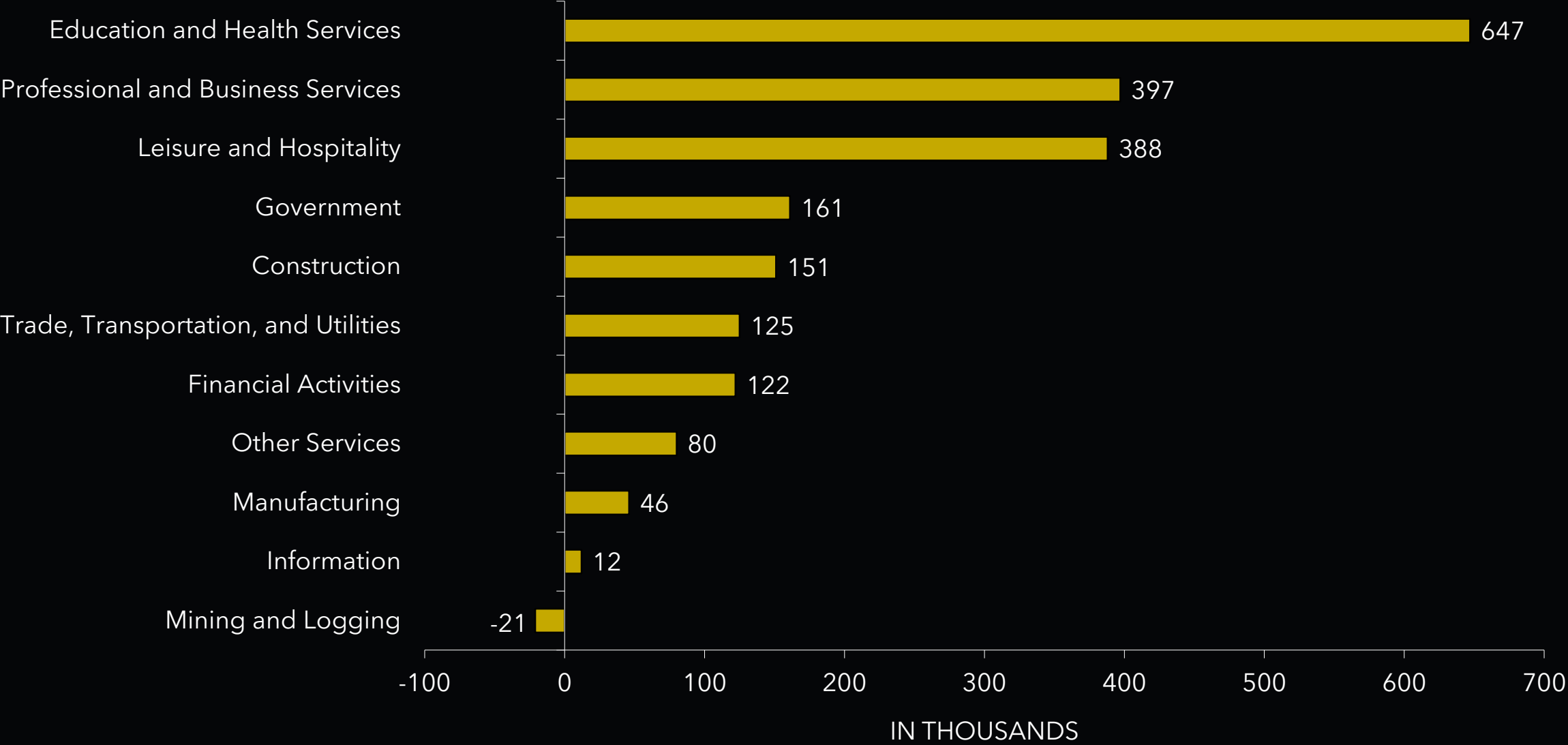
# THERE IS PLENTY OF JOB GROWTH

## United States Net Change in Jobs



# NONFARM EMPLOYMENT BY INDUSTRY

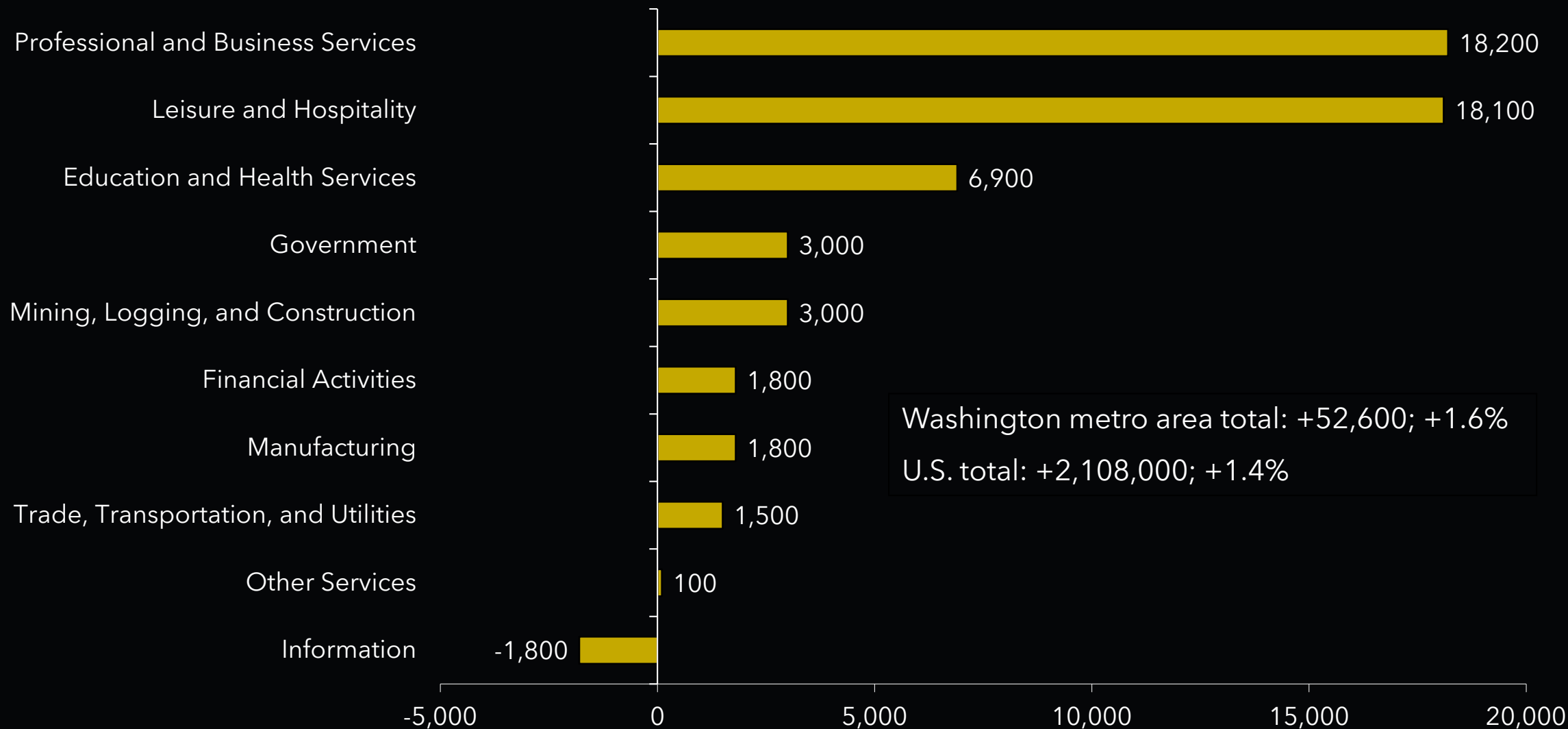
## United States | 12 Months Ending December 2019





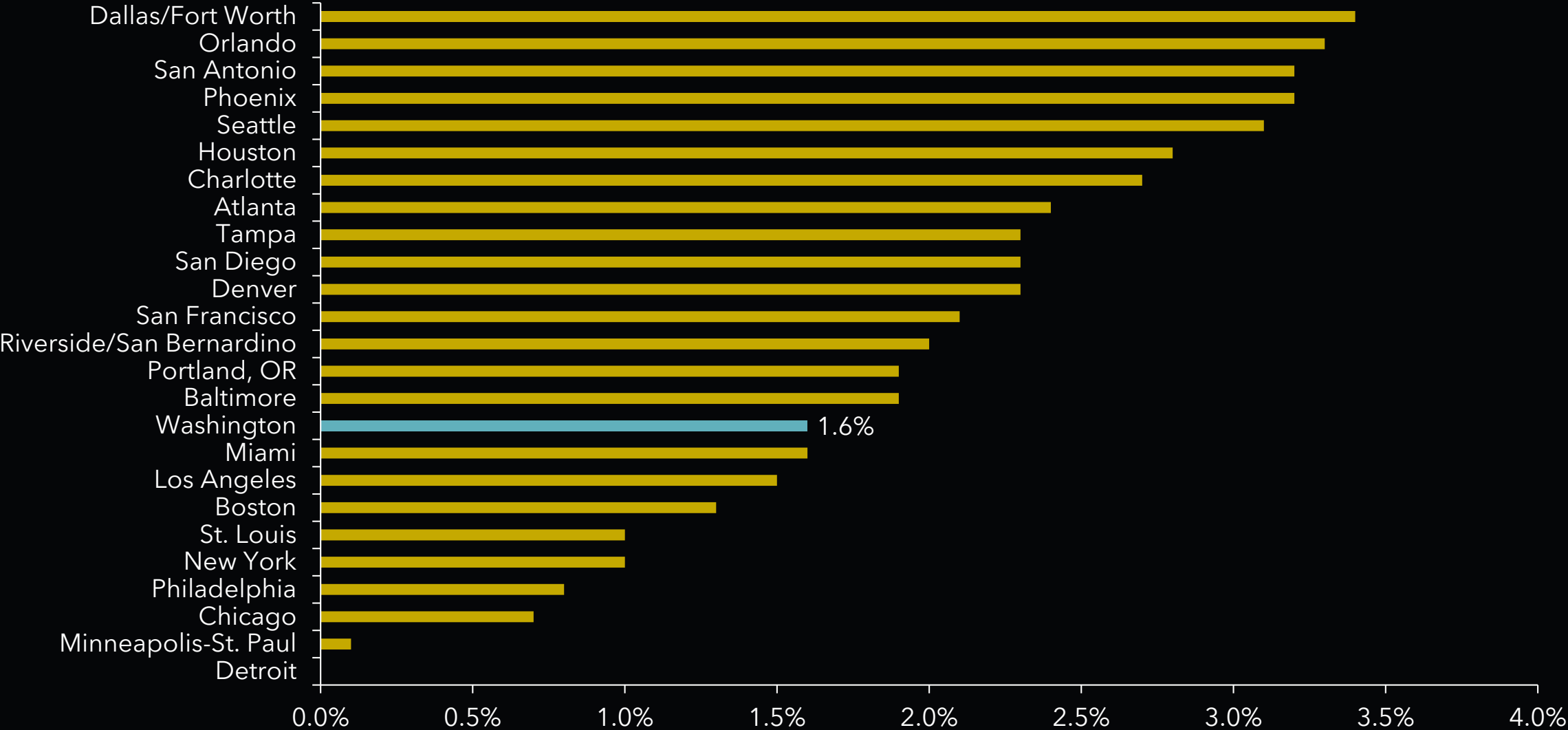
# NONFARM EMPLOYMENT BY INDUSTRY

## Washington Metro Area | 12 Months Ending December 2019



# EMPLOYMENT GROWTH

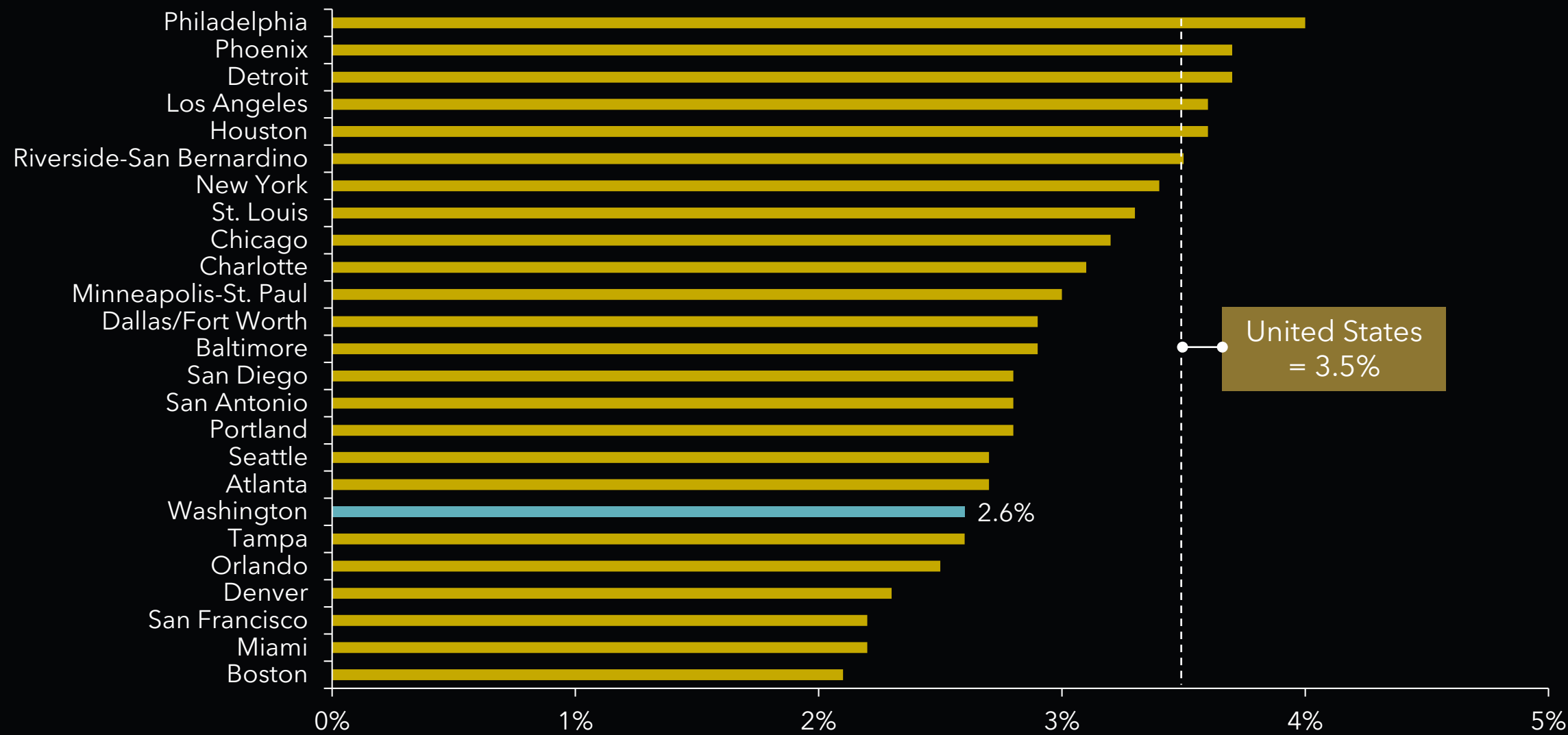
## 25 Largest Metro Areas | 12 Months Ending December 2019



Source: U.S. Bureau of Labor Statistics, Sage Policy Group; February 2020.

# UNEMPLOYMENT RATE

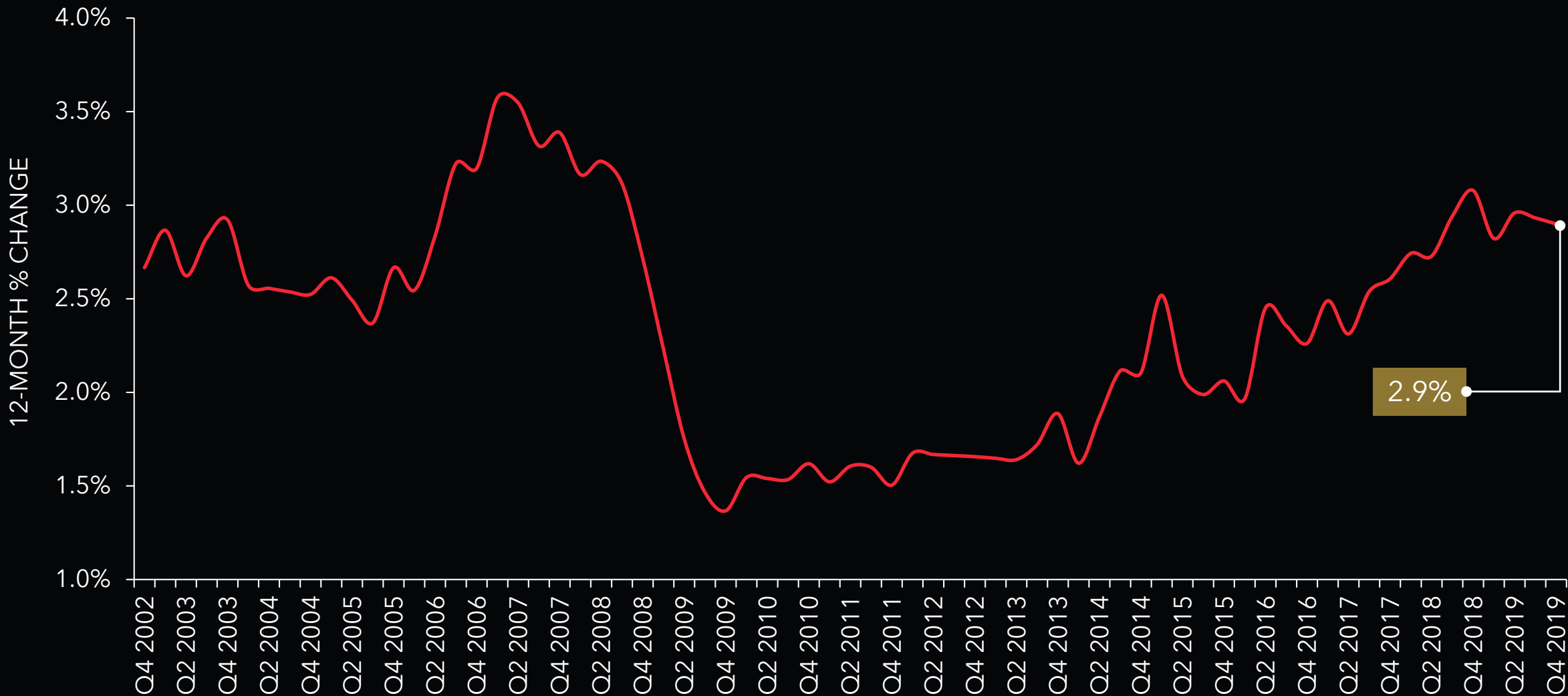
## 25 Largest Metro Areas | December 2019



Source: U.S. Bureau of Labor Statistics, Sage Policy Group; February 2020.

# GROWTH IN WAGES AND SALARIES

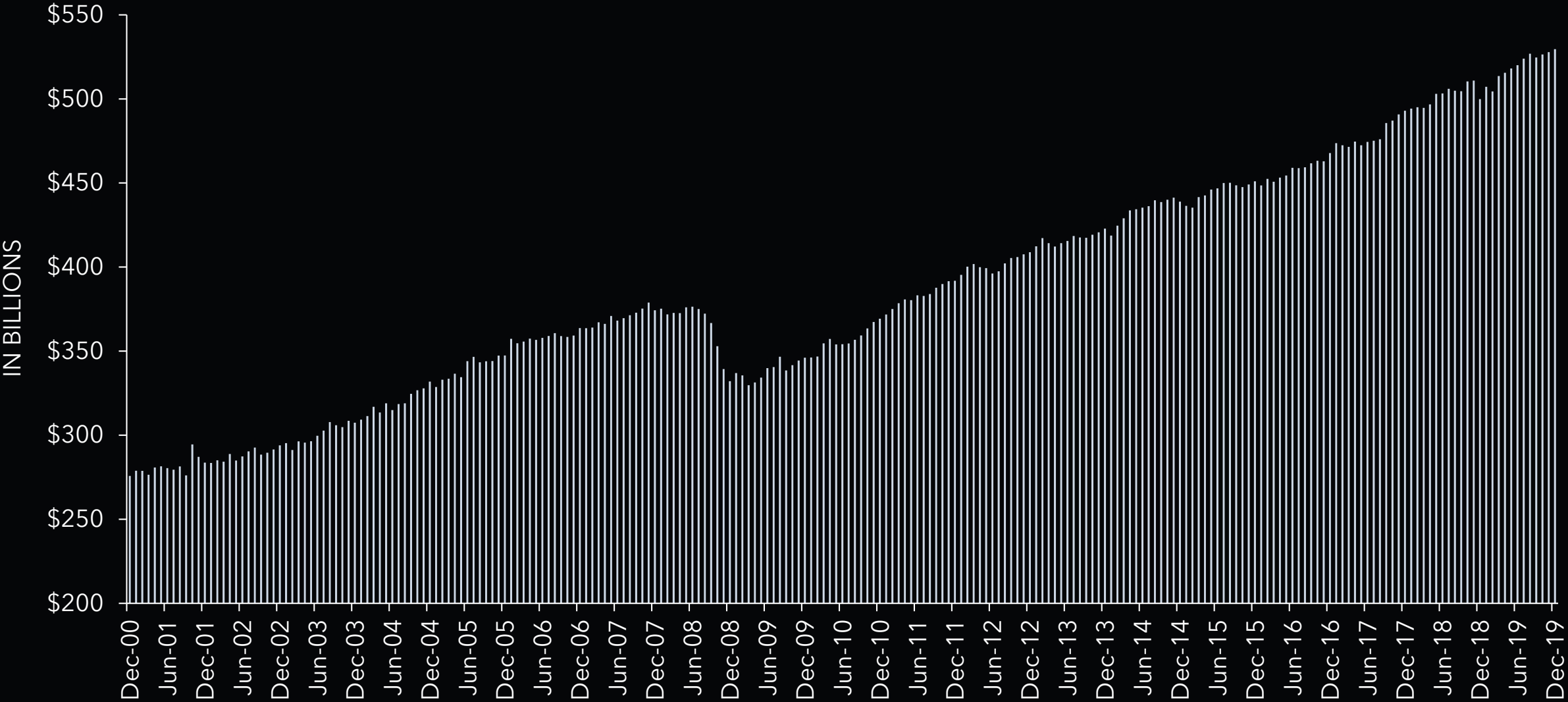
## United States



Source: U.S. Bureau of Labor Statistics, Sage Policy Group; February 2020.

# RETAIL SALES

## United States



Source: U.S. Census Bureau, Sage Policy Group; February 2020.



# CONSUMER PRICE INDEX: ALL ITEMS LESS FOOD & ENERGY

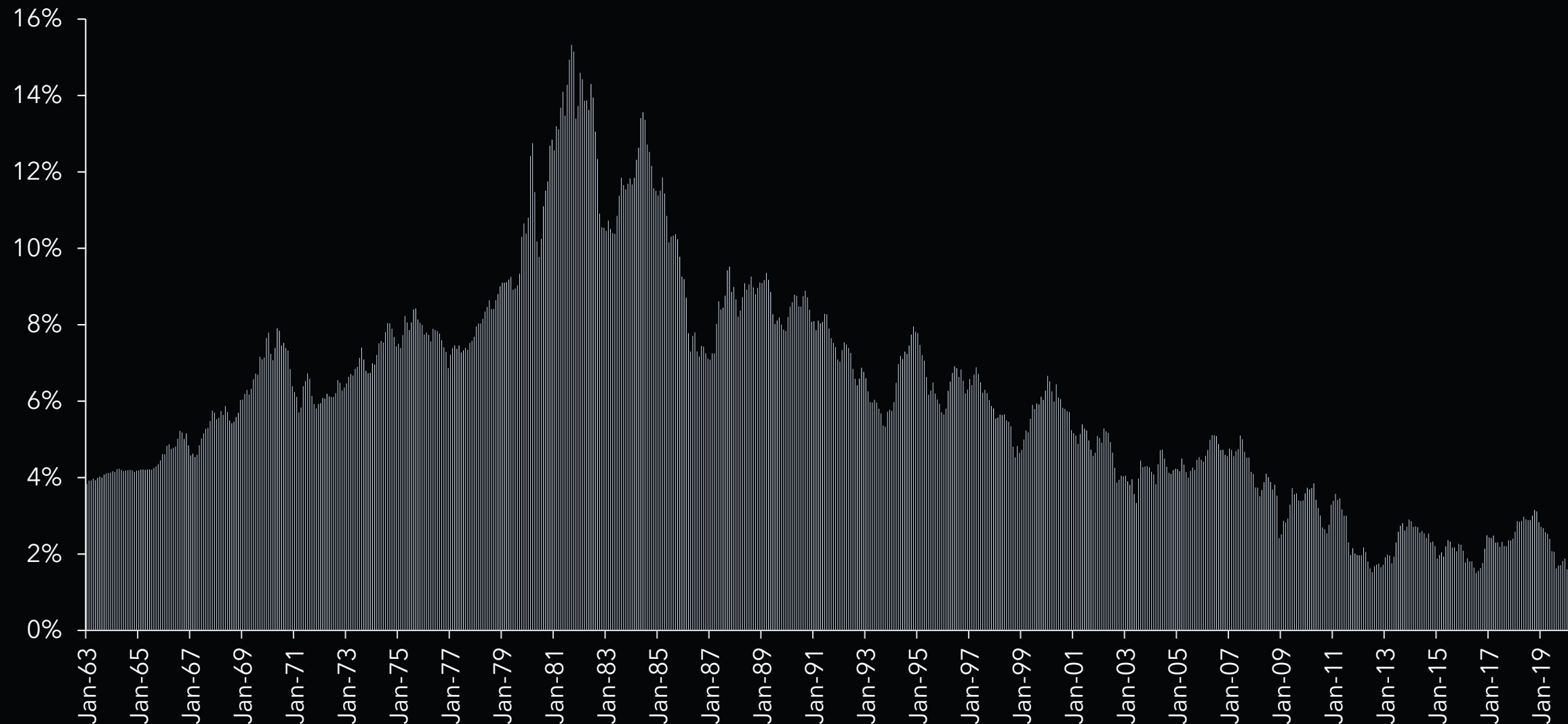
## United States



Source: U.S. Bureau of Labor Statistics, Sage Policy Group; February 2020.

# 10-YEAR TREASURY CONSTANT MATURITY RATE

## United States



Source: Board of Governors of the Federal Reserve System, Sage Policy Group; February 2020.

# MANUFACTURING ON THE DECLINE

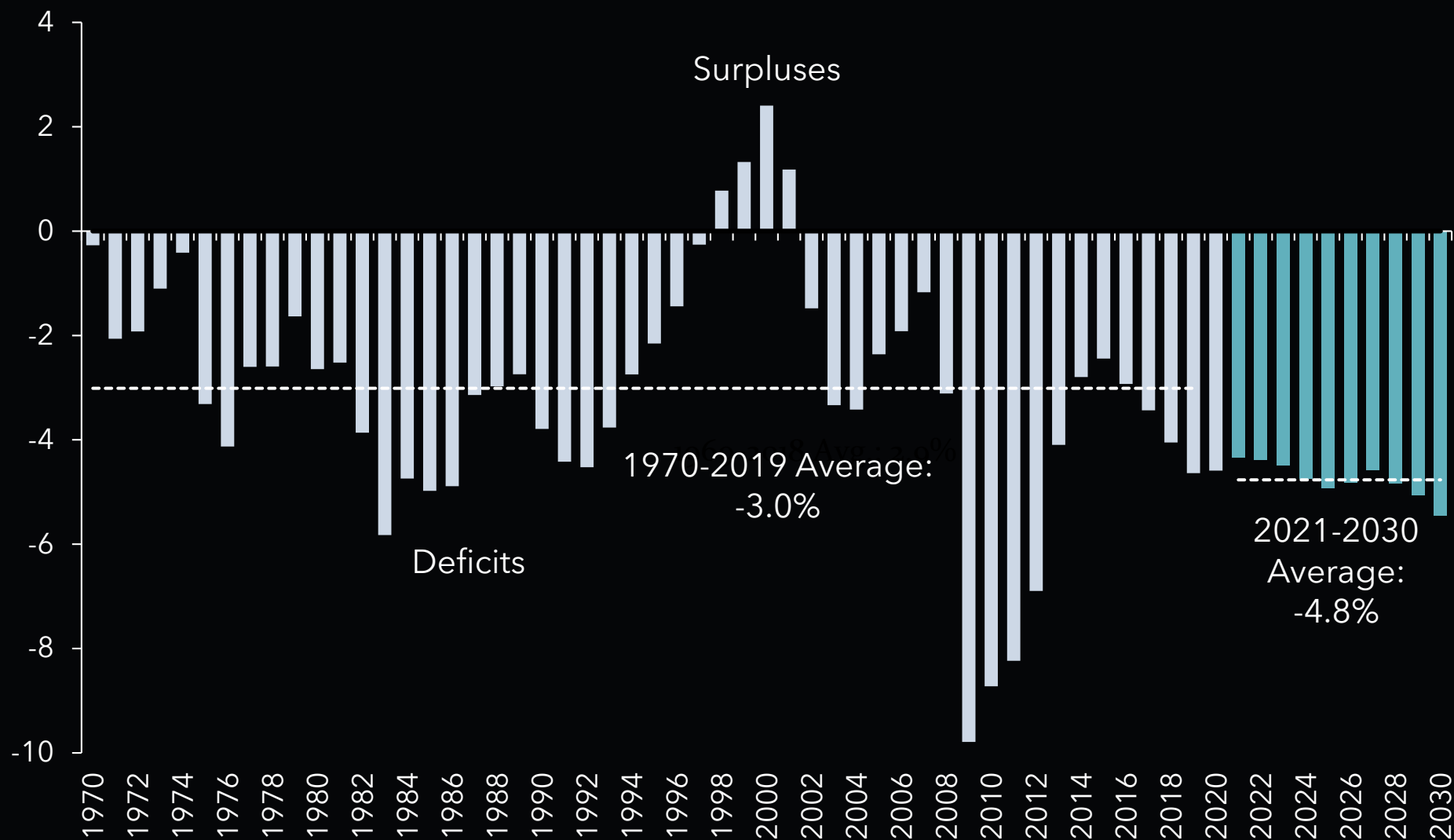
## Institute of Supply Management: Purchasing Managers Index (PMI)



Source: Institute of Supply Management; Quandl.com, Sage Policy Group; February 2020.

# FEDERAL DEFICIT AS PERCENT OF GDP

## United States

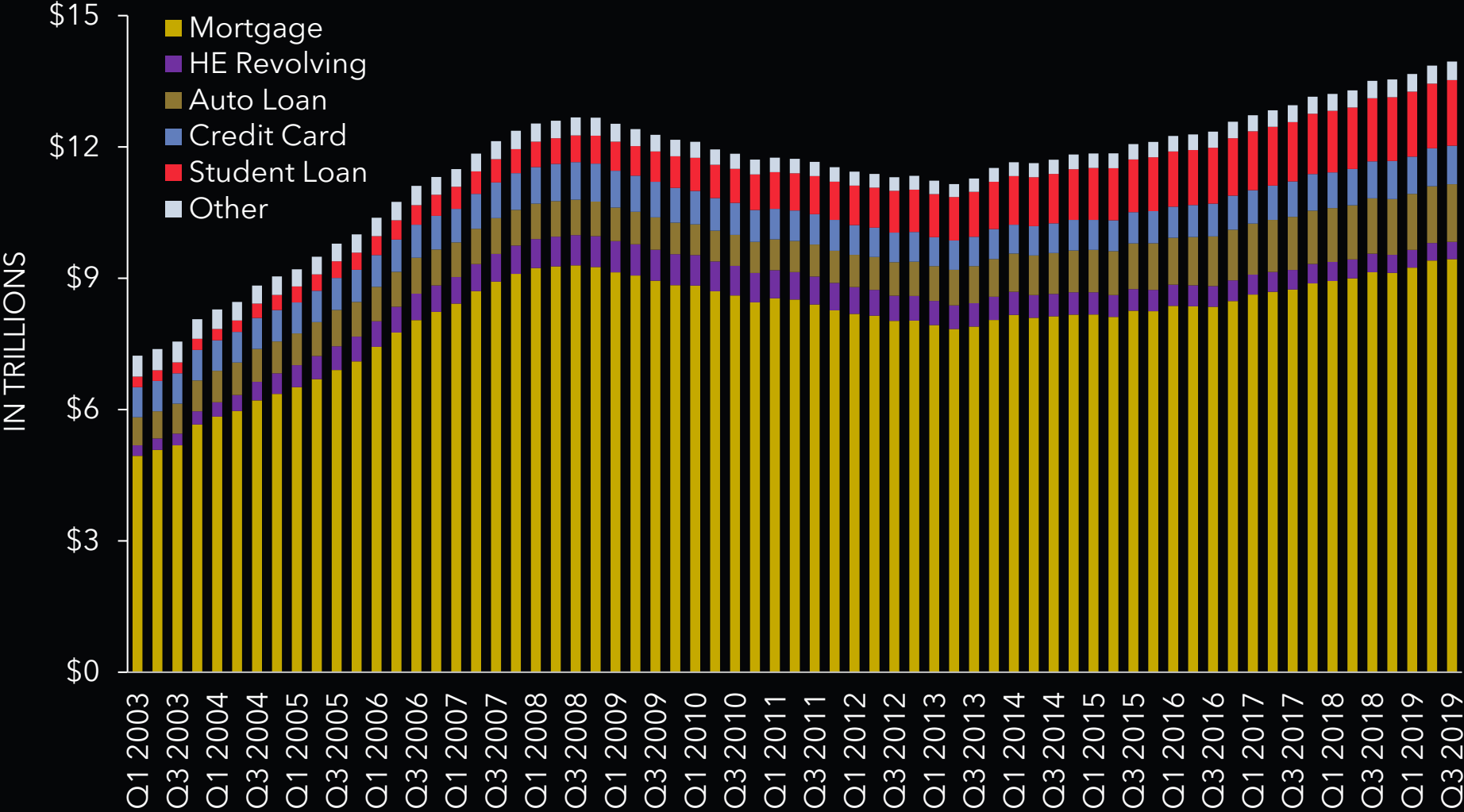


Over the 2021-2030 period, deficits are projected to average 4.8% of GDP, totaling \$13.1 trillion.

Over the past 50 years, deficits averaged just 3.0% of GDP.

# TOTAL HOUSEHOLD DEBT

## United States



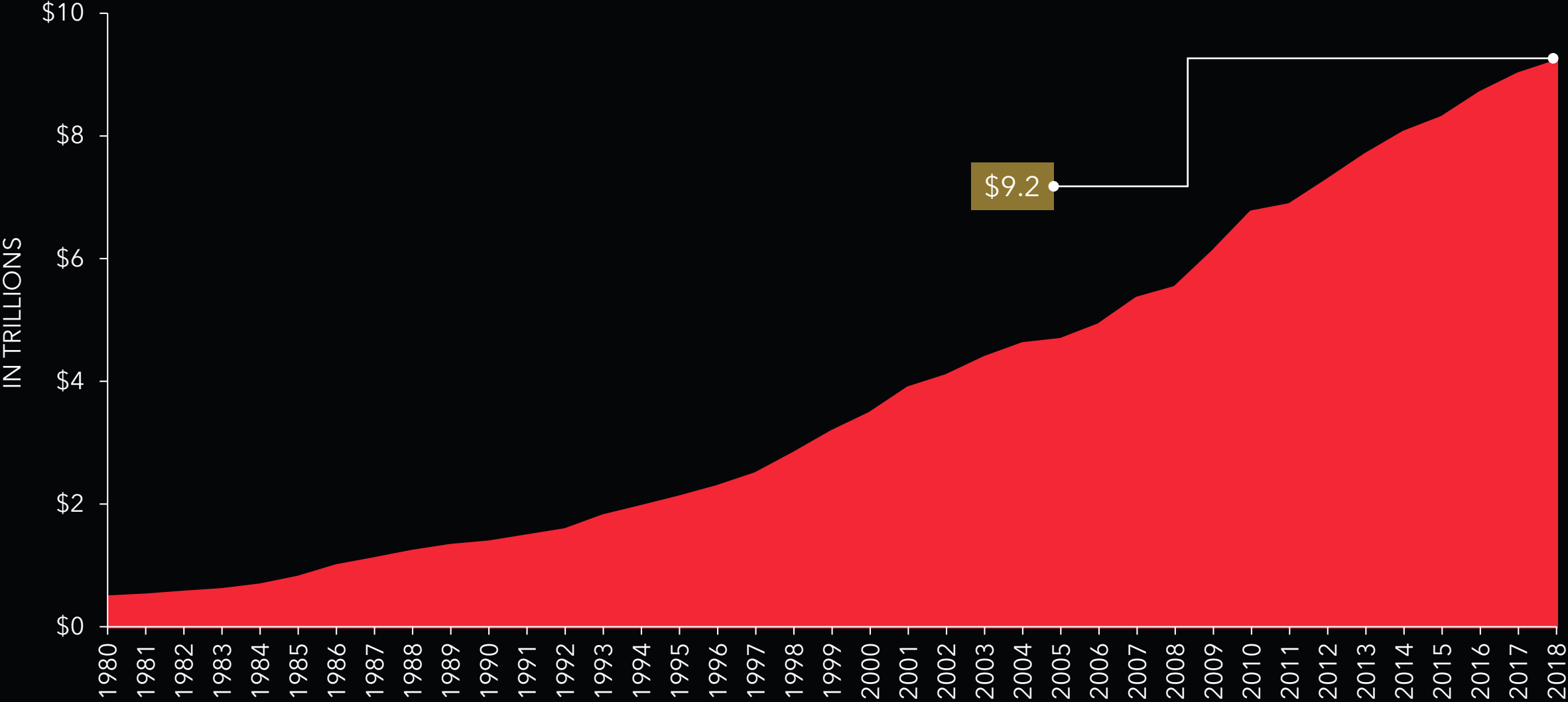
Debt balances have been rising steadily for 5 years and are now \$1.3 trillion higher than the previous peak in Q3 2008 of \$12.7 trillion.

Overall household debt is 25.1% above the Q2 2013 trough.



# HOW DID IT COME TO THIS?

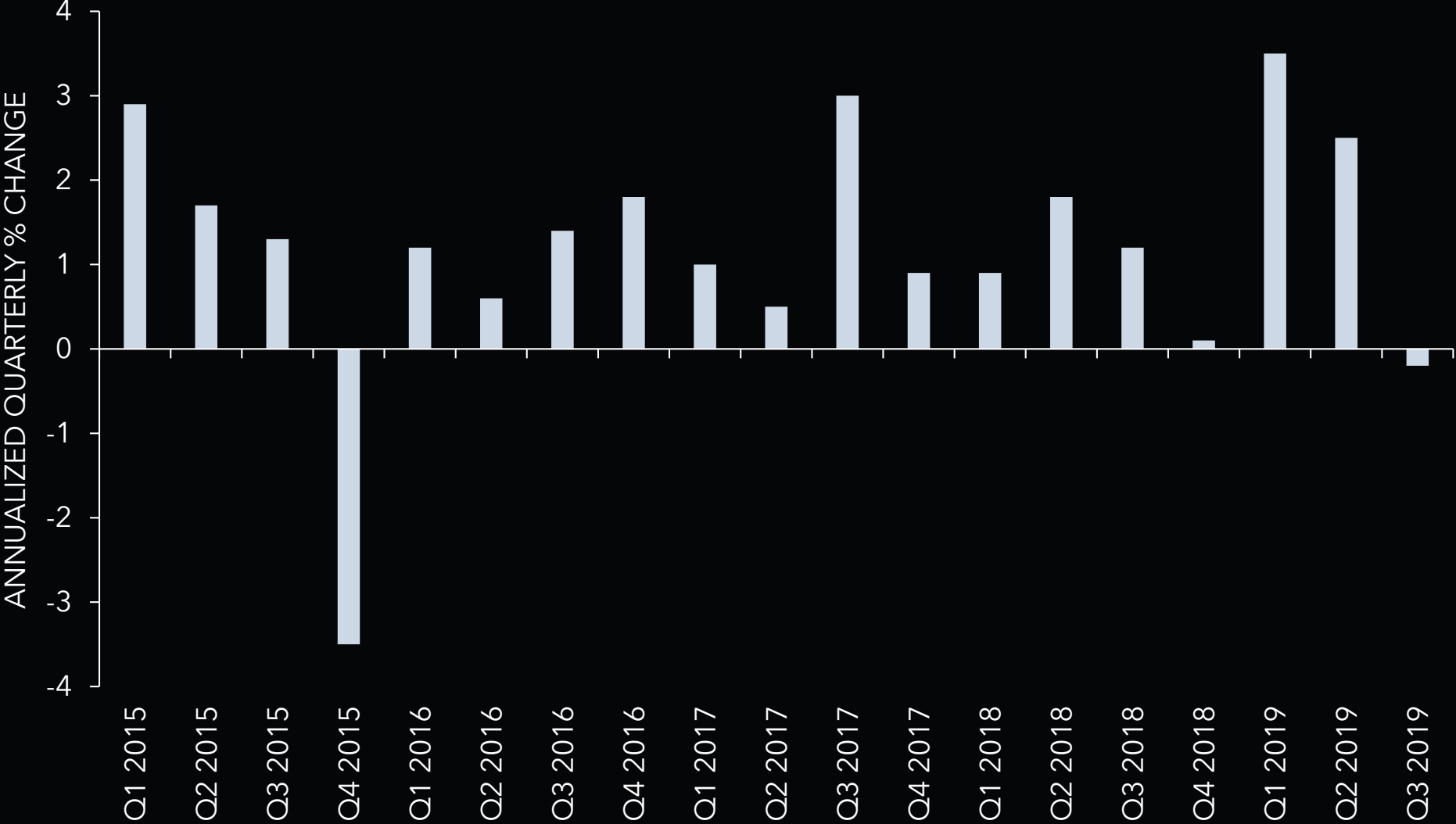
## United States Corporate Bond Debt Outstanding



Source: Securities Industry and Financial Markets Association (SIFMA), Federal Reserve, Sage Policy Group; February 2020.

# LABOR PRODUCTIVITY (PER HOUR) GROWTH

## United States



In Q3 2019 non-farm business sector labor productivity fell by 0.2% – the first decline since 2015.

U.S. productivity has risen at an average rate of 1.3% since 2007, compared with a 2.1% average since the end of WWII.

# UNCERTAINTY CONTINUES: Global Economic Policy Uncertainty Index



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com), Sage Policy Group; February 2020.

# THE EYE IS ON ASSET PRICES: Shiller Price-Earnings Ratio



Source: Robert J. Shiller Data used in his book, "Irrational Exuberance" Princeton University Press, Sage Policy Group; February 2020.

# THREE THINGS THAT DEFINE PREDICTION

- 1. Impossibly low inflation:** How could one have seen this coming in the context of the lowest unemployment rate in 50 years, lackluster productivity growth, a robust consumer spending sector and the lengthiest expansion in U.S. history?
- 2. Incredibly low interest rates:** How can global indebtedness be so high, and global interest rates so low?
- 3. The strength of the U.S. economy itself:** How can the U.S. economy have been performing so well, and financial markets booming so splendidly in the context of fragmenting global trade, slower immigration, Brexit, impeachment, global warming, and other phenomena that one would think would be bad for domestic economic outcomes?

**Maybe, we're not wrong?**



## The One

- Risk of recession over the next 18 months is arguably more elevated than at any period since 2007 – second half of the year appears at least a bit tenuous as elections approach;
- U.S. manufacturing and agricultural activity still sluggish, though first stage trade agreement with China could set the stage for resurgence, especially in U.S. farm sector;
- Economy has some more room to run – watch, however, for any indications of rising layoffs and unemployment – the job market is holding everything together – if it buckles, the house of cards falls even in the context of low interest rates.



## MEGATREND ONE

# Amazon's Likely Contribution to Regional Economic Diversification

# LOCATION QUOTIENTS

## Washington Metro Area | 2008 vs. 2018

	2008	2018	Net Change
Mining, Logging, and Construction	1.00	0.90	-0.09
Manufacturing	0.21	0.20	-0.02
Trade, Transportation, and Utilities	0.69	0.66	-0.03
Information	1.40	1.19	-0.20
Financial Activities	0.85	0.83	-0.01
Professional and Business Services	1.75	1.64	-0.11
Education and Health Services	0.81	0.84	0.03
Leisure and Hospitality	0.89	0.92	0.03
Other Services	1.50	1.61	0.11
Government	1.34	1.41	0.07
Federal Government	6.10	6.10	0.00



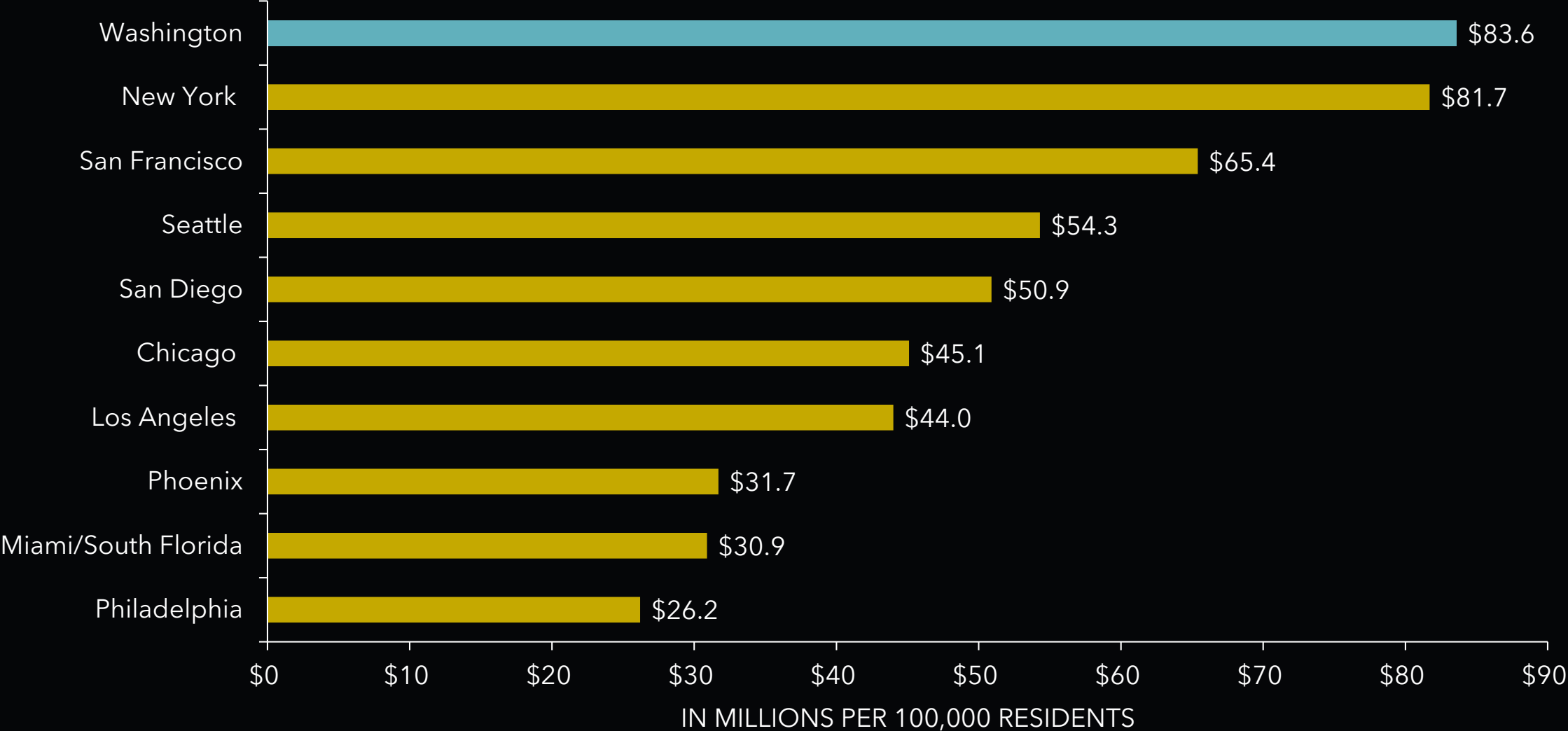


MEGATREND TWO

# Commercial Real Estate – The Canary in the Coal Mine

# FOREIGN INVESTMENT IN U.S. COMMERCIAL REAL ESTATE

## Top Destination Markets | 2018







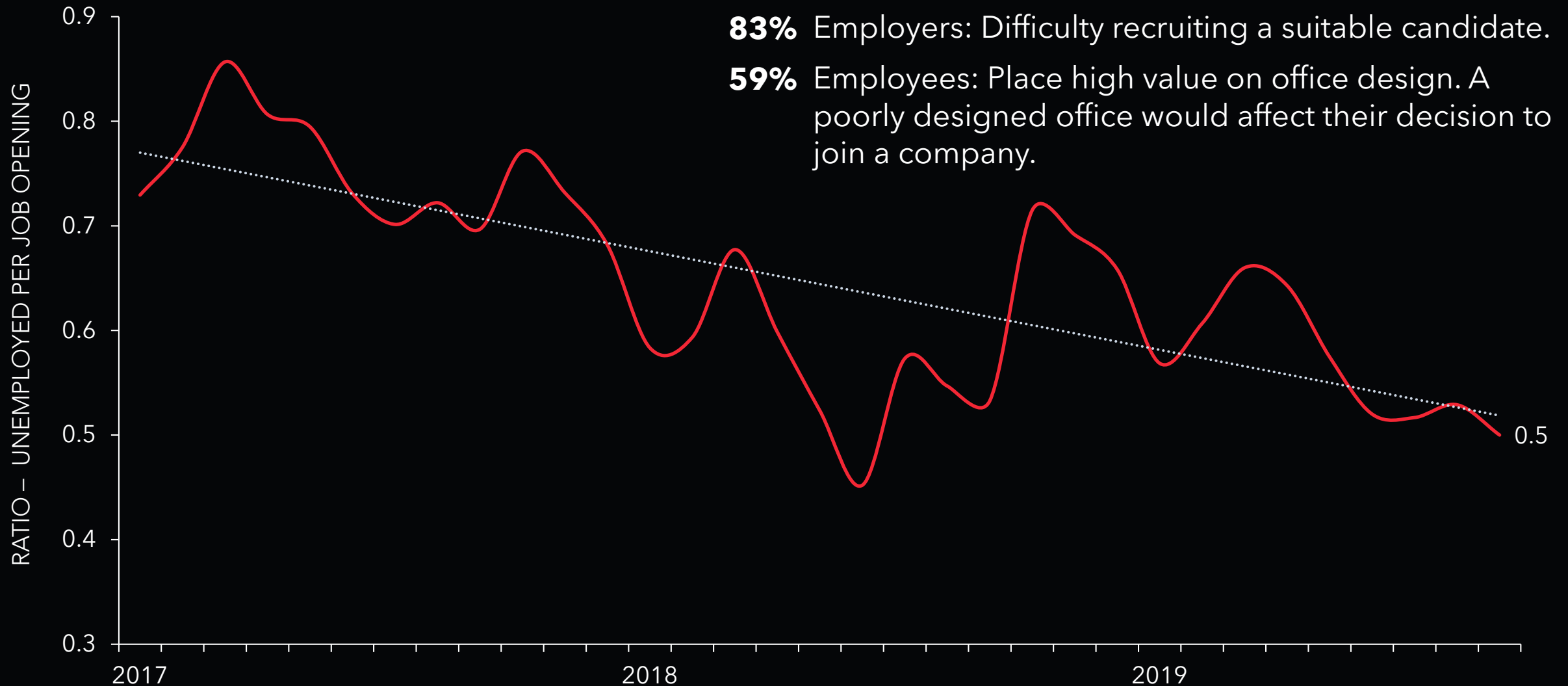
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**MEGATREND THREE**

**Office Obsolescence and Densification  
to Keep Vacancy Rate Elevated**

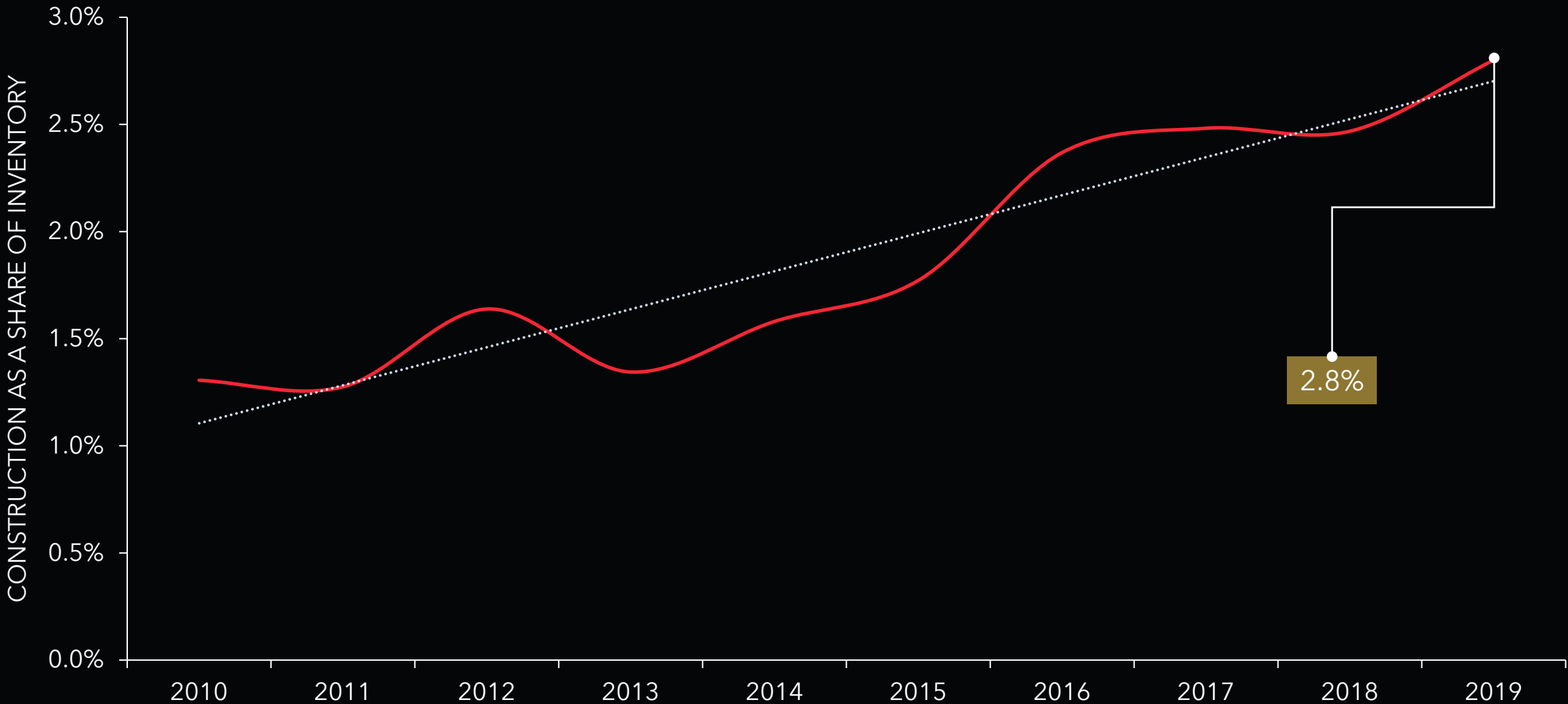
# TIGHT LABOR MARKET CHALLENGES EMPLOYERS

## Washington Metro Area



# RISING OFFICE CONSTRUCTION CAPTURES FLIGHT TO QUALITY

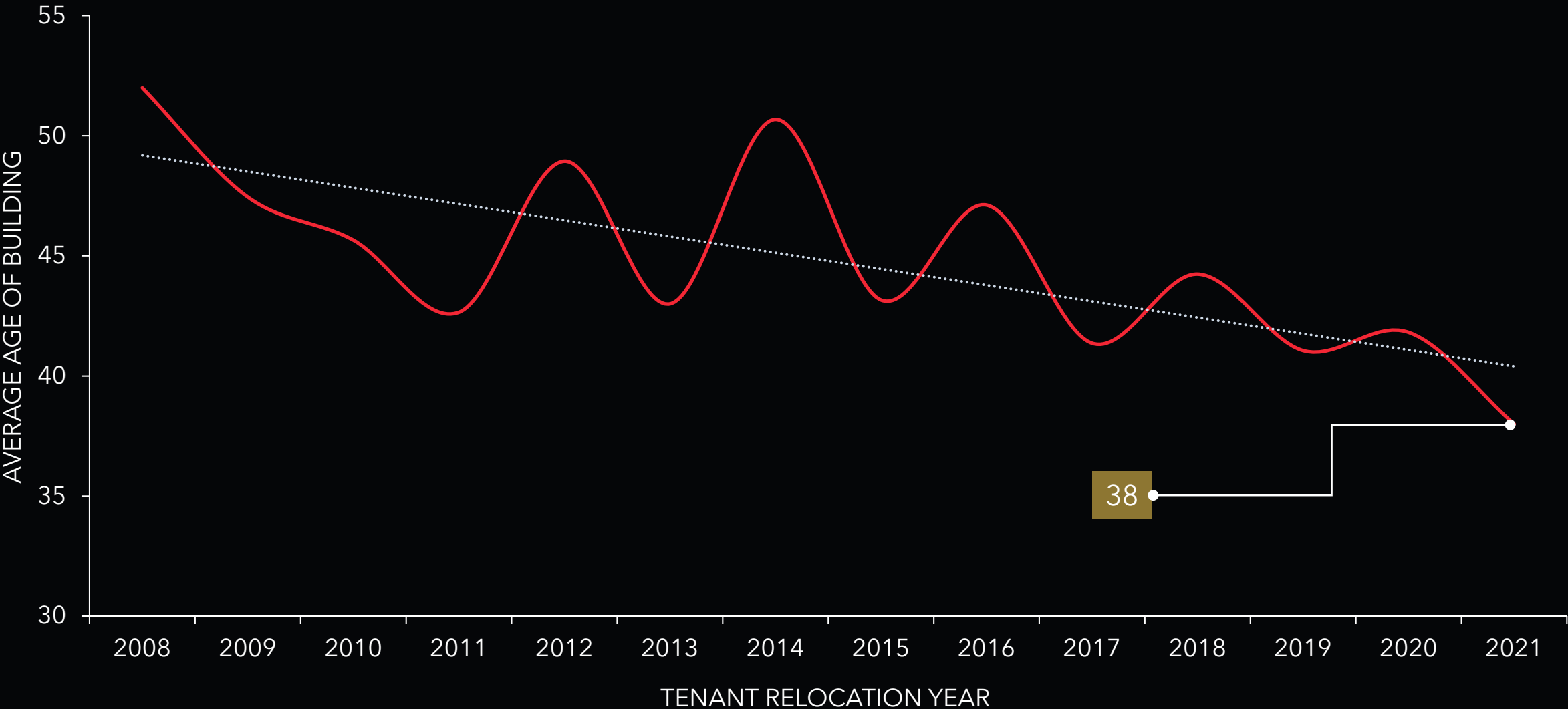
## Washington Metro Area





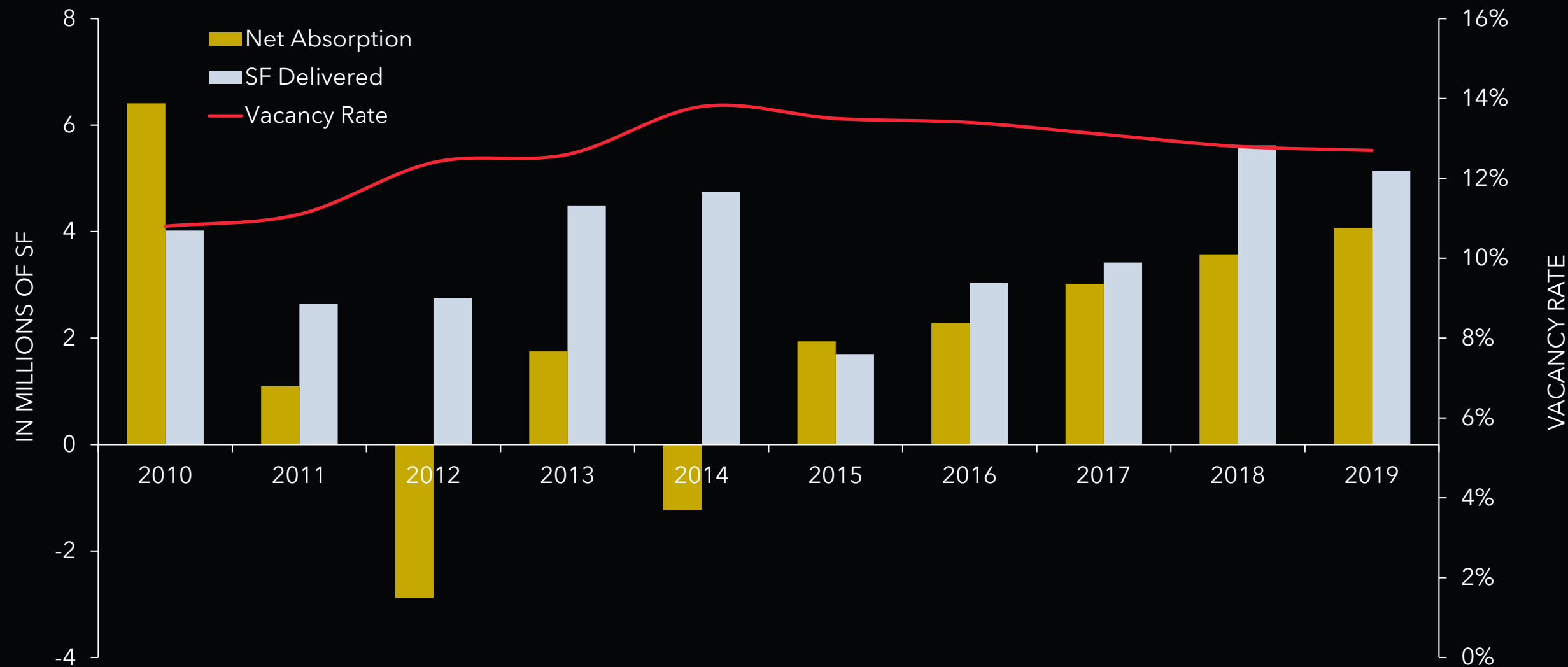
# AGE OF OFFICE BUILDING VACATED UPON TENANT RELOCATION

## Washington Metro Area



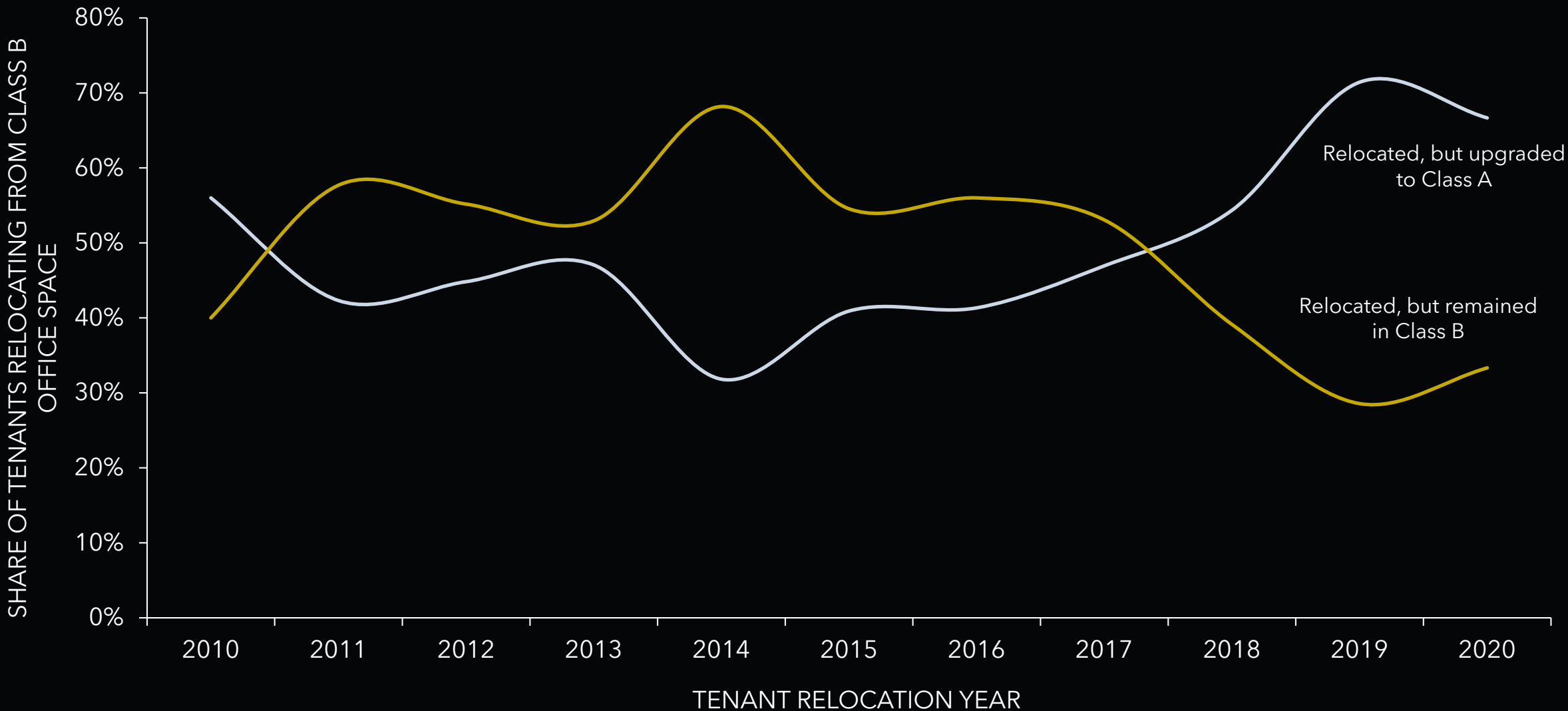
# OFFICE DELIVERIES VS. ABSORPTION

## Washington Metro Area



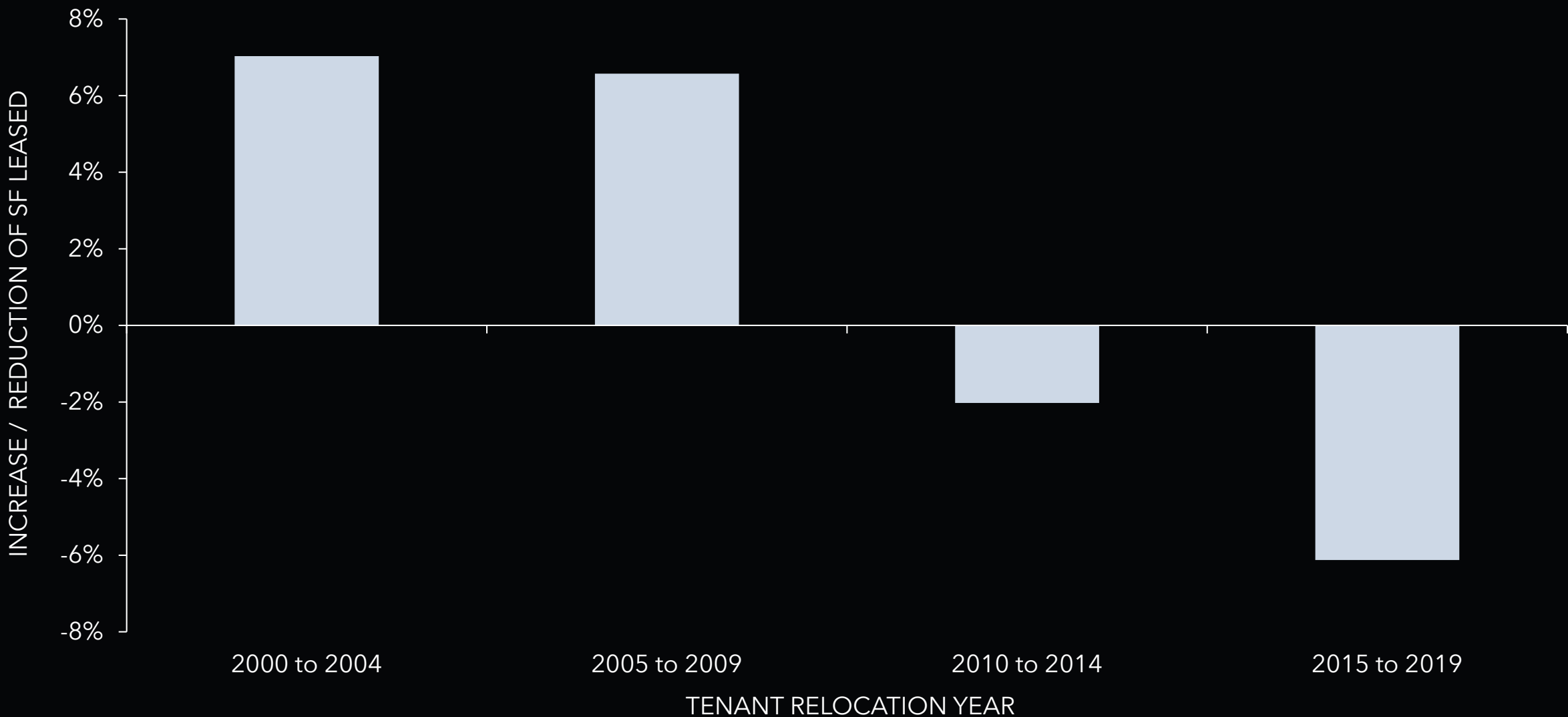
# CLASS B OFFICE TENANTS UPGRADING TO CLASS A

## Washington Metro Area



# TENANT DENSIFICATION TO CONTINUE

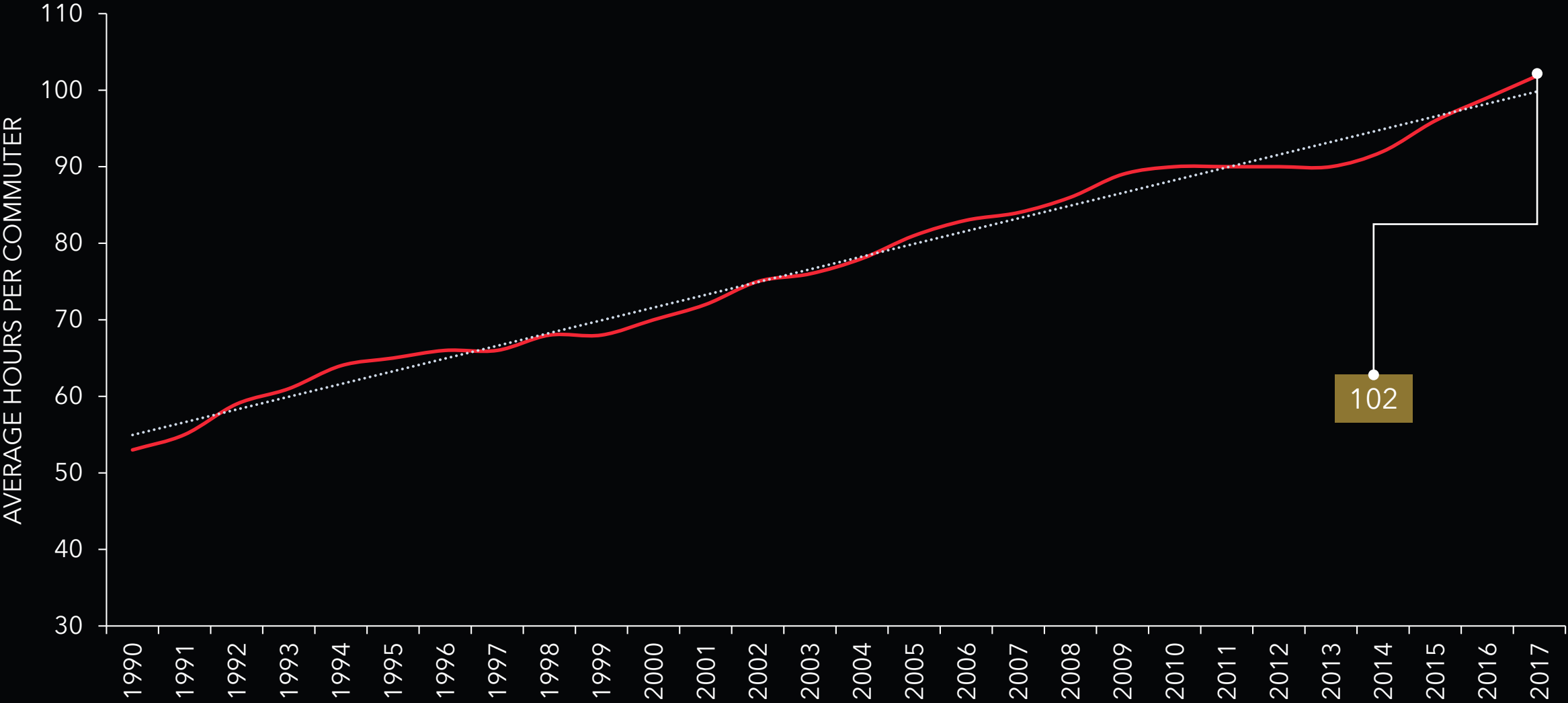
## Washington Metro Area





# HOURS WASTED COMMUTING PER YEAR

## Washington Metro Area



Source: Texas A&M Transportation Institute, Transwestern; February 2020.

# OFFICE OPPORTUNITIES

## Washington Metro Area

Tech, consulting, and medical sectors to account for 75% of total office-using job growth over the next five years

Don't forget about slower growth sectors that could right-size

Second generation Class A owners:  
Target business consulting, tech, law firms, and business or professional nonprofits

Looking to renovate? Focus renovations on roof decks, if able, for the best ROI





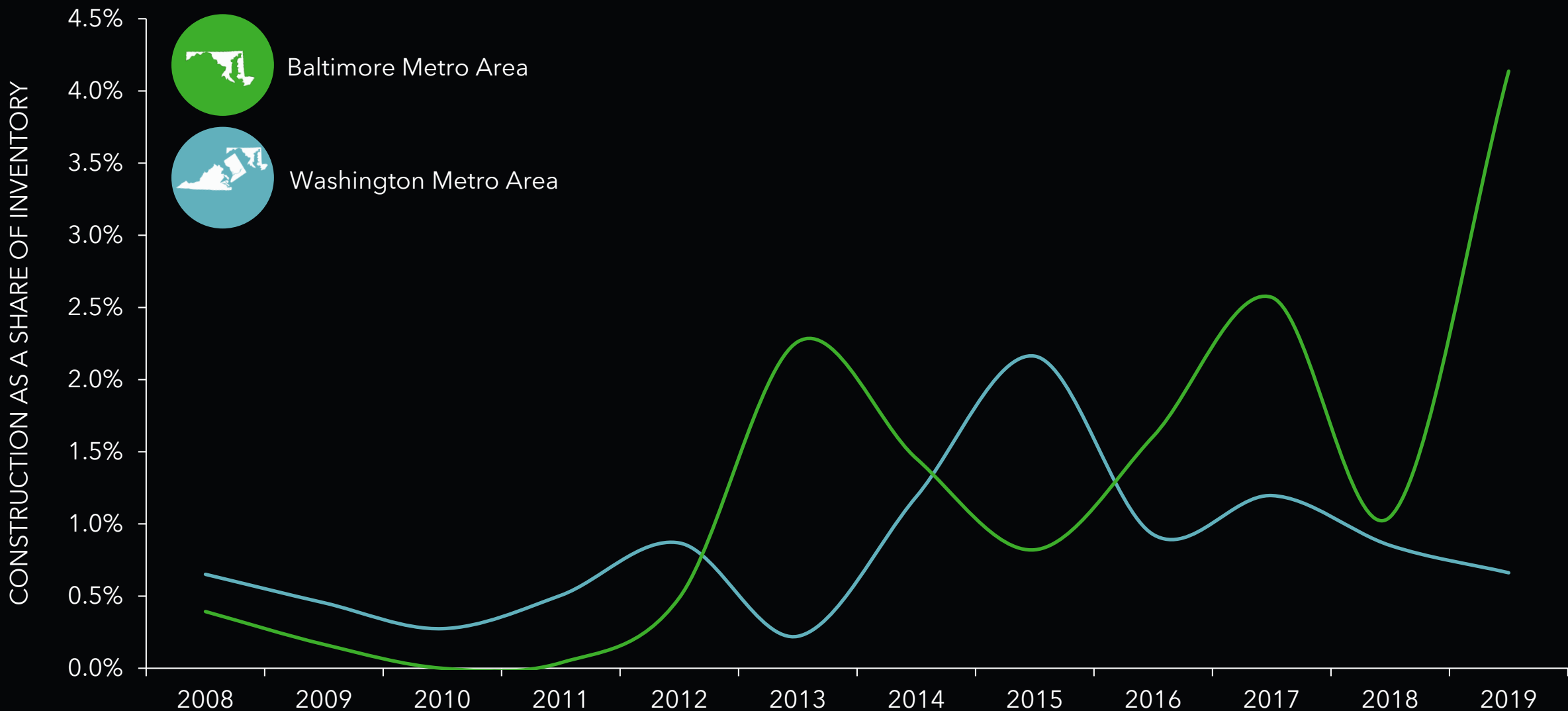
## MEGATREND FOUR

How Much Runway is Left for Industrial?



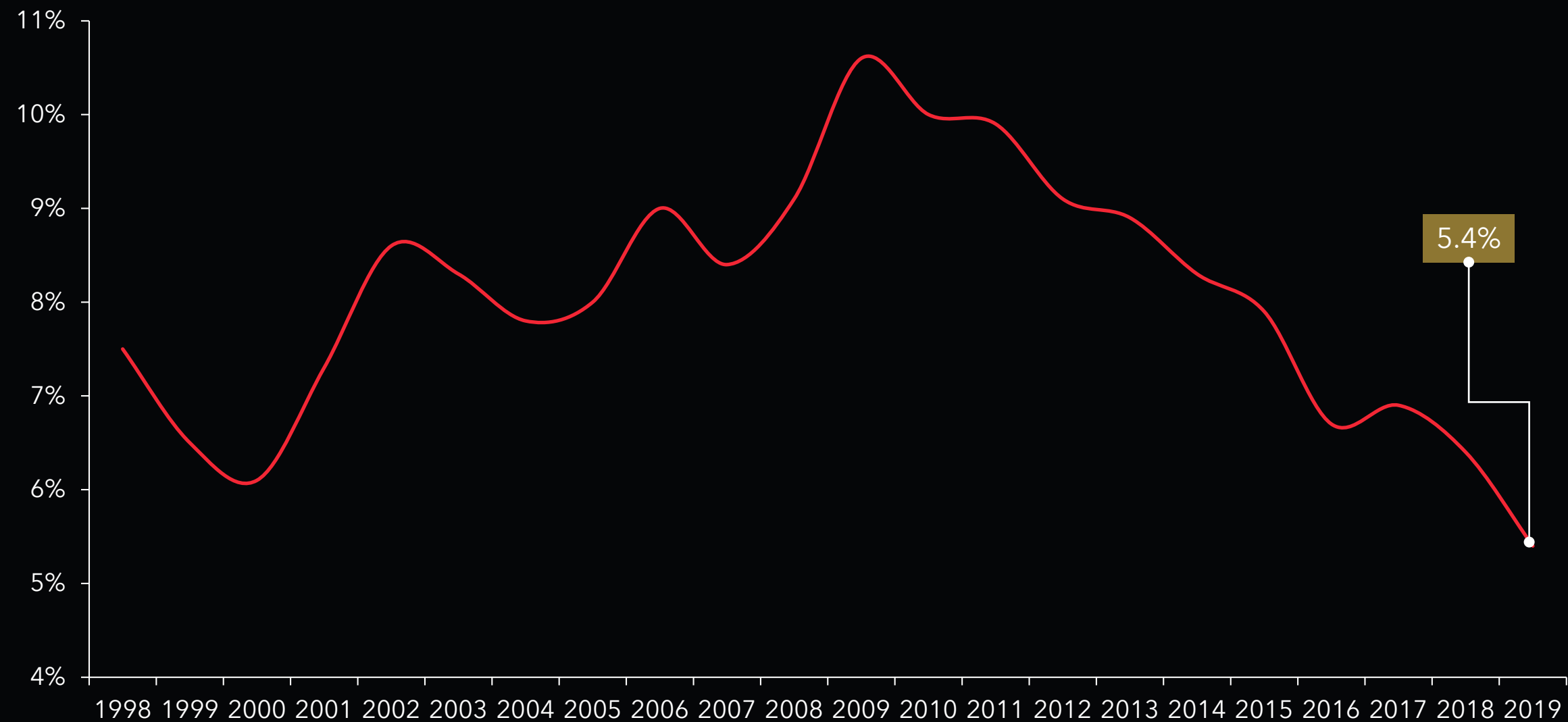
# INDUSTRIAL CONSTRUCTION

## Washington/Baltimore Region



# INDUSTRIAL VACANCY RATE AT HISTORIC LOW

## Washington/Baltimore Region



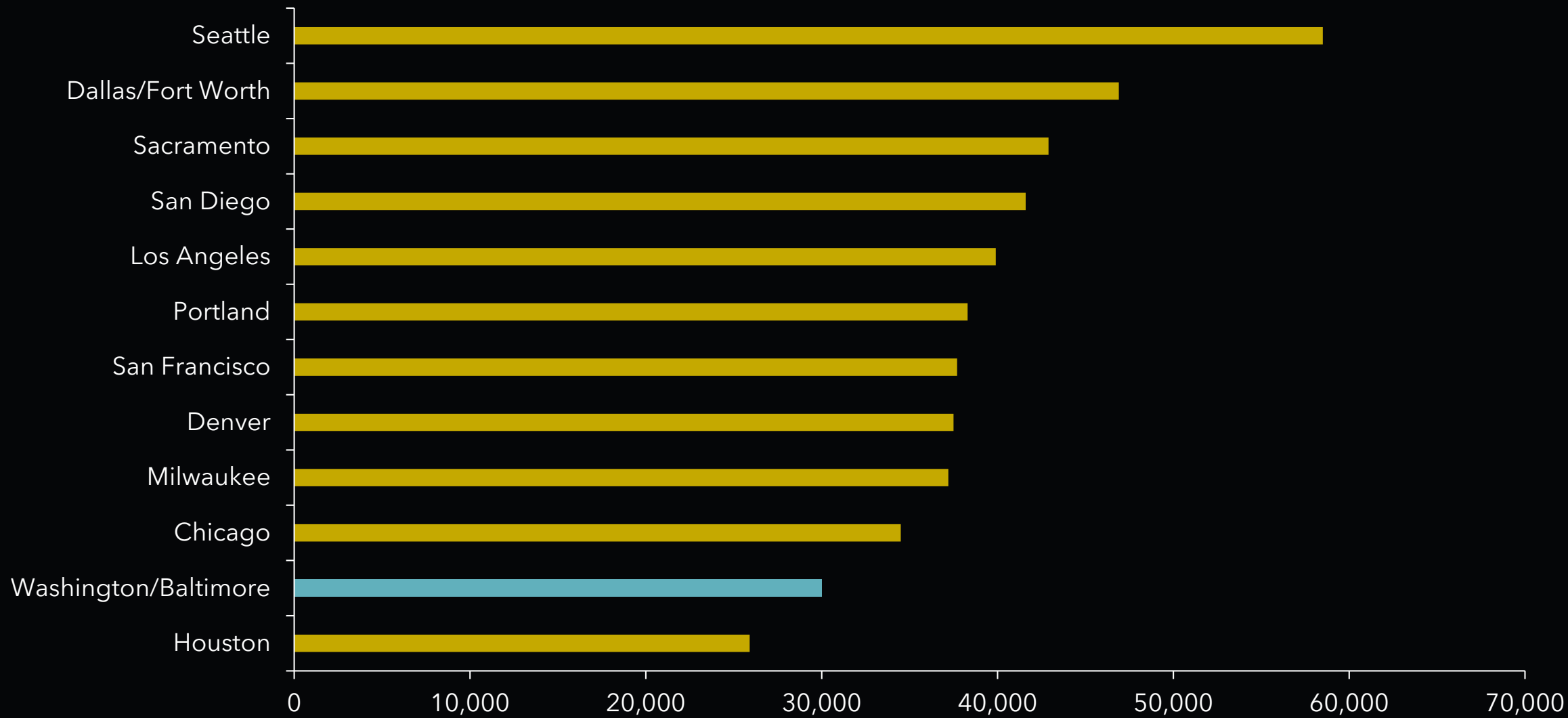
# WHAT CONSUMERS CONSIDER "FAST SHIPPING"

## United States



# NUMBER OF PRODUCTS ON AMAZON'S PRIME NOW

## Selected Markets





# INDUSTRIAL OPPORTUNITIES

## Washington/Baltimore Region

As artificial intelligence and other technology advances, demand for smaller industrial will rise

Rent spikes will continue for the foreseeable future

Rent growth and tenants willing to pay a steep premium could spark select infill development projects to pencil

Older warehouse attracts service industries, distilleries, and entertainment venues








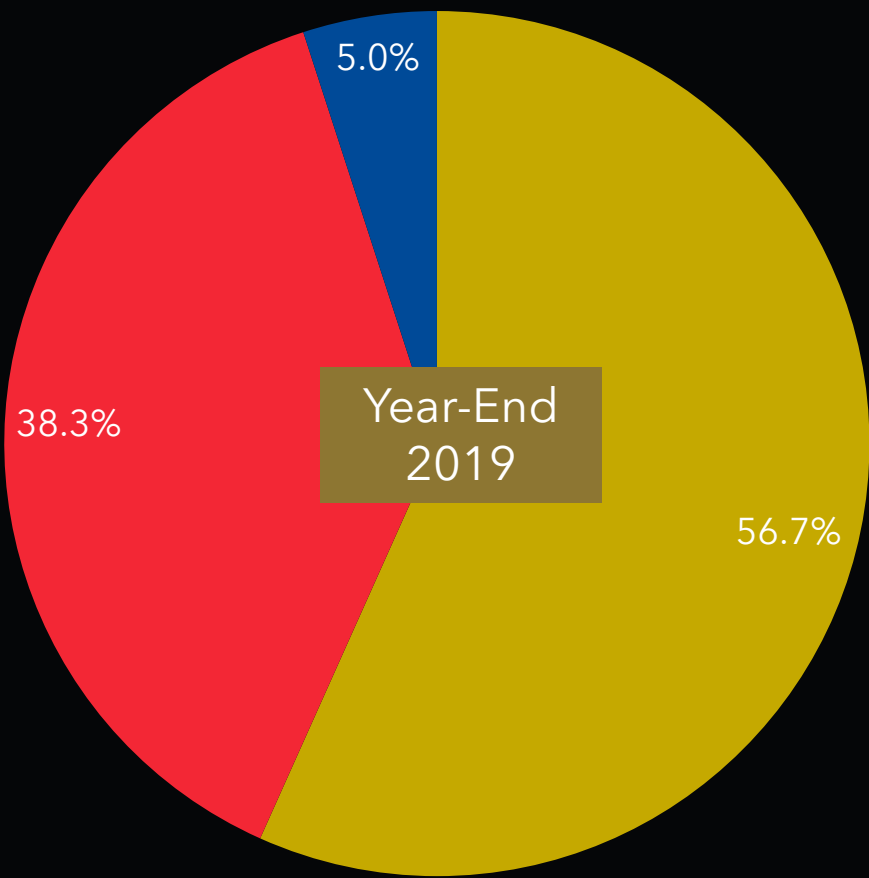
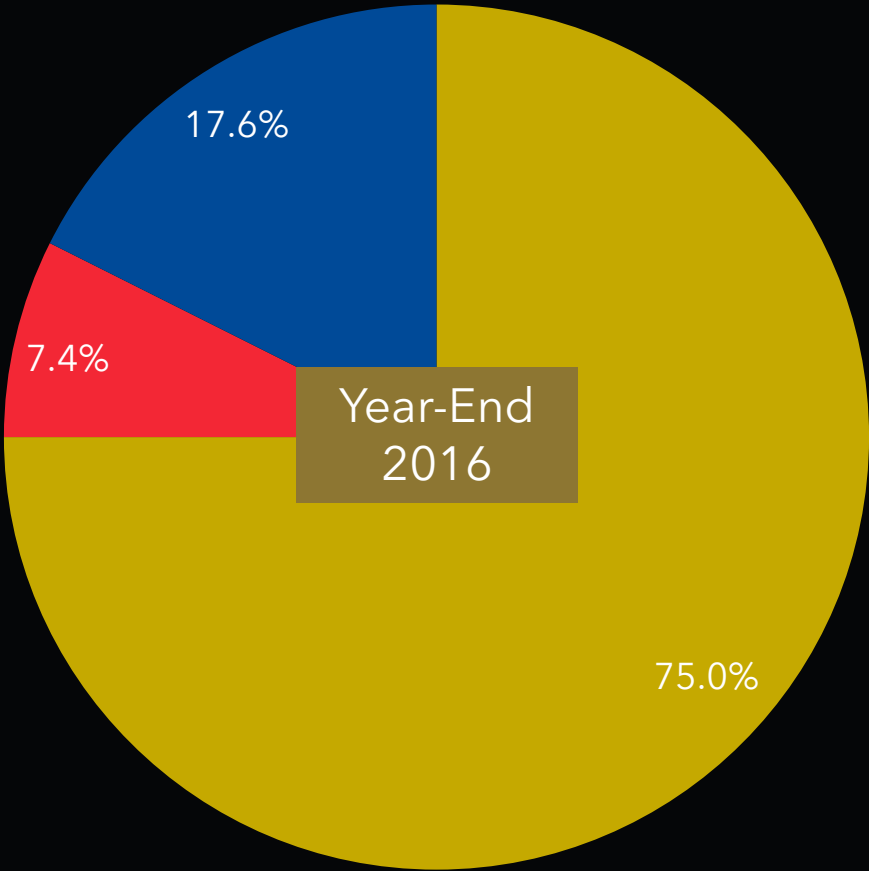
MEGATREND FIVE

Opportunity Zones...Worth the Investment?

# SHARE OF APARTMENT DEVELOPMENT PIPELINE IN OPPORTUNITY ZONES

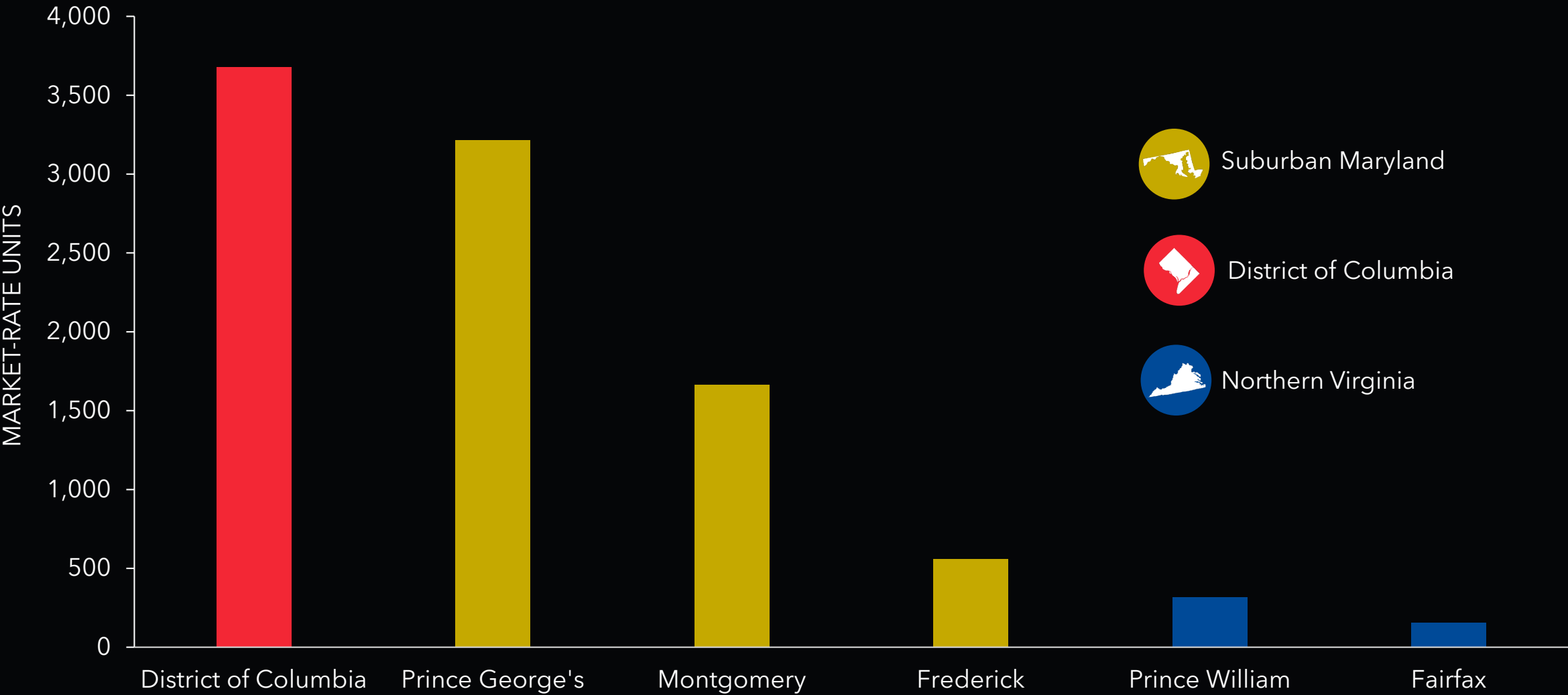
## Washington Metro Area

-  Suburban Maryland
-  District of Columbia
-  Northern Virginia



# LOCATION OF APARTMENT PIPELINE IN OPPORTUNITY ZONES

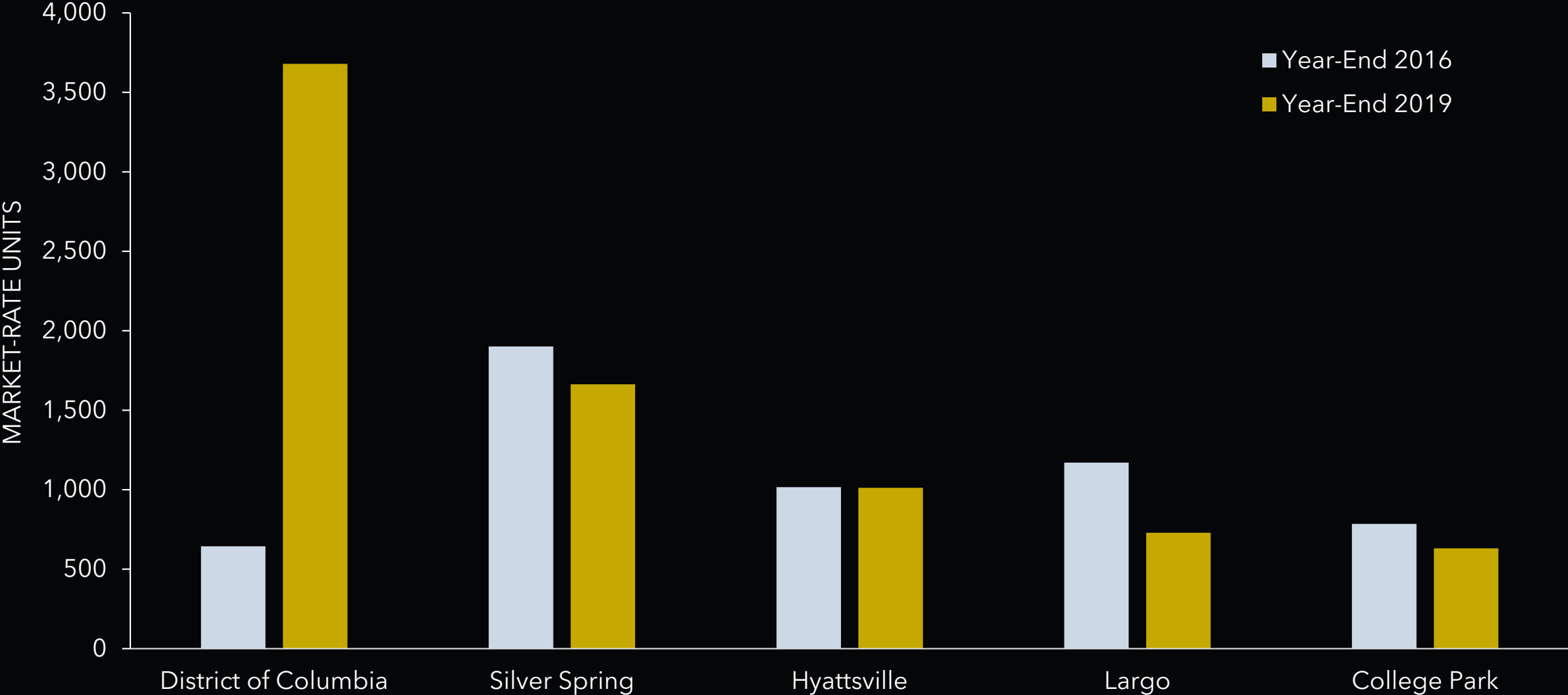
## Washington Metro Area | Year-End 2019









# TOP FIVE JURISDICTIONS WITH APARTMENT PIPELINE IN OPPORTUNITY ZONES

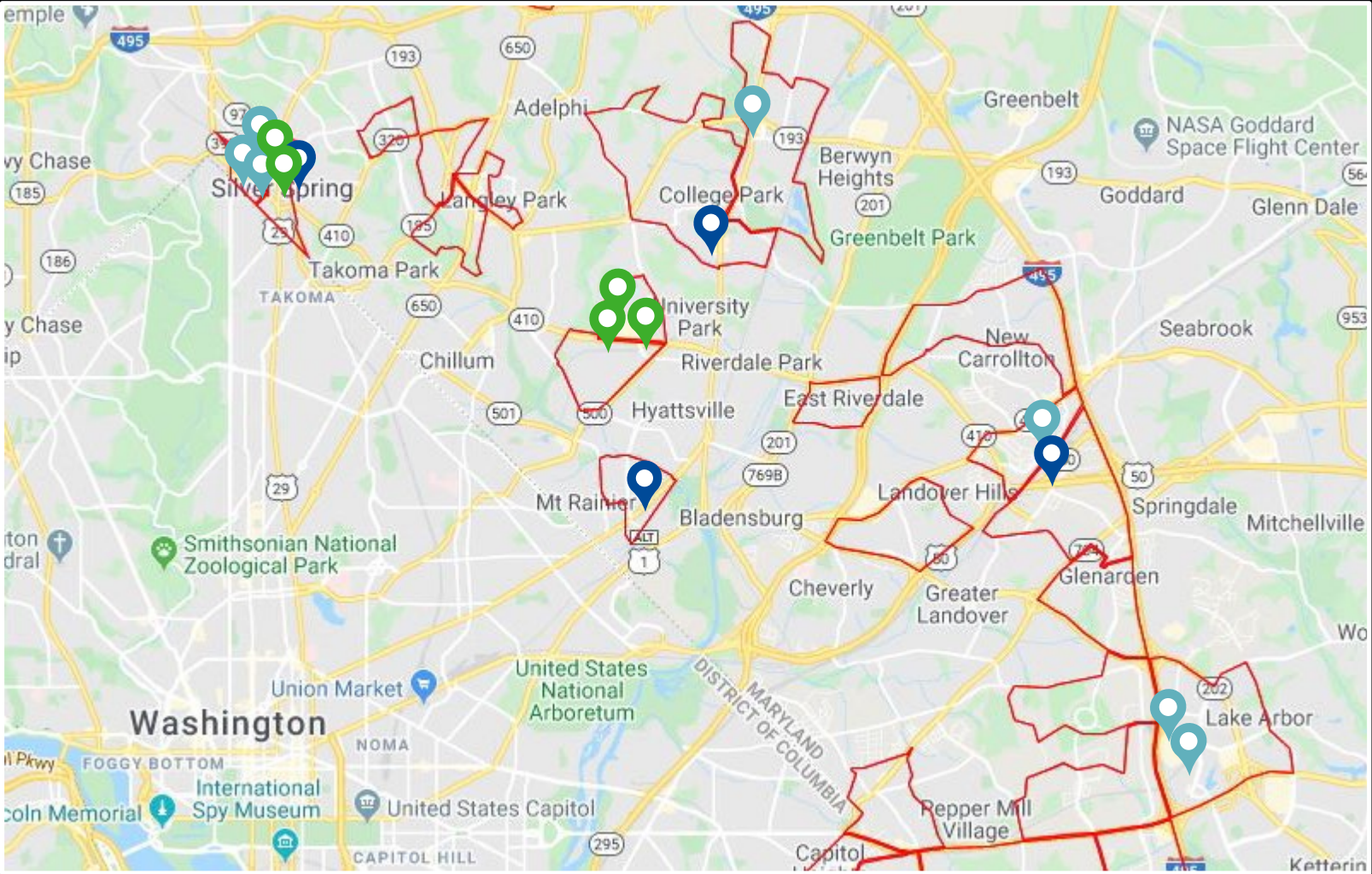
## Washington Metro Area



# LOCATION OF APARTMENT PIPELINE IN OPPORTUNITY ZONES

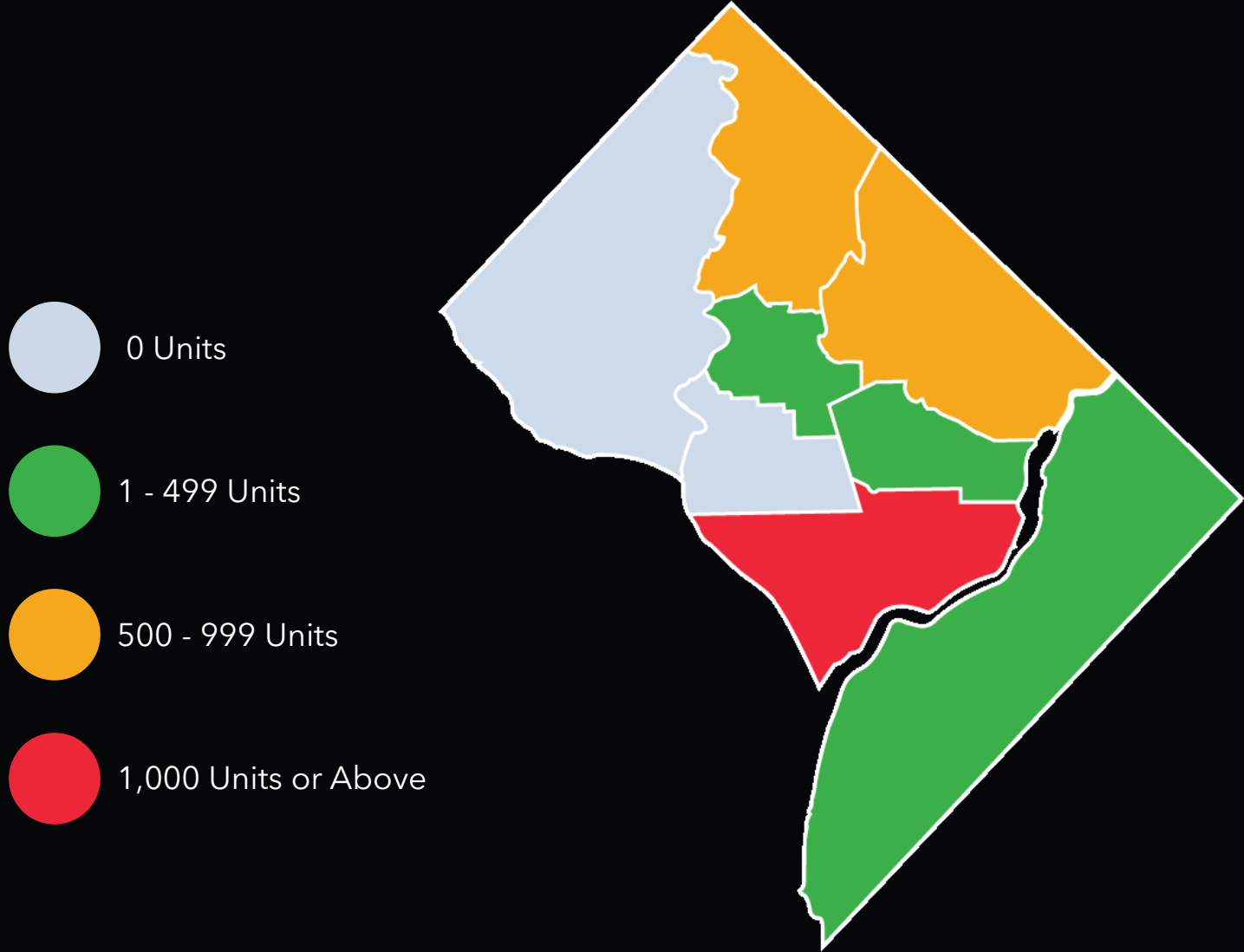
## Prince George's and Montgomery Counties | Year-End 2019

-  Opportunity Zone
-  In Lease-Up
-  Under Construction
-  Planned



# LOCATION OF MULTIFAMILY PIPELINE IN OPPORTUNITY ZONES

## District of Columbia | Year-End 2019





# APARTMENT PROJECTS USING OPPORTUNITY ZONE FUNDS

## Washington Metro Area



1900 Half Street

District of Columbia

453 Units



Bryant Street - Phase 1

District of Columbia

449 Units



Hill East - Phase 1

District of Columbia

247 Units



1400 Montana

District of Columbia

97 Units



Southern Gateway

College Park, MD

393 Units



The Stella

New Carrollton, MD

282 Units



Hampton Park

Capitol Heights, MD

200 Units

# OPPORTUNITY ZONES OPPORTUNITIES

## Washington Metro Area

Develop in areas with multiple  
incentive programs

For large development sites, mix  
multifamily with other uses to unlock  
the most value

Think beyond commoditized Class A  
“luxury” apartments

Don't overlook Northern Virginia's  
closer-in Opportunity Zones





MEGATREND SIX

# TOD Development Opportunities Along the Silver and Purple Lines



# THE SILVER AND PURPLE LINES

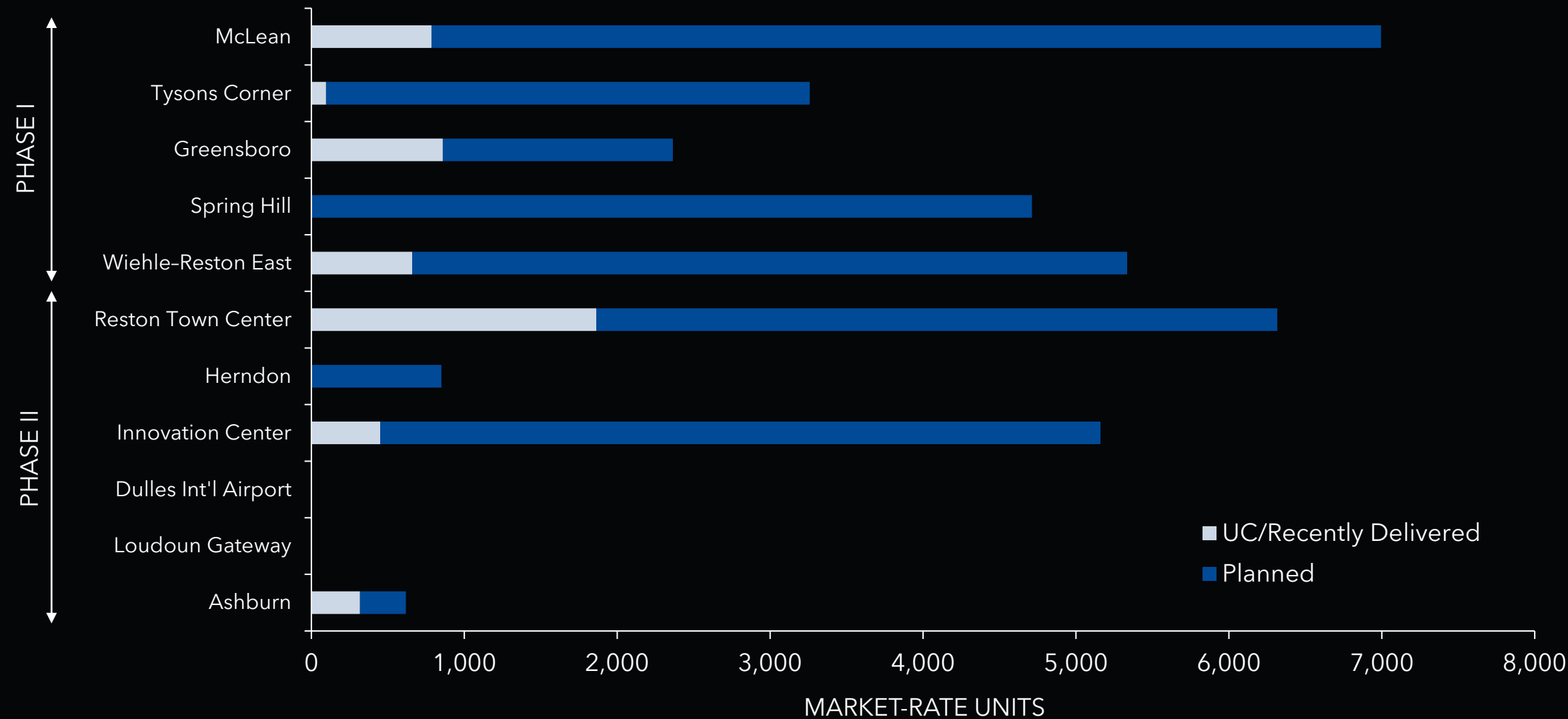
## Northern Virginia and Suburban Maryland



	SILVER LINE	PURPLE LINE
Type	Heavy Rail	Light Rail
Operator	WMATA (Metro)	Maryland Transit Administration (MTA)
Opening Date	2014 (Ph. I); Q4 2020 (Ph. II)	Q4 2022 - 2023
Length	23.2 miles	16.2 miles
# of Stations	11	21

# CURRENT AND PLANNED MULTIFAMILY DEVELOPMENT

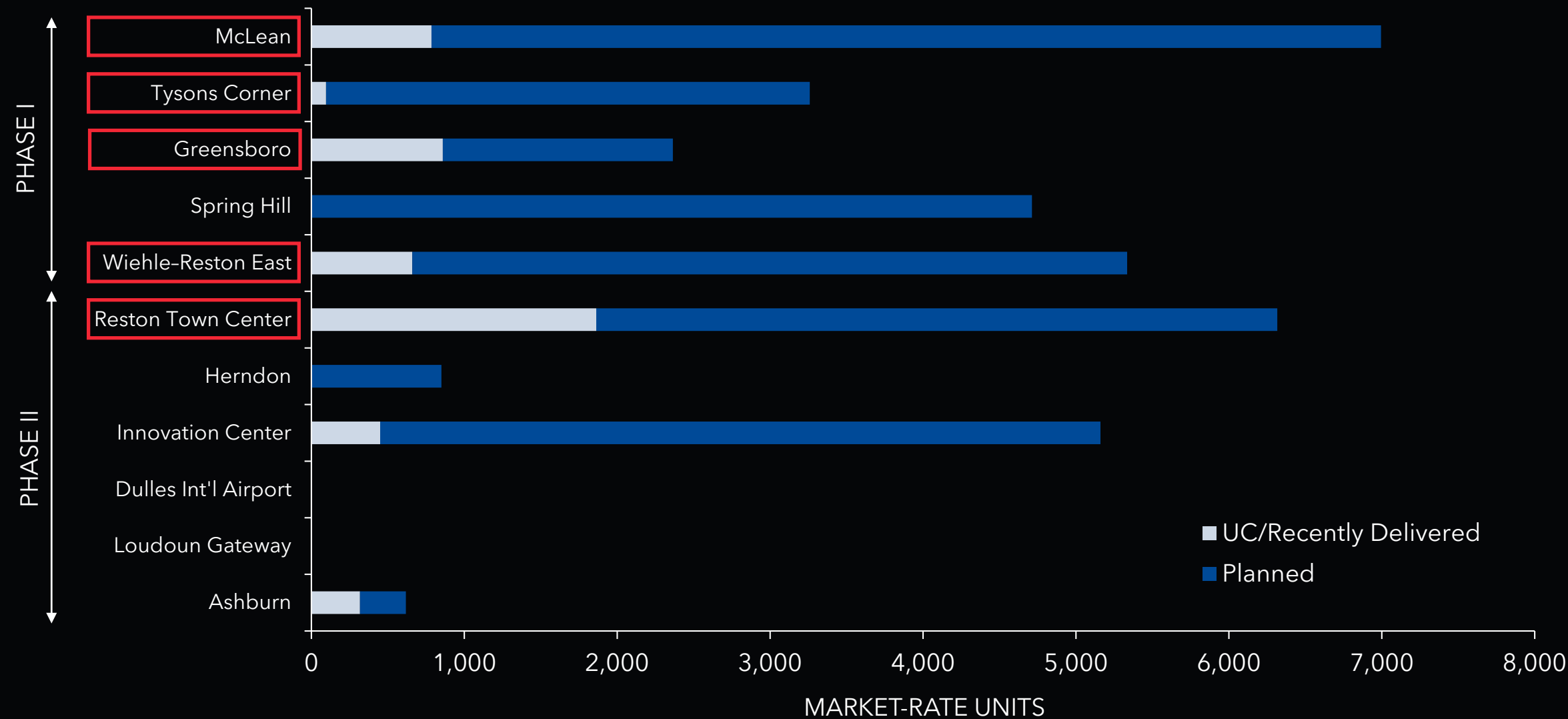
## Silver Line





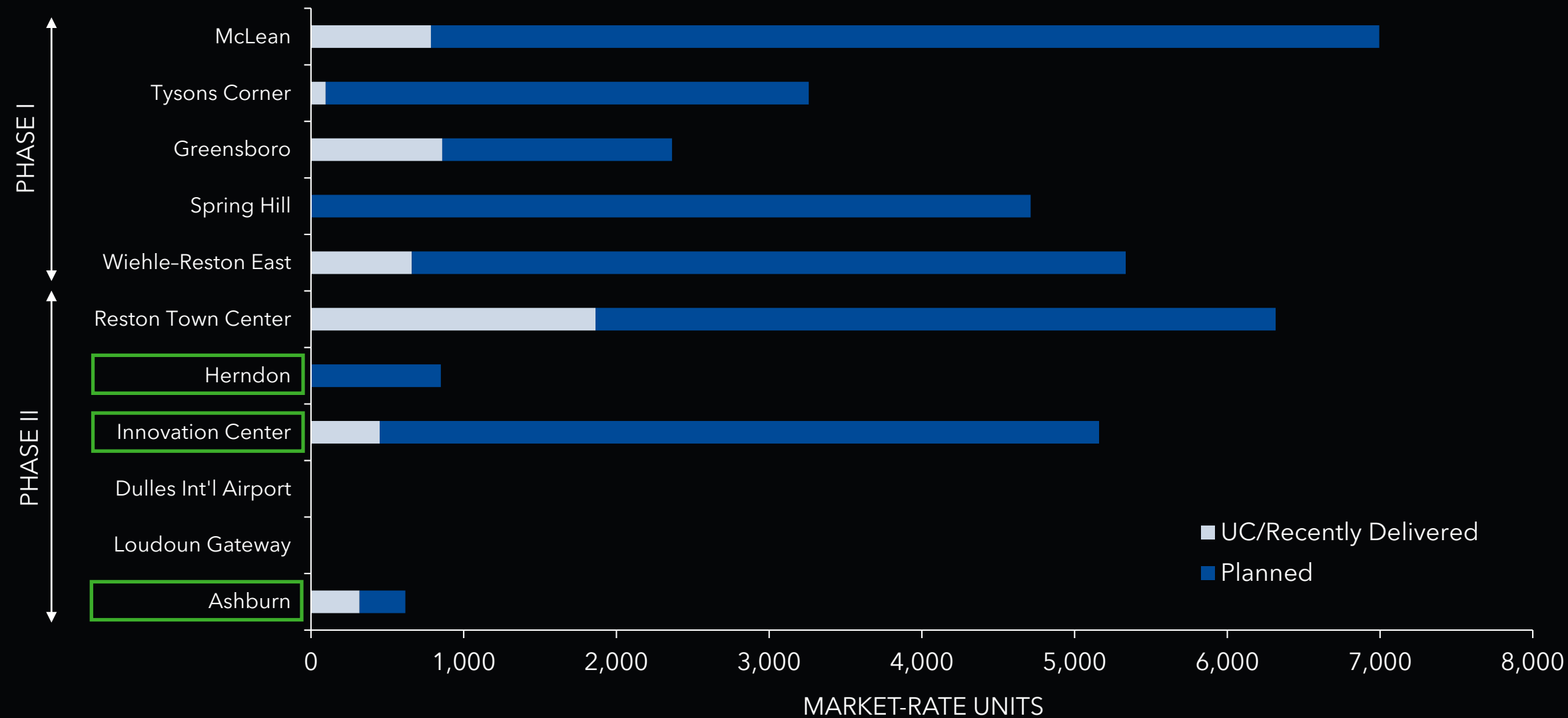
# CORE ECONOMIC ACTIVITY HUBS

## Silver Line



# STRATEGIC MULTIFAMILY DEVELOPMENT OPPORTUNITIES

## Silver Line



Source: Delta Associates; February 2020.

Note: Includes projects within 0.5 mi. of a Silver Line station. Green boxes indicate strategic development opportunities.

# MAJOR MULTIFAMILY PROJECTS UNDERWAY NOW

## Silver Line



The Heming

McLean Station

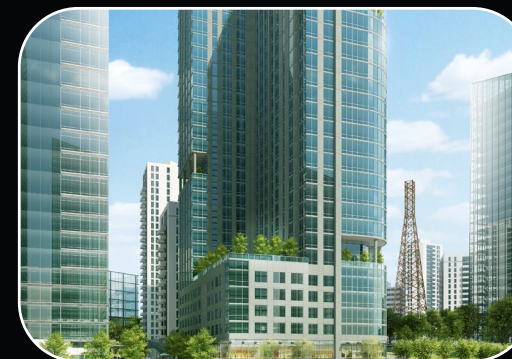
410 Units



The Boro: Ph. I

Greensboro Station

541 Units



Lumen at Tysons

Greensboro Station

318 Units



Faraday Park

Wiehle Ave-Reston Station

407 Units



Halley Rise Ph. I

Reston Town Center Station

640 Units



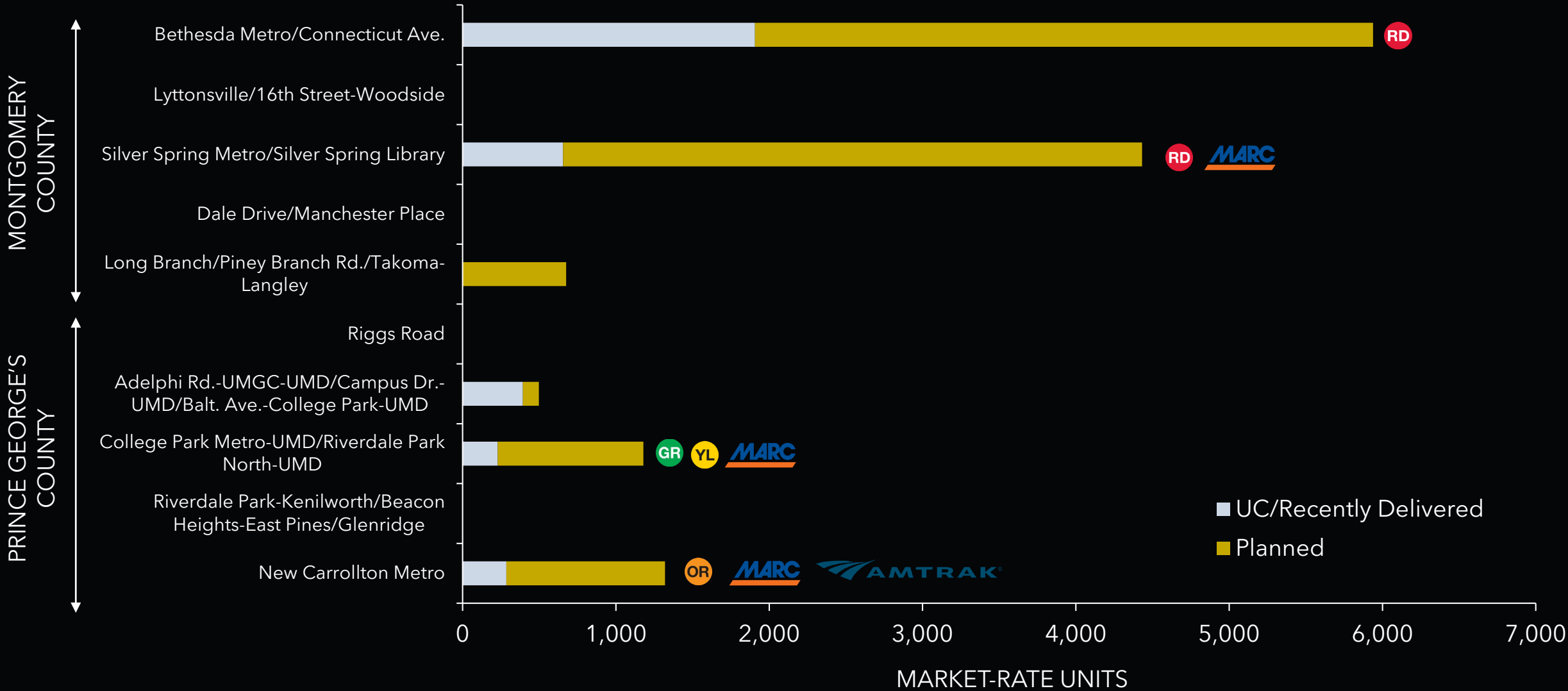
Loudoun Station Ph. II

Ashburn Station

318 Units

# CURRENT AND PLANNED MULTIFAMILY DEVELOPMENT

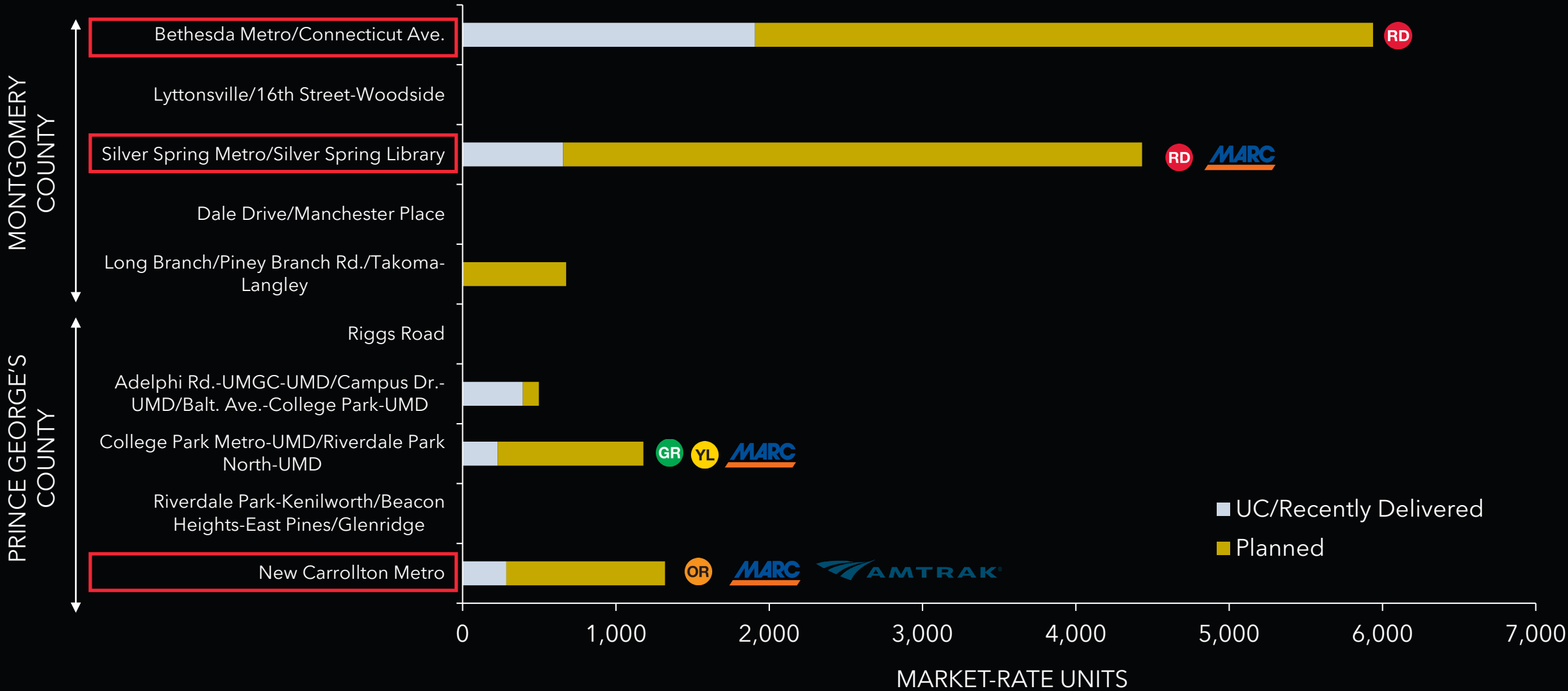
## Purple Line





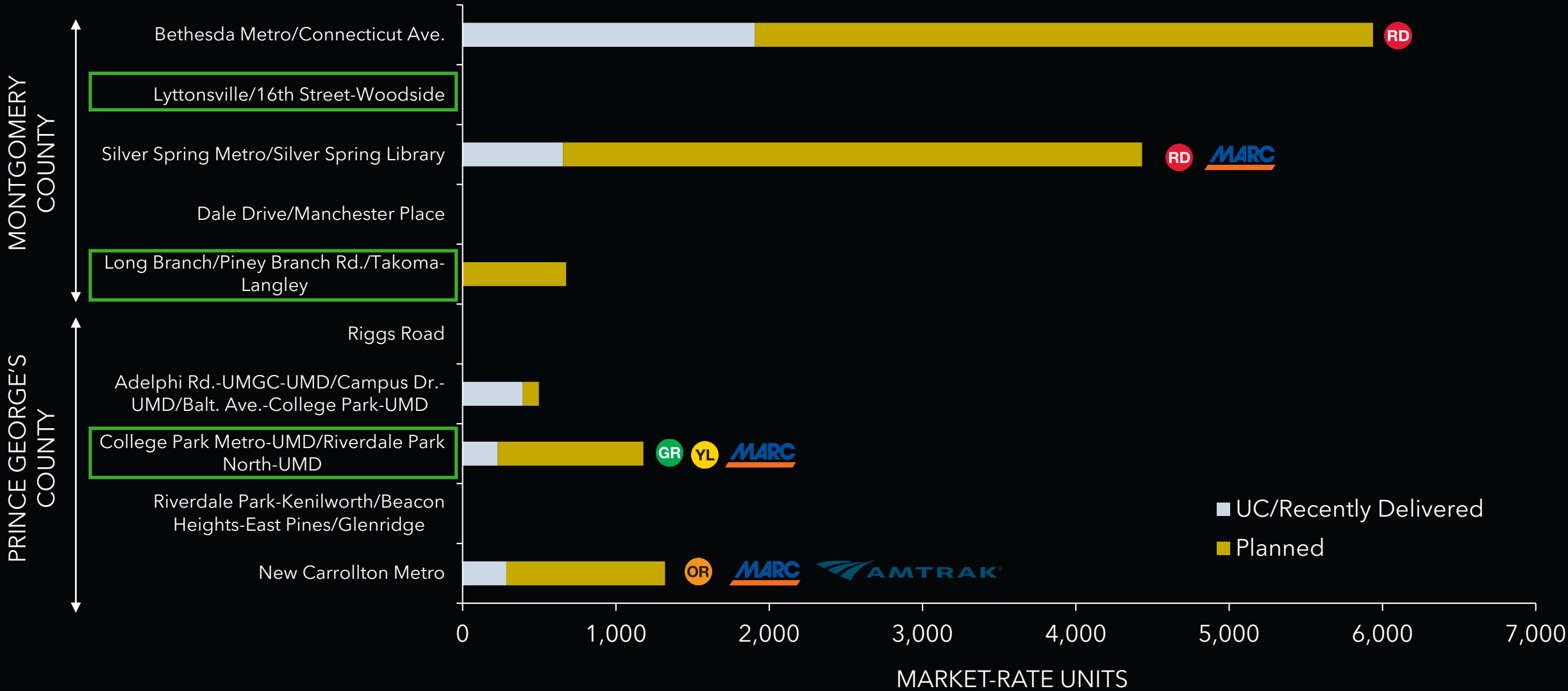
# CORE ECONOMIC ACTIVITY HUBS

## Purple Line



# STRATEGIC MULTIFAMILY DEVELOPMENT OPPORTUNITIES

## Purple Line

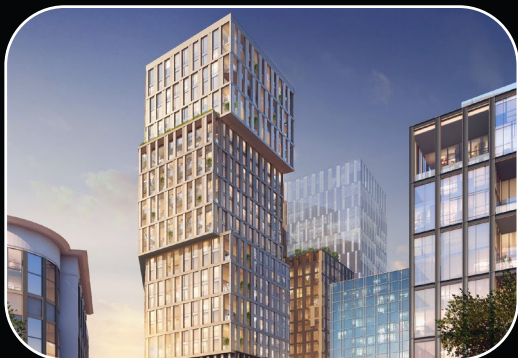


Source: Delta Associates; February 2020.

Note: Includes projects within 0.5 mi. of a Purple Line station. Green boxes indicate strategic development opportunities.

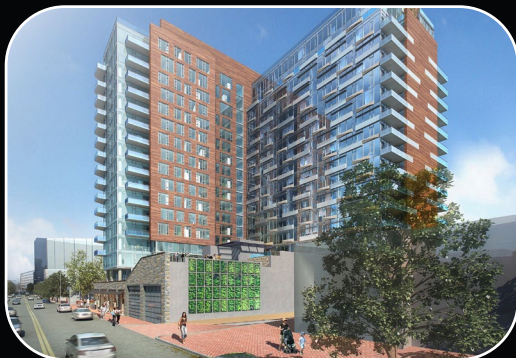
# MAJOR MULTIFAMILY PROJECTS UNDERWAY NOW

## Purple Line



The Elm

Bethesda Metro Station  
399 Units



8001 Woodmont

Bethesda Metro Station  
308 Units



Chevy Chase Lake

Connecticut Ave. Station  
537 Units



Solaire 8200 Dixon

Silver Spring Metro Station  
374 Units



The Residences at  
Riverdale Park Station

College Park Metro-UMD Station  
229 Units



The Stella

New Carrollton Metro Station  
282 Units



# TRANSIT ORIENTED DEVELOPMENT OPPORTUNITIES

## Washington Metro Area

Focus development in booming areas, but be wary of oversupply and excessive land costs

Look beyond established hub stations for emerging neighborhoods with lower barriers to entry

Leverage new transit access by renovating and upgrading existing multifamily assets near new stations

Strategically acquire property near new stations where vacant land is scarce for long-term redevelopment play



# TRENDLINES<sup>®</sup> 2020

## WASHINGTON

Trends in Washington Commercial Real Estate

