National instabilities hold no threat for D.C. market

Expert Opinion

JULIO C. MURILLO

During the past five years the government of the United States has been attacked by and responded to terrorists, undergone a rending presidential campaign, witnessed many anti-government demonstrations, overseen and managed a collapsing stock market, and experienced two consecutive years of record budget deficits. Further, the city of Washington has survived sniper attacks, terrorist attacks and cicada attacks.

One would naturally think that geopolitical instability would bring down a real estate market, particularly in the city known as the most powerful in the world. However, over this period the real estate market in Washington has been hailed globally as the most attractive for investors. Indeed, it is arguable that turmoil has strengthened this real estate market.

When digging a bit deeper, this argument makes some sense, as a modern-day "Rome-like" power center has attracted record levels of investment capital, which in turn has spawned economic growth.

Unemployment in the region is among the lowest in the country and in the world. More than 80,000 jobs have been created in the past year alone (60,000 per year are projected for the next 25 years). Incomes are rising. And an enormous revitalization effort is under way everywhere from the Woodrow Wilson Bridge to the Anacostia Waterfront Initiative. It seems that every day we read something about new major real estate projects coming online.

With this amount of momentum, it becomes difficult to support the notion that the real estate economy is a bubble, although everyone from bankers to investors murmurs these words from time to time. Perhaps we've been traumatized by too much news about the tech bubble of the late '90s.

Despite the bubble theories, this town has managed to even reinvent the tech industry as new technologies are put to work to wage war on terrorism. Ironically, it was precisely the Cold War that spawned the tech industry, starting with the Internet and biotechnology.

All economists know that economics moves in cycles. These trends affect Washington in a unique way as the regional economy builds on each new cycle instead of taking the traditional roller-coaster rides of most economic cycles.

Indeed, the rapid pace of growth is a bit alarming for a sleepy Southern town that has housed the nation's capital for over 200 years.

Nonetheless, one cannot ignore the facts. Many indicators point to sustained growth. As Washington takes on the war on terror and matures as a world-class city, infrastructure development must keep up with this city's position in the world.

How does this all add up?

The anticipated housing deficit will grow to 218,100 units in 2025 from 43,200 in 2000, according to a recent Center for Regional Analysis study involving the metropolitan area (including the surrounding 20 counties). An updated version of this study actually increases the housing shortage to a staggering 256,500 units, of which over 50,000 will accrue in the next six years.

Another factor influencing the local real estate market is the shrinking population per household. This coupled with job growth will result in additional demand for housing. The ratio of new jobs per new household over the last 30 years has held at 1.67. The projections are based on 1.60.

As job creation in the region outpaces housing supply, the obvious effect will be continued price increases.

To add a bit more data, within the region the District has the highest percentage who work in its own jurisdiction: 73 percent. Compared to 54 percent for Fairfax County residents and 58 percent for Montgomery, one could infer that redevelopment leading to additional housing in the District makes sense.

To put this data into context, when looking at office vacancy rates in the area, the District has been holding at between 5 and 7 percent for the past four years.

New commercial space is being added at a record pace, but the District continues to absorb such space, leading to the conclusion that for every 200 square feet of space (the estimated needed per job) added to the District's inventory, there is a high probability that a job and therefore demand for a fraction of a housing unit is created.

This does not address the affordability issue. While the regional economic boom has been good for employment and development, unbalanced development can be an Achilles' heel.

To address the housing shortage in the context of sustainable economic growth, the regulatory sector must work closely with the private sector to establish a solid growth strategy that captures the benefits of a healthy economy and is good for the public at large.

Factors such as zoning ordinances, incentives for retail development in underdeveloped areas and infrastructure planning are just a few of the necessary issues to enter the debate. Local planning at the community level has been working in the District and should be an example for other jurisdictions that are just beginning to face the challenges of high-density development.

As the region's population grows at almost 17 percent per decade, we're looking at more than 800,000 new residents in the region by the end of the current decade.

The Washington real estate market is alive and well, even after multiple attacks and political changes. Becoming a serious cosmopolitan city in the center of politics in a globalized world is the challenge of the future.

■ JULIO C. MURILLO IS PRESIDENT OF THE MURILLO/MALNATI GROUP IN D.C. E-MAIL: JCMURILLO@GROUPCTI.COM