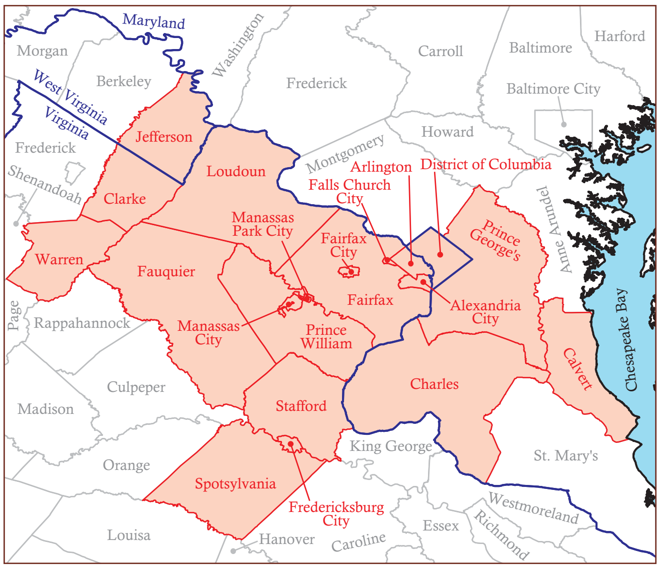
COMPREHENSIVE HOUSING MARKET ANALYSIS

Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2015



Housing Market Area

The Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division (hereafter, the Washington HMA), with an estimated population of 4.74 million, includes the nation's capital, the city of Washington, which is coterminous with the District of Columbia. For this analysis, the HMA is divided into four submarkets: (1) the District of Columbia submarket; (2) the Maryland Counties submarket, consisting of the three Maryland counties of the HMA; (3) the Arlington-Fairfax submarket, consisting of the counties and independent cities in Virginia nearest to Washington, D.C.; and (4) the Remainder submarket, containing the more outlying HMA counties and cities in Virginia and West Virginia. Table 1 lists the geographic areas included in each submarket.

Summary

Economy

The economy of the Washington HMA recovered quickly following the national recession that began in 2007 and ended in 2009, helped by increases in federal spending and tourism. Nonfarm payrolls surpassed their prerecession peak in 2011, but job growth has slowed recently. Payrolls during 2014 were up by 11,000 jobs, or 0.4 percent, from a year earlier. During the 3-year forecast period, payrolls are expected to increase by nearly 34,000 jobs, or 1.3 percent, a year. Within the past 3 years, the professional and business services sector eclipsed the government sector as the largest employment sector in the HMA.

Sales Market

Sales housing market conditions remain slightly soft in the Maryland Counties submarket but are balanced in the District of Columbia, Arlington-Fairfax, and Remainder submarkets. Although sales of new and existing homes in the HMA decreased 6 percent from a year earlier in 2014, home sales prices increased nearly 4 percent, to average approximately $440,100. During the next 3 years, demand is expected for 45,200 new homes (Table 2). The 5,250 homes under construction and a portion of the 42,500 other vacant units that may return to the market will likely satisfy some of the demand.

Rental Market

Rental housing market conditions are soft in the District of Columbia submarket and slightly soft in the Maryland Counties submarket but are balanced in the Arlington-Fairfax and Remainder submarkets. Apartment conditions in the HMA were slightly soft in 2009 but tightened significantly during the next 3 years; by 2012, apartment conditions in the HMA were slightly tight. In the past 2 years, the supply of new apartments entering the market has outpaced demand in certain submarkets. During the 3-year forecast period, demand is expected for 20,950 new market-rate rental units (Table 2).

Market Details

Table 1. Geographic Components of the Washington HMA

Geographic Entity	Submarket	Geographic Entity	Submarket
District of Columbia, DC	District of Columbia	Fauquier County, VA	Remainder
Calvert County, MD	Maryland Counties	Loudoun County, VA	Remainder
Charles County, MD	Maryland Counties	Prince William County, VA	Remainder
Prince George's County, MD	Maryland Counties	Spotsylvania County, VA	Remainder
Arlington County, VA	Arlington-Fairfax	Stafford County, VA	Remainder
Fairfax County, VA	Arlington-Fairfax	Warren County, VA	Remainder
Alexandria City, VA	Arlington-Fairfax	Fredericksburg City, VA	Remainder
Fairfax City, VA	Arlington-Fairfax	Manassas City, VA	Remainder
Falls Church City, VA	Arlington-Fairfax	Manassas Park City, VA	Remainder
Clarke County, VA	Remainder	Jefferson County, WV	Remainder

Notes: Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division components as of December 2009. Excludes Montgomery and Frederick Counties in Maryland, which are included in the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area.

Table 2. Housing Demand in the Washington HMA During the Forecast Period

	Washington HMA		District of Columbia Submarket		Maryland Counties Submarket		Arlington-Fairfax Submarket		Remainder Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	45,200	20,950	5,500	7,300	8,900	2,500	11,400	6,450	19,400	4,700
Under construction	5,250	10,400	800	4,550	1,900	550	800	5,200	1,750	100

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2015. A portion of the estimated 42,500 other vacant units in the HMA will likely satisfy some of the forecast demand. Includes an estimated demand for 1,500 mobile homes in the HMA. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Economic Conditions

The economy of the Washington HMA has been expanding since early 2010. The national recession that began in 2007 and ended in 2009 caused a decline in employment in the HMA, but the economy rebounded swiftly. Nonfarm payrolls in the HMA peaked in 2008, at 2.43 million jobs, but, in 2009, payrolls decreased by approximately 36,100 jobs, or 1.5 percent, to fewer than 2.40 million jobs. Declines in construction activity and consumer spending contributed to the job losses. The greatest decreases in 2009 occurred in the mining, logging, and construction and the wholesale and retail trade sectors, which declined by 17,600 and 13,200 jobs, or 13.2 and 5.1 percent, respectively. Payrolls in each sector had been declining since the end of 2006 and 2007, respectively. Helping to mitigate the impact of the downturn, federal spending increased and the healthcare and education industries in the HMA continued to grow during the recession. From 2006 through 2008, federal government outlays averaged approximately $2.9 trillion but increased 18 percent in 2009, averaging $3.5 trillion from 2009 through 2011 (Office of Management and Budget). Spending increased because of rising demands for government assistance during the recession and because of stimulus spending, including the $816 billion funded through the American Recovery and Reinvestment Act (ARRA). In 2009, payrolls in the federal government subsector and the education and health services sector increased by 10,800 and 8,700 jobs, or 3.6 and 3.3 percent, respectively. The economy began to recover in 2010 and, by 2011, nonfarm payrolls in the HMA had surpassed their previous peak. From the end of 2009 through 2014, nonfarm payrolls grew by an average of 24,600 jobs, or 1.0 percent, annually. The greatest payroll increases during the current expansion occurred in the education and health services, leisure and hospitality, and professional and business services sectors, which grew by approximately 7,600, 7,000, and 5,400 jobs, or 2.8, 3.3, and 1.0 percent, a year, respectively. During the previous expansion, from the end of 2001 through 2008, nonfarm payrolls in the HMA increased by an average of 42,450 jobs, or 1.9 percent, annually. More than 40 percent of the jobs added during that period were in the professional and business services sector, which grew by an average of 18,300 jobs, or 3.7 percent, annually.

Although the economy expanded at a relatively strong rate from the end of 2010 through 2012, the growth moderated in 2014. Annual growth in nonfarm payrolls averaged 1.5 percent during 2011 and 2012, but job growth began to slow in 2013, partly because of the delayed effects of across-the-board federal spending cuts mandated by the Budget Control Act of 2011 (also known as sequestration). In addition, ARRA spending began expiring after 2011. During 2012 and 2013, federal government outlays decreased by an average of $125 billion, or 3.6 percent, a year. The spending cuts had a negative impact on the HMA economy, the direct effects of which included declines in federal government payrolls beginning in 2012. The spending cuts indirectly led to job losses at firms reliant on government contracts, especially in industries such as business consulting and information technology. During 2014, nonfarm payrolls in the HMA averaged 2.52 million jobs, an increase of approximately 11,000 jobs, or 0.4 percent, from a year earlier. Although payrolls in the leisure and hospitality, the mining, logging, and construction, and the wholesale and retail trade sectors increased, payrolls in the professional and business services, government, manufacturing, and information sectors declined (Table 3). Within the professional and business services sector, payrolls in the professional, scientific, and technical services industry (which includes many firms that provide business consulting and information technology services to government) declined by 6,500 jobs, or 1.6 percent. Within the government

Table 3. 12-Month Average Nonfarm Payroll Jobs in the Washington HMA, by Sector

	12 Months Ending		Absolute Change	Percent Change
	December 2013	December 2014		
Total nonfarm payroll jobs	2,507,200	2,518,200	11,000	0.4
Goods-producing sectors	145,400	148,800	3,400	2.3
Mining, logging, & construction	113,500	119,000	5,500	4.8
Manufacturing	31,900	29,800	– 2,100	– 6.6
Service-providing sectors	2,361,800	2,369,400	7,600	0.3
Wholesale & retail trade	258,200	262,400	4,200	1.6
Transportation & utilities	55,000	54,900	– 100	– 0.2
Information	62,200	60,400	– 1,800	– 2.9
Financial activities	111,500	114,700	3,200	2.9
Professional & business services	583,400	579,000	– 4,400	– 0.8
Education & health services	312,000	314,100	2,100	0.7
Leisure & hospitality	239,700	246,600	6,900	2.9
Other services	158,900	160,000	1,100	0.7
Government	581,000	577,300	– 3,700	– 0.6

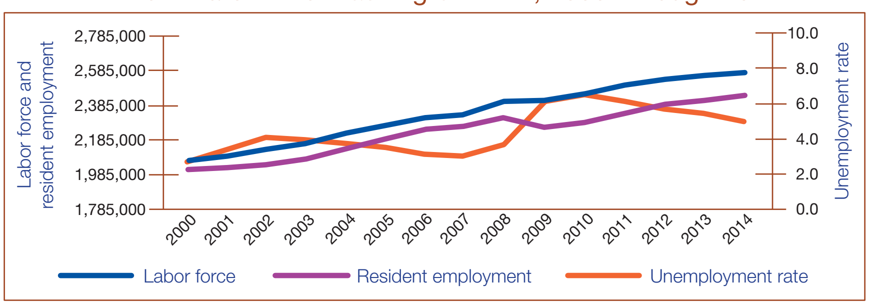
Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through December 2013 and December 2014.

Source: U.S. Bureau of Labor Statistics sector, payrolls in the federal government subsector declined by 7,700 jobs, or 2.4 percent, but those losses were partially offset by increases in the state and local government subsectors of 2,800 and 1,100 jobs, respectively.

The unemployment rate in the HMA averaged 5.1 percent during 2014, down from 5.5 percent a year earlier. In general, the unemployment rate in the HMA historically has been much lower than the national average, partly because of the economic stability conferred by the large federal government presence. From 2000 through 2008, the unemployment rate in the HMA averaged 3.5 percent, compared with the national average of 5.1 percent. During the 2007-to-2009 recession, however, the unemployment rate in the HMA rose sharply, and peaked at 6.5 percent in 2010. The rate declined only gradually in the past 4 years (Figure 1). The unemployment rate in the HMA remained below the U.S. average, however, which peaked in 2010 at 9.6 percent before declining to 6.2 percent in 2014.

The federal government remains the largest single employer in the Washington HMA, accounting for nearly 13 percent of total nonfarm payrolls, or approximately 315,100 jobs in 2014. During the past three decades, however, the economy has become more diversified, and 95 percent of the job growth has occurred in the private sector. In 1980, government at all levels accounted for nearly 35 percent of nonfarm payrolls in the HMA, but, by 2014, that share had declined to less than 23 percent. In part, the stronger private-sector job growth reflects a greater reliance by government on outsourcing to contractors to perform certain functions. In addition, in recent years, the HMA has emerged as a headquarters location for major corporations, which has contributed to the diversification of the economy. Since 2008, companies that have relocated their corporate headquarters to the HMA include Volkswagen Group of America, Inc.; Northrop Grumman Corporation; Hilton Worldwide, Inc.; Computer Sciences Corporation; and SAIC, Inc. (Greater Washington Board of Trade, 2013 Regional Report). The largest private employers in the HMA are listed in Table 4. Partly because of growth in government contracting and an expanded presence of corporate headquarters, the professional and business services sector surpassed the government sector as the largest job sector in the HMA in 2012 and currently accounts for 23 percent of nonfarm payrolls (Figure 2).

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Washington HMA, 2000 Through 2014



Source: U.S. Bureau of Labor Statistics

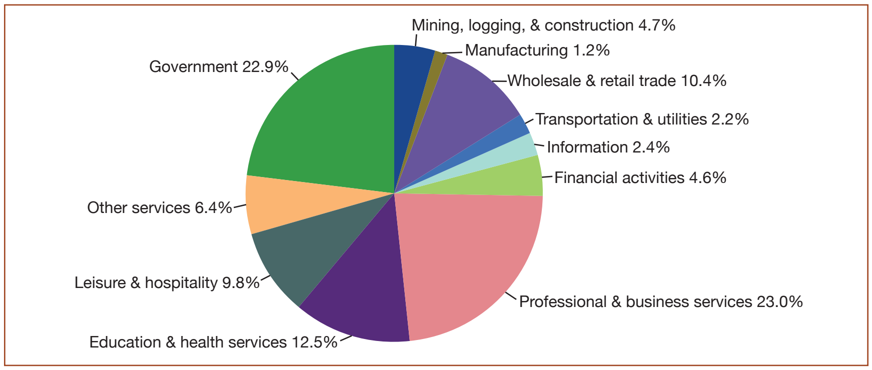
Table 4. Major Nonfederal Employers in the Washington HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Inova Health System	Education & health services	15,200
Booz Allen Hamilton, Inc.	Professional & business services	13,900
University of Maryland, College Park	Government	13,700
Northrop Grumman Corp.	Manufacturing	13,300
Washington Metropolitan Area Transit Authority	Government	12,300
Giant Food LLC	Wholesale & retail trade	11,200
Verizon Communications, Inc.	Information	11,000
General Dynamics Corp.	Manufacturing	8,100
Deloitte LLP	Professional & business services	7,700
Safeway, Inc.	Wholesale & retail trade	7,400
Hilton Worldwide, Inc.	Leisure & hospitality	7,200

Notes: Excludes local school districts. Includes employers located in the HMA (excludes employers in the Bethesda-Rockville-Frederick, MD Metropolitan Division), but number of employees shown are for the entire Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area. Excludes federal government agencies.

Source: Washington Business Journal, 2014 Book of Lists.

Figure 2. Current Nonfarm Payroll Jobs in the Washington HMA, by Sector



Note: Based on 12-month averages through December 2014.
Source: U.S. Bureau of Labor Statistics

Proximity to federal agencies is a factor influencing the relocation decisions of some companies, but the HMA also has other strengths as a headquarters location: a highly educated and diverse workforce, including many foreign-born residents; the presence of major colleges and universities, including several research institutions; and access to international airports providing connectivity to domestic and international markets. As a result, industry clusters have developed in the HMA since 2000, including firms in the aerospace, defense and intelligence, cybersecurity, information systems, biotechnology, transportation and logistics, and leisure and hospitality industries (Metropolitan Washington Council of Governments, Economy Forward, September 2012). Despite recent job losses in the professional and technical services industries caused by federal spending cuts, the expanding presence of corporate headquarters in the HMA is expected to lead to job growth in the professional and business services sector during the forecast period.

The HMA is also the national headquarters location for many nonprofit charitable and advocacy organizations, including the National Geographic Society; the National Association of Home Builders; AARP, Inc.; and the American Red Cross. As an industry, these activities are classified within the other services sector. During the last recession, a nationwide decline in charitable donations led to budget cuts at many organizations. Payrolls in the other services sector in the HMA decreased by 1,100 jobs, or 0.7 percent, annually from 2008 through 2010. Funding for nonprofit organizations began to recover in 2011 and payrolls in the other services sector increased from 2011 through 2014 by about 2,100 jobs, or 1.4 percent, a year, to an average of 160,000 jobs in 2014. As the economy improves during the forecast period, funding for charitable and advocacy organizations is expected to continue to increase, leading to moderate payroll gains in the HMA in the other services sector.

With nearly 400,000 college and university students, the HMA has one of the largest college and university student populations in the nation. The HMA includes more than 70 institutions of higher education; the largest, ranked by enrollment, are listed in Table 5. Institutions of higher education in the HMA have a combined economic impact of approximately $10 billion a year on the HMA (analyst's estimate). Partly because of

Table 5. Largest Institutions of Higher Education in the Washington HMA

Institution Name	Institution Type	Location	Enrollment
Northern Virginia Community College	Public	Springfield, VA	51,803
University of Maryland University College	Public	Adelphi, MD	39,683
University of Maryland, College Park	Public	College Park, MD	37,272
George Mason University	Public	Fairfax, VA	33,917
George Washington University	Private	Washington, DC	25,264
Georgetown University	Private	Washington, DC	17,849
Prince George's Community College	Public	Kettering, MD	13,733
American University	Private	Washington, DC	12,817
Howard University	Private	Washington, DC	10,297
Catholic University of America	Private	Washington, DC	6,725

Notes: Enrollment as of fall 2013. Totals for Northern Virginia Community College and Prince George's Community College include full- and part-time students.

Sources: College and university fact sheets; offices of institutional research; "A Profile of Higher Education Institutions in the Washington, D.C. Metropolitan Area," George Mason University Center for Regional Analysis (May 2014 working paper)

the recession, college and university enrollment in the HMA increased from 2008 to 2012 by nearly 16,000 students, or 4.4 percent, a year (American Community Survey, 1-year estimates). After peaking at approximately 407,200 students in 2012, enrollment declined in 2013 by nearly 13,000 students, or 3.2 percent, to approximately 394,300 students. Payrolls in the colleges, universities, and professional schools industry (which includes private educational institutions within the education and health services sector) grew at a strong pace from 2000 through 2013, increasing by an average of nearly 1,750 jobs, or 4.9 percent, a year. Despite the recent enrollment declines, job growth strengthened. During 2014, payrolls in the industry averaged 58,800 jobs, an increase of 5,800 jobs, or 11.0 percent, from a year earlier. During the next 3 years, as the economy continues to improve, enrollment at colleges and universities in the HMA is expected to remain stable or to continue decreasing slightly. As a result, the recent strong job growth in the colleges, universities, and professional schools industry is not expected to continue.

The military has a significant presence in the HMA. Several large facilities in the HMA include the Pentagon in Arlington, Virginia; the U.S. Marine Corps Base in Quantico, Virginia; and Andrews Air Force Base in Prince George's County, Maryland, with approximately 27,000, 18,400, and 11,400 military and civilian personnel, respectively. The largest facilities in the HMA, ranked by total military and civilian personnel, are listed in Table 6. From

Table 6. Largest Military Facilities in the Washington HMA

Base Name	Location	Military Personnel	Total Personnel
Pentagon	Arlington, VA	8,050	27,000
Marine Corps Base Quantico	Prince William County, VA	7,450	18,400
Fort Belvoir	Fairfax County, VA	4,200	12,900
Andrews Air Force Base	Prince George's County, MD	4,600	11,400
Joint Base Anacostia-Bolling	District of Columbia	3,500	9,900
Washington Naval District Headquarters	District of Columbia	3,250	8,850
Fort Myer	Arlington, VA	2,300	5,650
Marine Barracks Washington D.C.	District of Columbia	1,700	3,900
Fort Leslie J. McNair	District of Columbia	850	2,900
Indian Head Naval Ordnance Station	Charles County, MD	750	2,000

Note: Total military and civilian personnel levels as of June 2014.

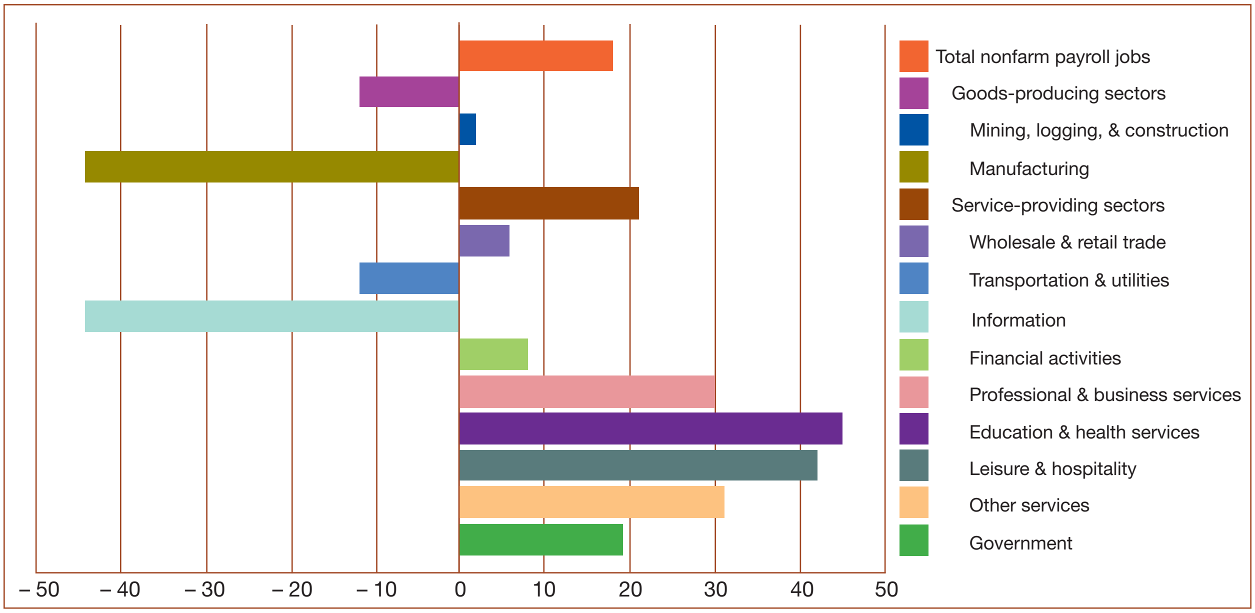
Source: Defense Manpower Data Center Reporting System

2000 to 2010, military personnel levels in the HMA increased from approximately 32,200 to 37,300, or by approximately 500 a year. Since 2010, the number of military personnel in the HMA has increased by less than 200 a year, to 38,100 in June 2014 (Defense Manpower Data Center Reporting System). Combined military and civilian defense personnel levels have increased by about 1,250 a year since 2010, to approximately 107,200 in 2014. Despite recent proposals to reduce future defense spending, during the next 3 years, military and civilian defense personnel levels in the HMA are expected to remain relatively stable.

As a result of increases in college and university enrollment and military personnel levels since 2008, institutions of higher education and the military have added significantly to the supply of group quarters housing in the HMA in the form of new dormitories and barracks. These projects are described in greater detail in the rental housing market sections of each submarket.

With numerous museums, monuments, and historic sites, the Washington HMA is a major tourist destination, and the tourism industry has experienced strong growth since 2009. Several of the most visited sites are in the District of Columbia and include the U.S. Capitol; the White House; museums near the National Mall, such as the Smithsonian Institution; and monuments, such as the Lincoln Memorial, the Jefferson Memorial, the Martin Luther King, Jr. Memorial, and the Washington Monument. The District of Columbia received a record 19.0 million visitors in 2013, up from 16.3 million visitors in 2009, and visitor spending totaled $6.7 billion in 2013, up from $5.3 billion in 2009 (Destination DC). Arlington National Cemetery in Arlington, Virginia, also attracts approximately 4 million visitors a year. In addition to being a tourist destination, the HMA is a major destination for business travelers, who account for more than 40 percent of domestic visitors to the District of Columbia. Business travel has expanded with the emergence of the HMA as a corporate headquarters location. From 2000 through 2008, payrolls in the leisure and hospitality sector in the HMA increased by an average of 5,150 jobs, or 2.7 percent, a year, but, in 2009, payrolls decreased by 2,500 jobs, or 1.2 percent. The sector began to recover in 2010 and, from the end of 2009 through 2013, payrolls in the sector increased by an average of nearly 7,000 jobs, or 3.3 percent, a year. Leisure and hospitality sector payrolls averaged 246,600 jobs during 2014, an increase of 6,900 jobs, or 2.9 percent, from a year earlier. As of result of the strong job growth since 2000, the leisure and hospitality sector accounted for nearly 10 percent of nonfarm payrolls in the HMA in 2014, up from 8 percent in 2000. Figure 3 shows payroll growth by nonfarm sector in the HMA from 2000 to the current date. During the next 3 years, the leisure and hospitality sector is expected to continue to be among the fastest growing payroll sectors in the HMA. Because of growth in the number of visitors, more than 15 new hotels, with more than 2,700 rooms, are currently under construction in the HMA, including a 270-room Trump International Hotel in Washington, D.C.; a 300-room Hyatt Regency Hotel in McLean, Virginia; and a 300-room MGM National Harbor Casino and Resort in Oxon Hill, Maryland. All these projects are expected to be complete during the next 3 years.

Figure 3. Sector Growth in the Washington HMA, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through December 2014.
Source: U.S. Bureau of Labor Statistics

Health care is an important economic activity in the HMA and includes the largest private employer, Inova Health System. As the population of the HMA expanded since 2001, payrolls in the healthcare and social assistance subsector increased. From the end of 2001 through 2006, payrolls in the subsector grew by approximately 3,500 jobs, or 2.1 percent, a year. From 2007 through 2013, payrolls in the subsector grew at a significantly faster rate of 5,900 jobs, or 3.1 percent, a year, reflecting the strong population growth during that period. In 2014, the subsector accounted for nearly 9 percent of nonfarm payrolls in the HMA, up from 7 percent in 2000. Payrolls declined in 2014, however, because of layoffs at some local hospitals, including Howard University Hospital and MedStar Washington Hospital Center. During 2014, payrolls in the healthcare and social assistance subsector averaged approximately 215,100 jobs, a decrease of 1,600 jobs, or 0.7 percent, from a year earlier. Despite the recent decline, payrolls in the healthcare and social assistance subsector are expected to grow during the next 3 years as the population of the HMA continues to increase. Dimensions Healthcare Systems and the University of Maryland Medical Center recently partnered to build the proposed Prince George's Regional Medical Center in Largo Town Center in Prince George's County, at an estimated cost of $655 million. The 259-bed hospital is expected to open in 2017 or 2018.

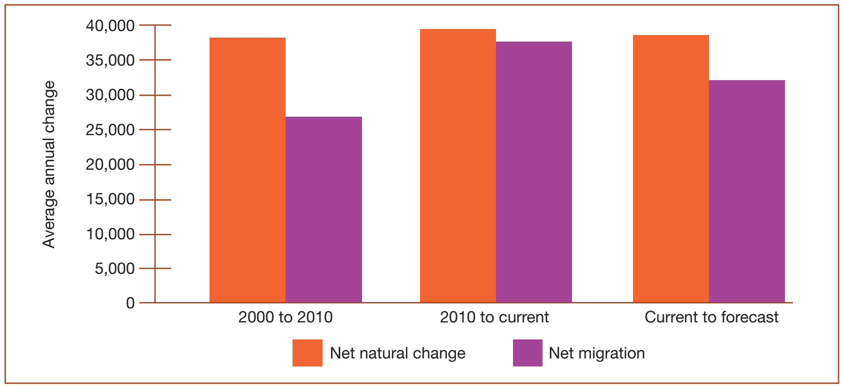
Residential and nonresidential construction activity in the HMA peaked in 2006, but the construction industry was especially hard hit in the last recession, partly because of the housing crisis that accompanied the downturn. From the end of 2006 through 2010, payrolls in the mining, logging, and construction sector declined by an average of nearly 9,900 jobs, or 6.6 percent, a year. A modest recovery began in 2011. From the end of 2010 through 2013, payrolls in the mining, logging, and construction sector increased by an average 1,500 jobs, or 1.4 percent, a year. Job growth strengthened recently, helped by increases in nonresidential construction, including a $2.7-billion extension of the Metrorail Silver Line in western Fairfax and eastern Loudoun Counties, which is expected to be complete in 2018. In addition, population growth since 2008 has placed greater demands on the transportation infrastructure in the HMA, leading to increased spending on roads and bridges. Transportation projects nearing completion or expected to be completed within the next 3 years include $925 million to add HOV/HOT (high-occupancy vehicle/high-occupancy toll) lanes to Interstate 95 (I-95) in Fairfax County, Virginia; $352 million to renovate and modernize the 11th Street Bridge in Washington, D.C.; and $97 million to upgrade the interchange of U.S. Route 29 and Linton Hall Road in Prince William County, Virginia. During 2014, payrolls in the mining, logging, and construction sector averaged approximately 119,000 jobs, an increase of 5,500 jobs, or 4.8 percent, from a year earlier.

During the next 3 years, the economy of the HMA is expected to continue expanding at a moderate pace. Nonfarm payrolls are expected to increase by an average of nearly 34,000 jobs, or 1.3 percent, a year. Job growth is expected to be strongest in the leisure and hospitality sector and the construction subsector. Because of an uncertain outlook for federal spending, which includes defense spending and government contracting, the government, the professional and business services, and the information sectors are not expected to contribute as much to job growth. Modest growth is expected in the education and health services sector. Decreases in college and university enrollment may lead to flat job growth or payroll declines in the education services subsector, but any losses in that subsector will likely be offset by payrolls gains in the healthcare and social assistance subsector.

Population and Households

The current population of the Washington HMA is estimated at 4.74 million, an increase of approximately 77,050, or 1.7 percent, a year since 2010. Net natural increase (resident births minus resident deaths) accounted for more than 50 percent of the growth, averaging 39,450 people a year, whereas net in-migration averaged 37,600 people a year. From 2000 to 2010, by comparison, the population of the HMA increased by approximately 64,950, or 1.6 percent, a year. During that period, net in-migration accounted for a larger share of population growth, averaging more than 38,000 people a year, or nearly 60 percent of the total, whereas net natural increase averaged 26,900 people a year (Figure 4). The components of net migration (in-migration and out-migration) in the HMA tend to be large, because many people enter or leave the area each year. In part, the mobility rate is high because the HMA includes many educational and military institutions

Figure 4. Components of Population Change in the Washington HMA, 2000 to Forecast



Notes: The current date is January 1, 2015. The forecast date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

and has regular changes in political administrations. In addition, the HMA serves as an initial point of entry into the United States for many foreign-born residents (George Mason University Center for Regional Analysis, December 2013 working paper). From 2010 to 2013, in-migration to the metropolitan area averaged more than 280,000 people a year, and out-migration averaged more than 240,000 people a year (American Community Survey, 1-year estimates). As a result, relatively small shifts in the rates of in- or out-migration can have large impacts on population growth in the HMA, particularly in individual submarkets such as the District of Columbia.

In the District of Columbia submarket, population growth from 2000 to 2010 averaged less than 3,000 people, or 0.5 percent, a year. Whereas net natural increase averaged more than 2,500 people a year, net in-migration averaged only about 450 people a year during the decade. From 2001 to 2005 (based on Census Bureau estimates as of July 1 each year), net migration was negative, with net out-migration averaging nearly 3,900 people a year. The migration trend reversed later in the decade, and net in-migration averaged more than 4,400 people a year from 2005 to 2010. In part, the rise in net in-migration reflected the gentrification of areas in the central and eastern parts of the city and an increased perception among young adults that Washington, D.C., is a desirable place to live. From 2000 to 2012, the number of college graduates ages 25 to 34 years old in the Washington-Arlington-Alexandria, DC-VA-MD-WV metropolitan area increased from 7.2 to 8.1 percent of the total population (October 2014 City Observatory report: The Young and Restless and the Nation's Cities). Much of the growth in this demographic group occurred in the District of Columbia. In 2010, an estimated 77,650 college-educated young people lived in close-in urban neighborhoods in the HMA (defined as being within 3 miles of downtown Washington, D.C.), a 75-percent increase from 2000. This increase was the greatest in college-educated young people living in close-in urban neighborhoods among all metropolitan areas in the nation. Since 2010, the population of the District of Columbia has increased at a much faster rate than it had during the previous decade, led by rising net-in-migration, with population growth averaging approximately 13,500, or 2.2 percent, a year. Net natural increase averaged nearly 4,500 people a year and net in-migration averaged more than 9,000 people a year. The current population of the District of Columbia submarket is estimated at 665,800.

The Maryland Counties submarket consists of three counties east and southeast of the District of Columbia. The most populous, Prince George's County, located on the eastern and southern border of the District of Columbia, includes more than 75 percent of the population of the submarket and contains many older, well-established suburbs. Calvert and Charles Counties, in the southern part of the submarket, are less populated but include some of the fastest growing areas in the submarket. From 2000 to 2010, population growth in the Maryland Counties submarket averaged approximately 10,200 people, or 1.0 percent, a year. Net natural increase accounted for 85 percent of the growth, averaging nearly 8,650 people a year, whereas net in-migration averaged less than 1,600 people a year. Based on Census Bureau estimates, net in-migration averaged nearly 7,100 people a year from 2000 to 2005. During that period of rising home sales demand, the submarket offered relatively affordable housing within short commuting distances from the District of Columbia, making it attractive to homebuyers. When the shift among households from renting to homeownership slowed, however, fewer buyers moved to the submarket in search of affordable sales housing and the migration trend temporarily reversed. From 2005 to 2009, net out-migration from the submarket averaged nearly 6,100 people a year. Net in-migration has subsequently resumed. Since 2010, net in-migration has averaged nearly 3,100 people a year, whereas net natural increase has averaged 7,750 people a year, accounting for 71 percent of the total growth. The current population of the Maryland Counties submarket is estimated at 1.15 million, an increase of approximately 10,800, or 1.0 percent, a year since 2010.

In the Arlington-Fairfax submarket, population growth from 2000 to 2010 averaged approximately 14,500 people, or 1.0 percent, a year. Nearly all the growth during the decade resulted from net natural increase, which averaged 14,350 people a year; net in-migration during the decade averaged only about 150 people a year. The submarket includes Arlington County and the city of Alexandria, which are directly across the Potomac River from the District of Columbia and have similar dense, urban development. The proximity of these areas to the District of Columbia contributes to housing demand, but sales housing is expensive. In the surrounding parts of the submarket, Fairfax County and the independent cities of Fairfax and Falls Church, the density of development is somewhat lower, but these areas are also expensive, having some of the highest priced sales housing in the HMA. From 2001 to 2007, a period of strong home sales demand in the HMA, net out-migration from the submarket averaged more than 8,350 people a year, because many households sought more affordable housing in other HMA submarkets. From 2007 to 2010, however, net in-migration was strongly positive, averaging approximately 11,800 people a year. Total population growth averaged approximately 30,450 people a year from 2007 to

2010 compared with an average of 5,850 people a year from 2001 to 2007. During that period, a shift in preferences for renting occurred among many households, and areas such as Arlington and Alexandria became more attractive to renter households because of their proximity to major job centers. Since 2010, net in-migration has slowed somewhat, to an average of 7,550 people a year, whereas the rate of net natural increase has risen slightly, to an average of 14,800 people a year. The current population of the Arlington-Fairfax submarket is estimated at 1.57 million, an increase of 22,250, or 1.5 percent, a year since 2010.

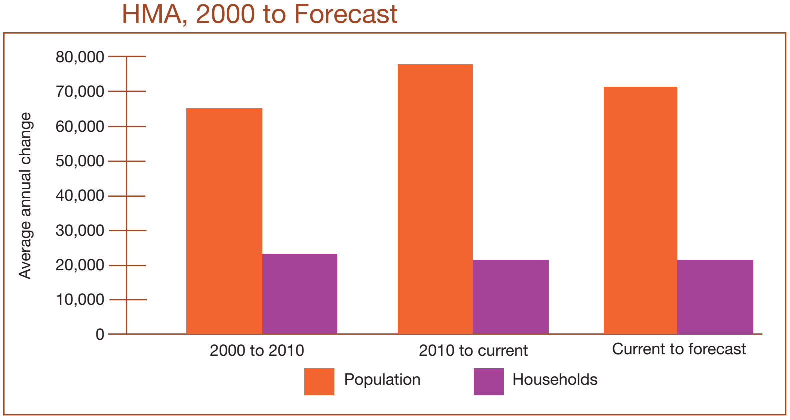
The Remainder submarket includes the outlying suburbs of the HMA, many with relatively affordable sales housing and well-regarded schools, so migration trends for the submarket tend to mirror shifts in preferences among households to homeownership, particularly among young families. In terms of population, it is also the fastest growing submarket in the HMA. From 2000 to 2010, the population of the Remainder submarket increased by an average of nearly 37,300, or 3.7 percent, annually. Net in-migration accounted for two-thirds of the growth, averaging approximately 24,700 people a year, whereas net natural increase averaged 12,550 people a year. Net in-migration was particularly strong from 2000 to 2005, based on Census Bureau estimates, averaging nearly 32,000 people a year, but it slowed from 2005 to 2009 when the number of households shifting from renting to homeownership declined, with net in-migration averaging less than 15,000 people a year. Since 2010, the rate of net in-migration has strengthened somewhat, averaging nearly 18,000 people a year, whereas net natural increase has remained relatively steady, averaging 12,450 people a year. The current population of the Remainder submarket is estimated at 1.36 million, an increase of 30,450, or 2.4 percent, a year since 2010. The most populous areas in the submarket, and the ones that have experienced the strongest population growth since 2000, are those adjacent to Fairfax County: Loudoun and Prince William Counties and the independent cities of Manassas and Manassas Park, which, combined, contain nearly two-thirds of the population of the submarket. Areas in the southern part of the submarket, Stafford and Spotsylvania Counties and the city of Fredericksburg, account for another 22 percent of the submarket population and include areas along I-95 that have also experienced rapid growth. The counties in the western part of the submarket, Clarke, Fauquier, and Warren Counties in Virginia, and Jefferson County in West Virginia, are less populated and have lower rates of population growth.

In 2013, 11 of the 20 counties and independent cities in the HMA were ranked among the top 50 in the nation in terms of median household incomes (U.S. Census Bureau, Small Area Income and Poverty Estimates). Many of the high-income areas were in northern Virginia, including Loudoun County and the independent city of Falls Church, which ranked first and second in the nation, with median household incomes estimated at $117,680 and $117,452, respectively, more than double the nationwide median household income of $52,250. In addition, Fairfax and Arlington Counties in Virginia were among the top 10 in the nation, with median household incomes estimated at $110,658 and $101,533, respectively.

Prince William, Stafford, and Fauquier Counties in the Remainder submarket were also among the 50 highest income counties in the nation, as were Charles and Calvert Counties in the Maryland Counties submarket. The estimated median household income in the District of Columbia was higher than the national average, at $66,326 in 2013.

Although the HMA includes areas with high median incomes, many households in the HMA face significant housing cost burdens, partly because of rising home prices and rents. In addition, income growth for most households since the last recession has been weak. Although job growth since 2010 has been strong in industries such as tourism and construction, many of the new jobs pay below-average wages. During the previous economic expansion, from 2002 through 2007, the real per capita personal income in the HMA increased an average of 1.9 percent a year (Bureau of Economic Analysis and consumer price index data). During the recession, in 2008 and 2009, real per capita income fell 1.8 percent a year, and, from 2009 through 2013 (the most recent data available), the real per capita personal income in the HMA remained essentially flat.

Figure 5. Population and Household Growth in the Washington HMA, 2000 to Forecast



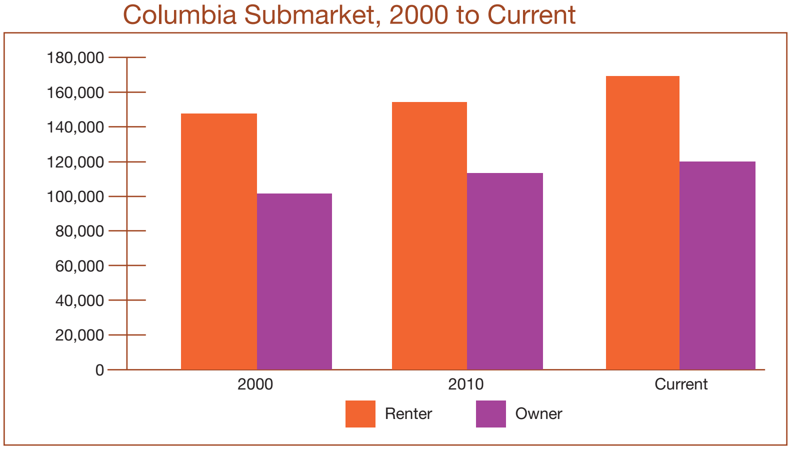
Notes: The current date is January 1, 2015. The forecast date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

An estimated 1.73 million households currently reside in the HMA, an annual increase of approximately 21,300, or 1.3 percent, since 2010 (Figure 5). By comparison, from 2000 to 2010, the number of households increased by about 22,700, or 1.5 percent, a year. In part, the slower recent household growth is a result of changes in the components of population change. Although population growth has been stronger since 2010 than during the previous decade, the increase is mostly attributable to a rise in the rate of net natural increase, specifically a rising birth rate. Therefore, although family and household sizes are increasing, the number of households is growing at a lower rate than the population. In addition, during the last recession, the rate of household formation slowed, because many young adults faced difficulties establishing themselves in new households and many otherwise single-person households "doubled-up" to save on housing expenses. The rate of household formation has only gradually increased in the past 5 years as the economy recovered. Finally, the construction of new group quarters housing, such as barracks and dormitories, accommodated some of the recent population growth in the HMA. As a result, the non-household population increased.

Growth in the number of owner households in the HMA has slowed since 2010. From 2000 to 2010, the number of owner households increased by approximately 15,700, or 1.7 percent, a year, accounting for nearly 70 percent of total household growth, whereas renter households increased by about 7,000, or 1.2 percent, a year. Since 2010, owner household growth has accounted for less than 50 percent of the total, averaging approximately 9,900, or 0.9 percent, a year, whereas the number of renter households increased by about 11,400, or 1.8 percent, a year. In part, this shift reflects a greater preference for renting among many households. In addition, since 2010, first-time homebuyers have faced greater challenges in buying homes, such as qualifying for financing, compared with the relatively favorable environment for homebuyers that prevailed during the previous decade. Table DP-1, at the end of this report, provides current demographic data for the HMA.

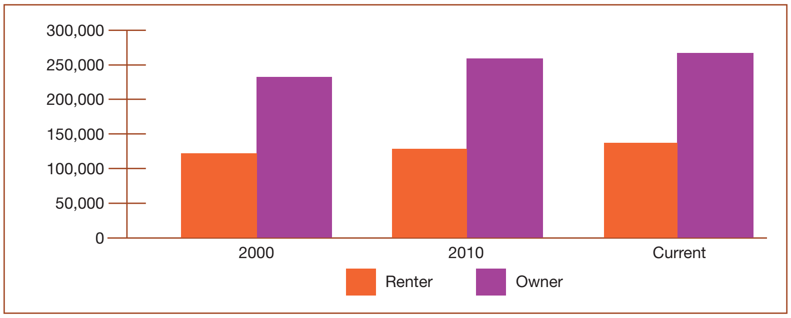
In the District of Columbia submarket, household growth from 2000 to 2010 averaged approximately 1,825, or 0.7 percent, a year. Since 2010, household growth has been much stronger, with the number of households increasing by 4,575, or 1.7 percent, a year, reflecting the stronger population increases. Growth in renter households has accounted for more than 65 percent of the total household growth since 2010 compared with less than 40 percent during the previous decade. In the Maryland Counties submarket, household growth has averaged nearly 3,225, or 0.8 percent, a year since 2010, nearly unchanged from the average growth from 2000 to 2010. Since 2010, owner and renter households have increased at virtually identical rates, growing by approximately 1,600 a year. By comparison, from 2000 to 2010, growth in owner households accounted for nearly 80 percent of the total increase, or about 2,600 a year, and the number of renter households increased by about 650 a year. In the Arlington-Fairfax submarket, household growth averaged approximately 5,975, or 1.1 percent, a year from 2000 to 2010, but household growth since 2010 has slowed to about 5,700, or 1.0 percent, a year. Growth in owner households has averaged about 2,450, or 0.7 percent, a year since 2010, accounting for less than one-half of the total, whereas, from 2000 to 2010, owner households accounted for more than 55 percent of the total increase, or nearly 3,400 a year. Growth in renter households increased from an average of less than 2,600, or 1.3 percent, a year from 2000 to 2010, to more than 3,250, or 1.5 percent, a year since 2010. In the Remainder submarket, the number of households increased by about 11,650, or 3.4 percent, a year from 2000 to 2010. As with population growth, household growth was strongest from 2000 to 2005 but slowed significantly later in the decade. Household growth increased somewhat after 2010, partly because of increased net in-migration to the submarket, but remained below the average for 2000 to 2010. Since 2010, the number of households has increased by an average of 7,750, or 1.8 percent, a year. Growth in owner households accounted for 74 percent of the total gain from 2000 to 2010, increasing by approximately 8,650 a year, but, since 2010, owner households have accounted for 55 percent of the total, or 4,250 a year. Figures 6, 7, 8, and 9 show the number of households, by tenure, in each submarket from 2000 to the current date.

Figure 6. Number of Households by Tenure in the District of Columbia Submarket, 2000 to Current



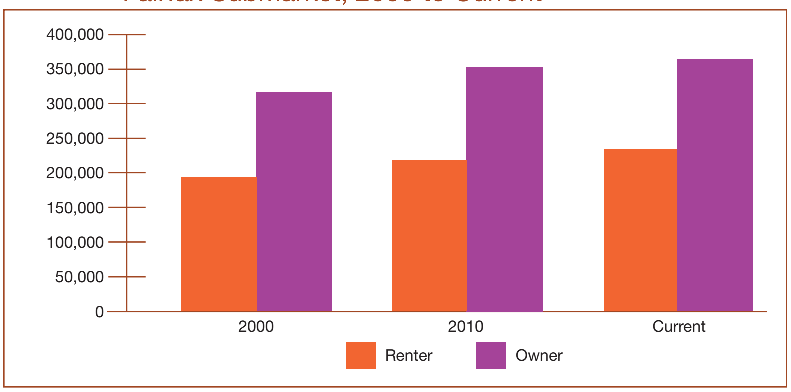
Note: The current date is January 1, 2015.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the Maryland Counties Submarket, 2000 to Current



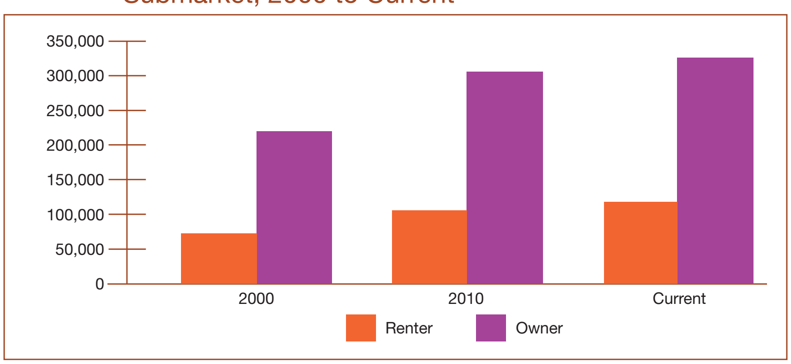
Note: The current date is January 1, 2015.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 8. Number of Households by Tenure in the Arlington-Fairfax Submarket, 2000 to Current



Note: The current date is January 1, 2015.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 9. Number of Households by Tenure in the Remainder Submarket, 2000 to Current



Note: The current date is January 1, 2015.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

During the next 3 years, the population of the HMA is expected to increase by an average of 71,000, or 1.5 percent, annually. Nearly 55 percent of the growth is expected to result from net natural increase, which is anticipated to average nearly 39,000 people a year, whereas net in-migration is expected to average about 32,000 people a year. The greatest gains are expected in the Arlington-Fairfax and Remainder submarkets, with average annual population increases of 18,650 and 28,650, or 1.2 and 2.1 percent, respectively. In the District of Columbia and Maryland Counties submarkets, population increases are expected to average 12,900 and 11,000, or 1.9 and 0.9 percent, a year, respectively. The number of households in the HMA is forecast to increase by 21,300, or 1.2 percent, a year. The Arlington-Fairfax and Remainder submarkets are projected to increase by approximately 5,525 and 7,800 households, or 0.9 and 1.7 percent, a year, respectively. The District of Columbia and Maryland Counties submarkets are projected to increase by approximately 4,775 and 3,425 households, or 1.6 and 0.8 percent, a year, respectively.

Housing Market Trends

Sales Market—District of Columbia Submarket

Sales housing market conditions in the District of Columbia submarket have improved since 2010 and conditions are currently balanced. The sales vacancy rate is estimated to be 2.3 percent, down from 3.4 percent in April 2010 (Table DP-2 at the end of this report). Because Washington, D.C., is the central city in the HMA, the District of Columbia submarket is mostly built out. The existing housing stock is mostly characterized by high-density development, including condominiums and apartments in midrise and highrise buildings, rowhouses, and townhomes. Less than 25 percent of existing home sales in the submarket since 2010 were for single-family homes (Metrostudy, A Hanley Wood Company).

Home sales and prices increased early in the past decade, when the shift from net out-migration to net in-migration led to population growth and rising demand for sales housing. New and existing home sales, which included single-family homes, townhomes, and condominiums, increased from approximately 7,500 homes sold in 2000 to 9,100 homes sold in 2005, or nearly 4 percent a year (MRIS). Prices for new and existing homes increased from an average of approximately $250,500 in 2000 to $535,100 in 2005, or 23 percent a year. Demand for sales housing weakened after 2005, and home sales and prices both declined. From 2006 through 2008, home sales decreased an average of 15 percent a year, to fewer than 5,600 homes sold in 2008. Sales demand has strengthened since 2008, but the number of sales remains below its previous peak. From 2009 through 2013, home sales increased 7 percent a year, to approximately 7,950 homes sold in 2013. Home sales prices at first leveled off from 2005 through 2008, averaging approximately $535,200, when home sales demand weakened. With the economic downturn in 2009, however, prices for new and existing homes fell 10 percent, to approximately $485,000. Prices then began to increase as the economy recovered. From 2010 through 2013, new and existing home sales prices increased an average of 5 percent a year, to an average of approximately $589,000 in 2013.

During 2014, home prices continued to increase, but home sales declined. Sales of existing homes decreased 7 percent from a year earlier, to approximately 7,675 homes sold (Metrostudy, A Hanley Wood Company). Much of the decline was attributable to a drop in the number of REO (Real Estate Owned) home sales, which decreased from 455 homes sold in 2013 to 220 homes sold in 2014. Partly offsetting the decline in existing home sales, new home sales increased 19 percent, to 835 homes sold. Sales prices for existing homes were up 7 percent from a year earlier, to average approximately $555,600, and prices for new homes increased 25 percent, to approximately $631,400.

Because of the high density of existing land use, the District of Columbia has significant traffic congestion, but it also has a well-developed transit system. For many residents, this transit system obviates the need to own a car and allows for a greater share of income to be devoted to housing. In addition, the constant influx of new residents, some with high incomes, contributes to demand for sales housing. As a result, sales housing in general in the submarket, both single-family and attached, is expensive. In 2014, sales prices for existing single-family homes in the submarket averaged approximately $740,800 and sales prices for all other types of existing homes, including townhomes and condominiums, averaged $501,100, increases of 4 and 7 percent, respectively, compared with prices in 2013 (Metrostudy, A Hanley Wood Company). Because many residents are transitory and the sales housing is expensive, however, the rate of homeownership in the submarket is much lower than in the HMA. The current homeownership rate in the District of Columbia is estimated at approximately 41 percent, compared with an overall rate of 62 percent for the HMA.

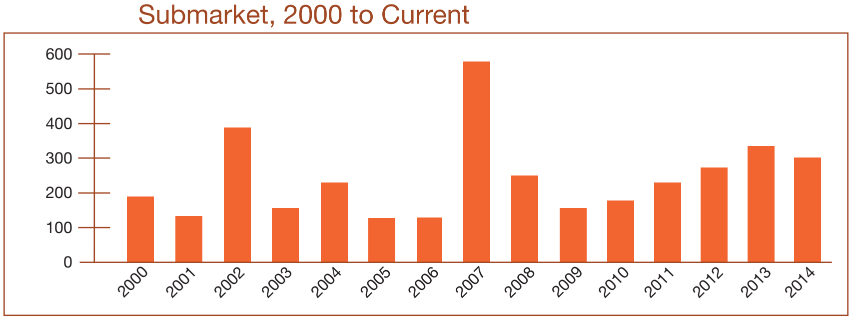
Sales of REO homes have exerted some downward pressure on home prices since 2008, but the REO share of existing sales is lower than in many other parts of the HMA. In 2014, REO sales accounted for nearly 3 percent of existing home sales in the submarket, down from almost 6 percent a year earlier and well below its peak from 2009 through 2011, when REO sales represented nearly 19 percent of existing home sales (Metrostudy, A Hanley Wood Company). The average sales price for REO homes from 2009 through 2011 was about $223,300, or less than one-half the average price for traditional resale homes of $527,400, which contributed significantly to the decline in home prices in 2009 and the sluggish price increases in 2010 and 2011. After 2011, the price difference between REO and traditional resale homes narrowed significantly and the impact of REO sales on overall home prices in the submarket diminished. In 2014, sales prices for REO homes averaged about $404,200, or 28 percent less than the average price for traditional resale homes of $560,100. In addition, the rate of seriously delinquent mortgages (90 or more days delinquent or in foreclosure) and mortgages in REO status in the submarket has declined. In December 2014, 4.2 percent of mortgages in the District of Columbia were seriously delinquent or transitioned into REO status, down from 5.0 percent a year earlier and down from the peak of 6.0 percent during 2010 (Black Knight Financial Services, Inc.).

Because the submarket is mostly built out, many of the large-scale residential construction projects are in areas undergoing redevelopment. Many of the new homes sold since 2010 have been in the central parts of the District in areas north of the National Mall, including downtown, Columbia Heights, Adams-Morgan, the U Street Corridor, and the Shaw area. City Center DC is a mixed-use development on the site of the former convention center near downtown. The first phase of the project was completed in December 2013 and included 216 condominiums, with prices ranging from approximately $400,000 to $1.2 million. When the second phase is complete in the fall of 2016, the project is expected to include an additional 458 apartments and office and retail space. A midrise project in the Columbia Heights area, 2920 Georgia Avenue, began construction in the fall of 2013 and is expected to be complete in 2015. Prices for the 26 one- and two-bedroom condominiums range from approximately $300,000 to $550,000. In addition, areas in the southeast quadrant of the District of Columbia, near the Washington Navy Yard and Nationals Park (the baseball stadium for the Washington Nationals Major League Baseball team), and areas in the southwest quadrant, south of the National Mall, such as the Southwest Waterfront, have seen extensive redevelopment and residential building activity since 2010. (Note: the quadrants of the District of Columbia are centered on the U.S. Capitol and are unequal in size; the Southwest and Southeast Quadrants are much smaller than the Northeast and Northwest Quadrants.) A large mixed-use development that recently began construction in the Southwest Waterfront area is The Wharf, with completion expected in 2017. Construction of the first 108 condominiums began in September 2014 and the units are expected to be available by 2016. The Wharf will eventually include approximately 650 apartments and 225 condominiums. A 322-unit townhome development near the northeastern edge of the District of Columbia, in the Fort Lincoln area, was completed in mid-2013. The size of a townhome at the Villages at Dakota Crossing ranges from a two-bedroom unit with approximately 1,600 square feet to a four-bedroom unit with 2,700 square feet, and the price ranges from approximately $430,000 to $550,000.

Construction of single-family homes in the submarket consists mostly of individual infill projects or townhome developments (which are usually permitted as single-family attached units). Since 2010, the number of new single-family homes authorized by permits has averaged only about 20 homes a month, representing only 7 percent all residential units permitted in the submarket (Figure 10). Production of condominiums has averaged nearly 500 units a year since 2010, which represents 11 percent of all multifamily units permitted. In 2014, approximately 750 sales units (including single-family homes and multifamily units) were permitted, a 5-percent decrease from the nearly 800 units permitted during 2013. From 2000 through 2009, by comparison, permits for sales units averaged more than 1,000 homes a year. Condominium construction was particularly strong from 2004 through 2007, averaging more than 1,600 units a year and accounting for nearly 60 percent of all multifamily units permitted during that period, but condominium building activity slowed significantly in 2008, with the onset of the recession, to an average of less than 350 units a year in 2008 and 2009. Because apartment construction also declined sharply, condominiums continued to account for more than 50 percent of multifamily units permitted in 2008 and 2009.

During the 3-year forecast period, demand for sales housing in the District of Columbia is expected to strengthen significantly as the population grows and the economy in the HMA continues to improve. Demand is expected for 5,500 new sales units, which includes an estimated 800 units that are currently under construction and expected to be complete within the next 3 years (Table 2). In addition, a portion of the 11,000 other vacant units may reenter the sales market and satisfy some of the forecast demand in the District of Columbia submarket. Finally, a large number of new apartments have been built in the submarket

Figure 10. Single-Family Homes Permitted in the District of Columbia Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

since 2011. As the home sales demand strengthens, some apartment complexes may be converted to condominiums, satisfying a portion of the forecast sales demand. Because the sales market is currently balanced and a significant number of units are under construction, the need for new units is expected to be relatively subdued during the first year of the forecast period but is expected to strengthen by the third year, when demand is expected for more than 2,000 new sales units. Table 7 shows the estimated demand for new market-rate sales housing, by price range, during the 3-year forecast period. Except for homes in the highest price ranges, most of the demand in the submarket is expected to be for attached units such as townhomes and condominiums.

Table 7. Estimated Demand for New Market-Rate Sales Housing in the District of Columbia Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
200,000	299,999	770	14.0
300,000	399,999	1,325	24.0
400,000	499,999	1,100	20.0
500,000	599,999	940	17.0
600,000	699,999	720	13.0
700,000	799,999	440	8.0
800,000	and higher	220	4.0

Notes: The 800 homes currently under construction and a portion of the estimated 11,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2015, to January 1, 2018.

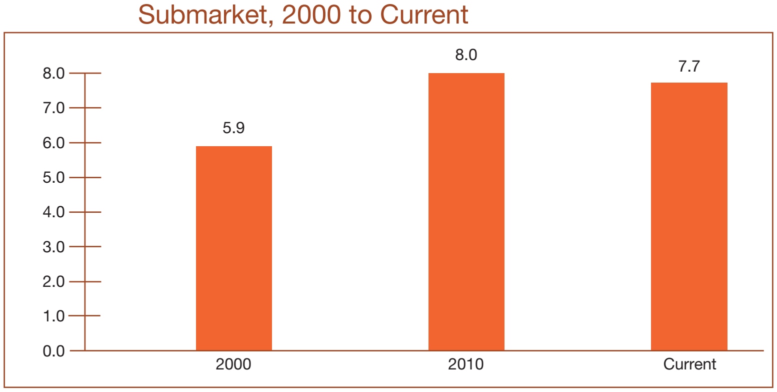
Source: Estimates by analyst

Rental Market—District of Columbia Submarket

The rental housing market in the District of Columbia submarket is currently soft, with the overall vacancy rate estimated at 7.7 percent, down from 8.0 percent as of April 2010 (Figure 11). Apartment market conditions in the submarket are also somewhat soft, with a 6.4-percent vacancy rate in the fourth quarter of 2014, up from 6.1 percent in the first quarter of 2010 (Reis, Inc.). The average apartment rent in the submarket was $1,574 in the fourth quarter of 2014, up from $1,550 a year earlier, an increase of nearly 2 percent.

The completion of a large number of new apartments in the past 2 years contributed to the soft market conditions. Population and household growth in the past 5 years created demand for new rental units in the submarket; however, the growth in supply at first lagged but later outpaced the growth in demand. From 2000 through 2010, rental unit construction averaged approximately 500 units a year, based on the number of units permitted. During that period, rental construction peaked from 2005 through 2007, when an average of nearly 900 rental units a year were permitted, but rental construction declined significantly from 2008 through 2010, to an average of less than 450 units a year, partially because of the recession and because of difficulties developers faced in obtaining financing. Figure 12

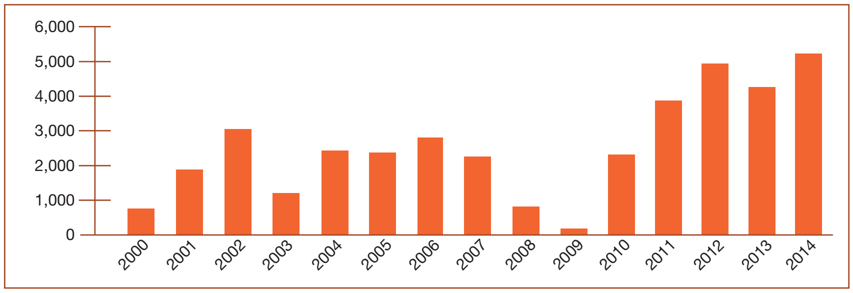
Figure 11. Rental Vacancy Rates in the District of Columbia Submarket, 2000 to Current



Note: The current date is January 1, 2015.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 12. Multifamily Units Permitted in the District of Columbia Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

shows the number of multifamily units permitted (both sales and rental units) by year in the District of Columbia submarket. Beginning in 2011, rental construction increased sharply in response to rising demand. From 2011 through 2013, construction of multifamily units averaged approximately 4,350 units a year; permits for rental units during that period averaged more than 2,600 units a year. In 2014, approximately 5,200 multifamily units were permitted, of which 3,300 were rental units, a 2-percent increase from the number of rental units permitted in 2013 (preliminary data). Because of the density of land use in the submarket, many of the new rental units are in highrise apartment buildings. The time required for construction may create a lag of 2 or more years from the time a project is started until it is completed. From the first quarter of 2010 through mid-2012, the number of new apartments completed in the submarket totaled only about 1,100 units, or an average of 440 units a year (Reis, Inc.). A large number of new apartments began reaching the market in the second half of 2012. From mid-2012 through the fourth quarter of 2014, approximately 8,350 units were completed, or an average of nearly 3,350 units a year. During 2014, more than 3,800 units were completed and many of the projects are still leasing up, contributing to the current soft market conditions.

Apartment completions since 2010 have significantly impacted apartment vacancies. From the first quarter of 2010 to mid-2012, the apartment vacancy rate in the submarket declined steadily, from 6.1 to 4.2 percent, as the earlier decline in construction and lags in completing new apartments caused the market to tighten. From mid-2012 to the fourth quarter of 2014, however, the apartment vacancy rate rose steadily, from 4.2 to 6.4 percent, when many new units reached the market. The tightening and subsequent softening in the apartment market is also reflected in rents. From the first quarter of 2010 through mid-2012, the average asking apartment rent increased from $1,417 to $1,500, an average increase of nearly 3 percent a year. As the market tightened during that period, apartment concessions also decreased. As a result, growth in effective rents was somewhat higher, averaging nearly 4 percent a year. Apartment rent growth has slowed since mid-2012, despite the addition of many new units with high-end amenities. From mid-2012 through the fourth quarter of 2014, asking rents increased at an average annual rate of 2 percent, to $1,574. The number of apartment complexes offering concessions also increased significantly during the period, when many new units were leasing up, resulting in an average effective rent growth of less than 2 percent a year. Areas with the highest rents tend to be in the central and northwest parts of the submarket, such as Georgetown, Woodley Park, downtown, and Logan Circle. Average monthly rents in these areas in the fourth quarter of 2014 ranged from about $1,800 to $2,100 for market-rate units of all sizes. The less expensive areas tend to be in the south and east parts of the submarket, including the Anacostia, Brookland, and Mount Pleasant areas, with monthly rents typically ranging from about $1,100 to $1,400 (Reis, Inc.). As of the fourth quarter of 2014, monthly apartment rents in the District of Columbia submarket averaged $1,435 for studio units, $1,465 for one-bedroom units, $1,649 for two-bedroom units, and $1,862 for three-bedroom units (MPF Research). Single-family homes and townhomes represent a relatively small share of the rental market. Single-family detached and attached units account for less than 16 percent of occupied rental units in the submarket, whereas multifamily units, including apartments and investor-owned condominiums, account for more than 84 percent of the occupied rental housing (2009-13 American Community Survey, 5-year estimates).

As with sales housing, much of the recent rental construction in the submarket has occurred in areas undergoing redevelopment, such as the southeast quadrant of the District of Columbia or areas near downtown. Parts of the northeast quadrant are also undergoing rapid gentrification and redevelopment. Of the 8,350 rental units completed since mid-2012, more than 80 percent have been in the Reis, Inc.-defined areas of Anacostia/Northeast DC, Downtown/Logan Circle, and Howard University/Mount Pleasant/Brightwood. The Wharf and the City Center DC projects, noted previously in the Sales Market section, are expected to include approximately 1,100 apartment units when complete, in addition to the 441 condominiums. The 287-unit Parc Riverside apartment project in the southeast quadrant near the Washington Navy Yard is nearing completion. Rents for one-bedroom units range from $1,895 to $2,690 and two-bedroom units range from $2,960 to $3,410. The City Market at O, a recently completed mixed-use project in the Shaw area near downtown, contains 400 apartments and 86,000 square feet of retail space. The apartments began leasing in early 2014 and rents currently start at approximately $1,750 for studio units, $2,050 for one-bedroom units, and $2,900 for two-bedroom units. The 393-unit Meridian at Mt. Vernon Triangle Apartments is under way in the Mount Vernon Square area near downtown. Construction began in March 2013 and the project recently began preleasing, with completion expected in early 2015. Monthly asking rents range from approximately $1,900 to $2,200 for studio units, $2,000 to $2,900 for one-bedroom units, and $3,200 to $4,000 for two-bedroom units.

Although rent growth in the submarket was sluggish during the past 2 years when market conditions softened, housing remains extremely expensive for many students. Growth in college and university enrollment during the last recession increased the demand for low-cost rental housing, exacerbating the problem. In response, some educational institutions undertook construction of new dormitories. Since 2010, an estimated 1,100 beds in group quarters (which includes dormitories, Greek housing, and other types of institutional housing) have been added in the submarket. Because of significant lags in planning, funding, and construction, however, many of the projects are not yet complete. Dormitories containing nearly 2,600 beds are currently being built by Howard University, George Washington University, and The Catholic University of America, among other institutions. These projects are expected to be complete within the next 2 years. In addition, projects currently in planning at the University of the District of Columbia, Georgetown University, and the new East Campus of American University, containing approximately 1,100 beds, are expected to be complete within the next 3 years.

During the next 3 years, after accounting for the absorption of the excess supply of existing rental units, demand is expected for 7,300 new market-rate rental units in the submarket (Table 2). The estimated 4,550 units currently under construction, most of which are expected to be complete within 2 years, will meet a portion of the demand. As a result of this large supply coming on line, market conditions are expected to remain somewhat soft for at least the first year of the forecast period. In addition, projects now in the final stages of planning are expected to add another 1,000 units within the next 3 years. As a result, additional completions should be timed to reach the market during the third year of the forecast period, in 2017. Table 8 shows estimated demand for new market-rate rental housing in the submarket, by rent level, during the 3-year forecast period.

Table 8. Estimated Demand for New Market-Rate Rental Housing in the District of Columbia Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,100 to 1,299	330	1,200 to 1,399	990	1,500 to 1,699	770	2,000 to 2,199	110
1,300 to 1,499	440	1,400 to 1,599	1,325	1,700 to 1,899	1,025	2,200 to 2,399	150
1,500 to 1,699	160	1,600 to 1,799	490	1,900 to 2,099	380	2,400 to 2,599	55
1,700 to 1,899	110	1,800 to 1,999	330	2,100 to 2,299	260	2,600 to 2,799	35
1,900 or more	55	2,000 or more	160	2,300 or more	130	2,800 or more	20
Total	1,100	Total	3,275	Total	2,550	Total	370

Notes: Numbers may not add to totals because of rounding. The 4,550 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Sales Market—Maryland Counties Submarket

Sales housing market conditions in the Maryland Counties submarket have improved since 2010, but the market remains slightly soft. The current sales vacancy rate is estimated at 2.0 percent, down from 2.5 percent in April 2010 (Table DP-3 at the end of this report).

Among all the submarkets in the HMA, the Maryland Counties had the highest rates of seriously delinquent mortgages and of mortgages that transitioned into REO status during the housing crisis that accompanied the last recession. The share of mortgages in the submarket that were 90 or more days delinquent, were in foreclosure, or transitioned into REO status increased from 4.5 percent in the first quarter of 2008 to a peak of 15.0 percent in the first quarter of 2010, nearly double the 8.5-percent rate for the entire HMA (Black Knight Financial Services, Inc.). Although the rate in the submarket has declined gradually in the past 4 years, it remains elevated, at 8.9 percent of existing home loans in December 2014, nearly double the national average of 4.6 percent. The rise in the number of mortgage delinquencies and foreclosures in the submarket was caused, in part, by a surge in home purchasing activity in the years immediately preceding the recession. From 2004 through 2006, new and existing homes sales, including single-family homes, townhomes, and condominiums, averaged approximately 18,800 homes a year, up from an average of 15,250 homes a year from 2000 through 2003 (MRIS). Prices increased sharply before the recession. From 2000 through 2003, homes sales prices in the submarket averaged approximately $172,800 but increased to an average of $303,800 from 2004 through 2006. Homebuyers were attracted to the submarket by its proximity to the District of Columbia and access to public transit. The submarket also initially had relatively affordable sales housing compared with the rest of the HMA, and the strong home price appreciation from 2004 through 2006 attracted more buyers. Many of the purchasers were first-time homebuyers and, hence, became heavily debt-leveraged in the period preceding the economic downturn. When home sales demand weakened, prices for homes in the submarket began to decline sharply and many recent homebuyers found themselves under water on their mortgages. Average sales prices for homes in the submarket decreased nearly 13 percent a year from 2008 through 2011. Home prices in the submarket reached a low point from 2010 through 2012, when sales prices averaged approximately $208,700, a decline of more than 30 percent from the previous peak.

As home sales market conditions weakened, the number of foreclosures mounted and the REO share of home sales increased, adding to the downward pressure on home prices. From 2005 through 2007, REO homes accounted for less than 2 percent of existing home sales in the submarket (Metrostudy, A Hanley Wood Company), but, in 2008, the REO share of sales began to rise sharply. From 2009 through 2011, the REO share peaked at 45 percent of existing home sales. Since 2011, the REO share of sales has declined gradually, but it remains elevated. During 2014, REO homes accounted for more than 22 percent of existing home sales in the submarket, essentially unchanged from a year earlier. From 2009 through 2012, the average sales price of an REO property was approximately one-third less than the average sales price for a non-REO existing home. During 2014, prices for REO homes averaged about $183,600 compared with $254,600 for traditional (non-REO) existing home sales.

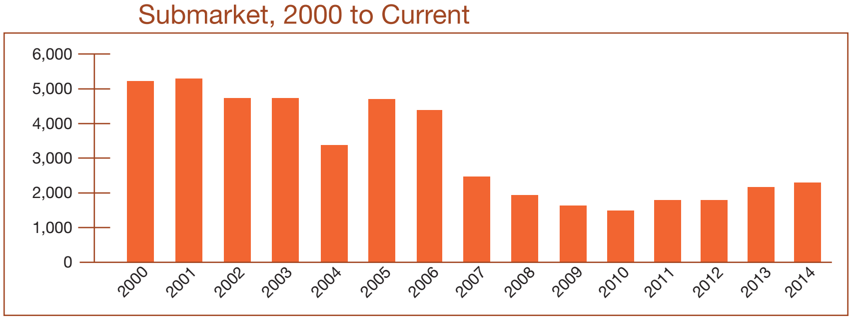
Another factor contributing to the severity of the housing downturn in the submarket was subprime lending. Subprime mortgages were far more prevalent in the Maryland Counties submarket, particularly in Prince George's County, than in other parts of the HMA. From 2004 through 2006, mortgage loans classified as high cost (in general, those with interest rates that are at least 3 percentage points above prime loans) represented

33 percent of home purchase loans originated in the submarket (Home Mortgage Disclosure Act data). Within Prince George's County, 36 percent of home purchase loans originated from 2004 through 2006 were classified as high cost. By comparison, in all other submarkets in the HMA combined, less than 13 percent of mortgages originated from 2004 through 2006 were high cost. Many homebuyers who financed their purchases with high-cost loans also had weak credit histories, which made it difficult for them later to refinance into lower cost loans.

Conditions in the home sales market improved somewhat in the past 2 years. During 2014, sales prices for existing homes (both traditional sales and REO homes) averaged about $238,300, a 10-percent increase from a year earlier (Metrostudy, A Hanley Wood Company). Sales of existing homes declined 6 percent during that period, however, to approximately 11,225 homes. Sales of new homes also declined slightly, to fewer than 1,950 homes sold, a 3-percent decrease, but sales prices for new homes increased 4 percent from a year earlier, to approximately $420,300.

Although home sales demand increased from 2004 through 2006, it did not lead to a surge in new home construction. In part, this lack of construction was because sales market conditions were slightly soft in 2000, and the growth in demand from 2000 through 2006 allowed for the excess supply of units to be absorbed. Based on the number of homes permitted, construction of single-family homes remained relatively stable from 2000 through 2006, averaging about 4,650 homes a year (Figure 13). The subsequent downturn in the housing market, however, led to a steep decline in homebuilding beginning in 2007. Approximately 2,450 single-family homes were permitted in 2007, a 44-percent decrease from a year earlier, and from 2008 through 2012, an average of less than 1,750 single-family homes a year were permitted. Homebuilding activity gradually recovered in the past 2 years. During 2014, approximately 2,300 single-family homes were permitted in the submarket, up from 2,140 homes during the previous 12 months (preliminary data). Since 2000, the most active areas in the submarket for single-family construction have been in the unincorporated parts of eastern and southern Prince George's County and in unincorporated Charles County. The unincorporated parts of those two counties combined include more than 80 percent of the single-family units permitted in the submarket since 2000. In the Oak Creek subdivision near Kettering in eastern Prince George's County, approximately 450 new homes have sold since 2005. Average prices for the three- and four-bedroom homes ranged from about $400,000 to $650,000. The Simmons Ridge subdivision near Clinton in southern Prince George's County is nearing completion. Prices for new single-family homes in the subdivision range from approximately $330,000 to $370,000. In the North Pointe subdivision in northern Charles County, approximately 275 new homes have

Figure 13. Single-Family Homes Permitted in the Maryland Counties Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

sold since 2006. The size of a new four-bedroom single-family home in the subdivision ranges from approximately 2,200 to 3,100 square feet, and the price ranges from $340,000 to $400,000. A limited number of condominium and townhome units were built in the submarket, but, since 2007, most of the multifamily construction has been for rental units. The Arts District Hyattsville development in Prince George's County near the northern edge of the District of Columbia includes new three-bedroom townhomes in which the size ranges from approximately 1,750 to 2,400 square feet and the price ranges from approximately $440,000 to $510,000.

Table 9. Estimated Demand for New Market-Rate Sales Housing in the Maryland Counties Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
200,000	299,999	1,225	14.0
300,000	399,999	2,775	32.0
400,000	499,999	2,350	27.0
500,000	599,999	1,400	16.0
600,000	and higher	960	11.0

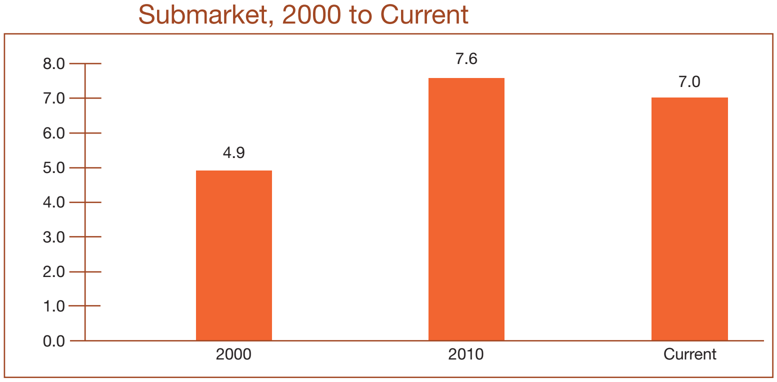
Notes: The 1,900 homes currently under construction and a portion of the estimated 11,500 other vacant units in the submarket will likely satisfy some of the forecast demand. Excludes an estimated demand for 200 mobile homes. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

During the next 3 years, sales housing market conditions in the Maryland Counties submarket are expected to continue gradually improving. During the 3-year forecast period, demand is expected for 8,900 new sales units (including 200 mobile homes). The estimated 1,900 units currently under construction and expected to be completed within the next 3 years will satisfy some of the demand (Table 2). A portion of the 11,500 other vacant units may enter the sales market and satisfy some of the forecast demand. Households seeking affordable single-family homes and moving from higher cost areas of the HMA create a significant share of the home sales demand in the submarket. As a result, most of the demand will be for single-family homes. Sales market conditions are expected to remain slightly soft in the first year of the forecast period but are expected to strengthen during the second and third years. By the third year of the forecast period, demand is expected for more than 3,200 new sales units. Table 9 shows the estimated demand for new market-rate sales housing, by price range, during the 3-year forecast period.

Rental Market—Maryland Counties Submarket

Figure 14. Rental Vacancy Rates in the Maryland Counties Submarket, 2000 to Current



Note: The current date is January 1, 2015.

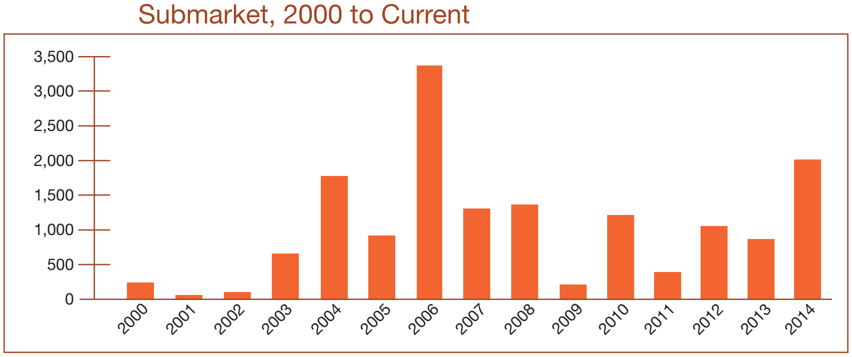
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

The rental housing market in the Maryland Counties submarket is currently slightly soft, with a vacancy rate estimated at 7.0 percent, down from 7.6 percent in April 2010 (Figure 14). The apartment market has tightened significantly since 2010 and conditions in the apartment market are currently somewhat tight. The apartment vacancy rate was 3.4 percent in the fourth quarter of 2014, down from 7.3 percent in the first quarter of 2010 (Reis, Inc.). Despite the decline in apartment vacancies, rent growth has been modest. The average apartment rent in the submarket was $1,263 in the fourth quarter of 2014, an increase of nearly 2 percent from a year earlier. By comparison, apartment rents in the other three HMA submarkets combined averaged $1,617 in the fourth quarter of 2014. The Maryland Counties submarket is the most affordable of the submarkets in the HMA in terms of apartment rents, partly because the stock of existing rental housing includes many older units. Nearly two-thirds of the renter-occupied units in the submarket were built before 1980 compared with less than 59 percent of the rental units in the other submarkets of the HMA combined (2009–13 American Community Survey, 5-year estimates).

The decline in apartment vacancies in recent years was partly the result of decreased rental unit construction after 2009, which allowed excess vacant units to be absorbed. From 2000 through 2003, approximately 250 multifamily units a year were permitted in the submarket, but multifamily construction from 2004 through 2008 averaged more than 1,700 units a year (Figure 15). Although nearly 40 percent of the units permitted during that period were sales housing, such as condominiums, more than 1,000 apartments were built annually. Because of the lengthy construction times involved, many of the new apartments were not completed until 2008 and 2009, after the onset of the recession led to a significant decline in rental housing demand. As a result of the increased supply and weakened demand, the apartment vacancy rate rose from an average of 3.4 percent in 2004 to 7.4 percent in 2009 (Reis, Inc.). Concessions also increased, from an average of nearly 4 percent of asking rents in 2004 to a peak of nearly 5 percent in 2009. In 2009, multifamily construction activity declined considerably. From 2009 through 2012, permitting of multifamily units averaged less than 725 units a year, nearly all of which were rental units. As excess vacant units were absorbed and apartment market conditions improved, builders responded by increasing rental construction. During 2014, approximately 2,000 multifamily units were permitted in the submarket, up from 850 units a year earlier (preliminary data). More than 80 percent of the units permitted during 2014 were rental units.

Although the apartment market has tightened significantly since 2010, the overall rental market has not recovered as strongly. In part, the recovery was sluggish because soft home sales market conditions in the submarket caused many homes that were previously owner occupied to become available as rental units. The relatively high rate of foreclosures and sales of REO homes (many of which were purchased by investors) also caused a shift of many homes into the rental market. In recent years, single-family homes have accounted for nearly 30 percent of rental units in the submarket (2009–13 American Community Survey, 5-year estimates). In 2000, by comparison, less than 25 percent of rental units were single-family homes.

Figure 15. Multifamily Units Permitted in the Maryland Counties Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Another factor contributing to the soft market conditions is the age of the housing stock. Because much of the existing rental stock in the Maryland Counties submarket is older and includes some relatively obsolescent units, many of the units remain vacant for long periods of time, especially when competing with the newer apartments built since 2005.

Much of the new apartment construction begun in the past 2 years in the submarket has been in areas providing relatively convenient access to the District of Columbia. Construction began early in 2013 on the 271-unit Esplanade Apartments in the National Harbor area in western Prince George's County. The project is currently leasing up, with asking rents ranging from approximately $1,700 for studio units to $1,800 for one-bedroom units, $2,400 for two-bedroom units, and $2,900 for three-bedroom units. The 142-unit C Street Flats in Laurel in northern Prince George's County began construction in late 2013 and is expected to be complete in early 2015. The apartments are currently preleasing and asking rents for the one- and two-bedroom apartments start at $1,175 and $1,565, respectively. Construction of the 213-unit Gleneagles III Apartments in Waldorf in northern Charles County began in late 2013. The units began preleasing in late 2014, with rents ranging from approximately $1,300 to $1,600 for one-bedroom units, from $1,560 to $2,270 for two-bedroom units, and from $2,000 to $2,670 for three-bedroom units.

A smaller total number of dormitory units have been added in the Maryland Counties submarket since 2010 than were added in the other submarkets in the HMA; however some large group quarters have been constructed, including dorms at one of the two major campuses of the University of Maryland in the submarket. The 650-bed Oakland Hall Dormitory broke ground in late 2009 and was completed in 2011. The 463-bed Prince Frederick Hall Dormitory began construction in 2012 and was recently completed. Both projects were on the College Park Campus. In addition, barracks for approximately 225 military personnel at Andrews Air Force Base were completed in 2011. A project currently under construction on the College Park Campus is Terrapin Row, a mixed-use student housing community, which will include 1,515 beds and nearly 12,000 square feet of retail space when it is completed in 2016.

Although rental market conditions in the submarket are slightly soft at present, during the next 3 years, demand is expected to be sufficient to allow much of the current excess supply of units to be absorbed. The rental market is expected to strengthen during the forecast period, although rent growth may remain sluggish in the first year of the forecast period when a large number of new apartments enter the market, many of which are expected to offer concessions during their initial lease up. During the next 3 years, demand is expected for 2,500 new market-rate rental units in the submarket (Table 2). The estimated 550 units currently under construction, which are expected to be complete during the first 2 years of the forecast period, will meet a portion of the demand. Demand for additional rental units will be greatest during the third year of the forecast period, in 2017, when more than 1,000 units will be demanded. Table 10 shows the estimated demand for new market-rate rental housing in the submarket, by rent level, during the 3-year forecast period.

Table 10. Estimated Demand for New Market-Rate Rental Housing in the Maryland Counties Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
800 to 999	50	1,000 to 1,199	350	1,300 to 1,499	450	1,500 to 1,699	150
1,000 to 1,199	40	1,200 to 1,399	260	1,500 to 1,699	340	1,700 to 1,899	110
1,200 to 1,399	20	1,400 to 1,599	130	1,700 to 1,899	170	1,900 to 2,099	55
1,400 or more	20	1,600 to 1,799	90	1,900 to 2,099	110	2,100 to 2,299	40
		1,800 or more	45	2,100 or more	55	2,300 or more	20
Total	130	Total	880	Total	1,125	Total	380

Notes: Numbers may not add to totals because of rounding. The 550 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Sales Market—Arlington-Fairfax Submarket

The sales housing market in the Arlington-Fairfax submarket is currently balanced. The sales vacancy rate is estimated at 1.0 percent, down from 1.2 percent in April 2010 (Table DP-4 at the end of this report). Home sales market conditions weakened significantly during 2008 and 2009, but conditions have steadily improved since 2010.

From 2000 though 2005, sales prices for new and existing homes in the submarket more than doubled. From approximately $252,200 in 2000, the average home sales price rose nearly 23 percent a year, to approximately $538,200 in 2005 (MRIS). The volume of home sales also increased early in the decade. During the 2000-through-2004 period, the number of home sales in the submarket increased an average of nearly 8 percent a year, from approximately 25,900 homes sold during 2000 to a peak of nearly 33,700 homes sold in 2004. The strong sales demand during that period was partly caused by a shift in preferences to homeownership among households in the HMA. The Arlington-Fairfax submarket is a desirable area for many homebuyers because of its highly ranked schools, proximity to job centers in Arlington and the District of Columbia, and its well-developed transit access, including the Metrorail system that has lines extending into Fairfax County as far west as Reston and as far south as Springfield. As home prices increased and sales housing in the submarket became less affordable, however, sales demand in the submarket weakened. Many buyers began to seek lower priced homes in other parts of the HMA, particularly in the Remainder submarket. Net in-migration to the Arlington-Fairfax submarket remained positive through mid-2001 (based on Census Bureau estimates as of July 1 each year) but subsequently turned negative, with net out-migration peaking at 14,500 people during the 12 months ending June 2006. As sales demand weakened, the volume of home sales declined an average of 11 percent a year from 2005 through 2009 and home prices initially leveled off, at an average of nearly $540,000 from 2005 through 2007. As economic conditions worsened with the onset of the recession, however, home prices declined 10 percent a year during 2008 and 2009, to a recent low of $432,200 in 2009.

An increase in seriously delinquent home loans and REO properties during

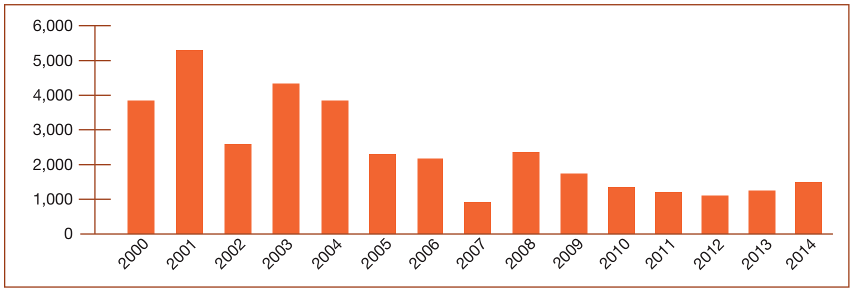
2008 and 2009 also created downward pressure on home prices. Although the rate of mortgages that were 90 or more days delinquent, were in foreclosure, or transitioned into REO status in the Arlington-Fairfax submarket remained the lowest among all submarkets in the HMA, the rate doubled from 2.2 percent of mortgages in the first quarter of 2008 to 4.4 percent in the first quarter of 2010 (Black Knight Financial Services, Inc.). As home prices fell, the number of traditional resale transactions fell sharply, from approximately 33,400 homes sold in 2005 to 13,500 sold in 2008, in part because many owners who had recently purchased their homes were under water on their mortgages. Except for distressed sales (REO and short sales), fewer owners were willing or able to sell their homes. As a result, the share of existing home sales accounted for by REO homes (excluding short sales) rose sharply, from an average of less than 0.5 percent of existing home sales during 2005 and 2006 to more than 26 percent of existing home sales during 2008 and 2009 (Metrostudy, A Hanley Wood Company). The average sales price for REO homes during 2008 and 2009 was approximately $291,000, or 40 percent less than the $488,500 average for traditional resale homes. That price differential contributed to the decline in overall home prices in the submarket. After 2009, the difference between REO and traditional resale home prices narrowed and the effect of REO home sales on overall prices receded. In 2014, REO home prices averaged about $426,800, or 22 percent less than the $545,100 average price for traditional resale homes.

Sales housing market conditions began to improve in 2010. From 2010 through 2013, sales prices for new and existing homes increased an average of 6 percent a year and, in 2013, home prices surpassed their previous peak, averaging nearly $541,000 (MRIS). Although the number of home sales continued declining during the 2009-through-2011 period, decreasing 7 percent a year, sales then began to rise, increasing an average of 10 percent a year during 2012 and 2013. The REO share of home sales and the rate of seriously delinquent mortgages have both declined steadily since 2010. In 2014, REO homes accounted for 4 percent of existing home sales, down from 5 percent a year earlier (Metrostudy, A Hanley Wood Company). In December 2014, 1.0 percent of mortgages in the submarket were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 1.2 percent a year earlier (Black Knight Financial Services, Inc.).

The decreases in mortgage delinquencies and foreclosures contributed to home price gains. During 2014, sales prices for existing homes in the submarket averaged approximately $540,400, a 3-percent increase from a year earlier (Metrostudy, A Hanley Wood Company). Sales of existing homes were down more than 9 percent from a year earlier, however, to less than 20,000 homes sold. Much of the decrease was the result of a large drop in REO home sales, which declined 29 percent from a year earlier.

Construction of single-family homes, based on the number of homes permitted, was strongest during the period of peak home sales demand early in the past decade. From 2000 through 2004, an average of nearly 4,000 single-family homes a year were permitted (Figure 16). Beginning in 2005,

Figure 16. Single-Family Homes Permitted in the Arlington-Fairfax Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

however, construction declined as home sales demand weakened. From 2005 through 2009, permits for single-family homes averaged less than 1,900 homes a year. Although home sales market conditions have improved since 2010, homebuilding activity has remained subdued. From 2010 through 2013, an average of less than 1,200 single-family homes a year were permitted. Construction has increased in the past 12 months, however. During 2014, nearly 1,450 single-family homes were permitted, an 18-percent increase from the 1,215 homes permitted in 2013 (preliminary data).

More than 80 percent of new detached single-family homes sold in the submarket since 2010 were in Fairfax County; however, because Fairfax County is one of the highest income areas in the HMA, prices for new homes tend to be very high. When single-family building activity declined from 2005 through 2009, home builders increasingly concentrated on high-end homes, including infill projects and luxury homes in small subdivisions, typically with fewer than 50 lots. From 2005 to 2007, prices for new single-family homes in the submarket increased from an average of less than $915,000 to more than $1.25 million (Metrostudy, A Hanley Wood Company). As sales market conditions weakened, however, new home prices declined in 2008, and, from 2009 through 2011, prices for new single-family homes remained essentially flat, averaging about $1.0 million. Prices for new homes began rising again after 2011, increasing nearly 9 percent a year. During 2014, the average price for new single-family homes sold in the submarket was approximately $1.37 million, an 8-percent increase from a year earlier. At The Reserve at Timber Lake development near Oakton, the size of a four-bedroom home ranges from approximately 4,700 to 6,000 square feet, and the price starts at $1.5 million. The Foxmont development near Centreville at the western edge of Fairfax County consists of 5-acre lots. The size of a four-bedroom home ranges from approximately 4,400 to 5,000 square feet, and the price starts at slightly less than $1.1 million. When completed, each subdivision is expected to include fewer than 25 homes.

Total new home sales, including single-family homes, townhomes, and condominiums, averaged nearly 7,000 homes a year in the Arlington-Fairfax submarket during 2005 and 2006 (Metrostudy, A Hanley Wood Company). When demand weakened, sales of new homes fell sharply, declining more than 33 percent a year during 2007 and 2008. From 2008 through 2013, new home sales averaged less than 1,500 homes a year. In 2014, new home sales decreased 38 percent from a year earlier, to approximately 780 homes sold.

In Arlington County and the city of Alexandria, the northern parts of the submarket closest to the District of Columbia, the existing residential pattern resembles that of Washington, D.C., including relatively high-density housing such as townhomes and condominiums. Nearly two-thirds of the multifamily units permitted in the submarket from 2000 through 2014 were in Arlington County and the city of Alexandria, and more than 60 percent of the homes sold in Arlington County and the city of Alexandria since 2010 were attached units. Based on the number of units permitted, construction of new multifamily units for owner occupancy in the submarket peaked from 2003 through 2006, when an average of nearly 2,600 sales units a year were permitted. After 2006, construction of townhomes and condominiums declined significantly, and building activity has remained relatively subdued since 2007, when much of the demand for new multifamily construction shifted to apartments. From 2007 through 2009, owner multifamily construction averaged less than 600 units annually. Building activity increased slightly from 2010 through 2012, when permitting for owner multifamily units averaged more than 850 units a year, but building activity slowed in the past 24 months. During 2014, approximately 125 owner multifamily units were permitted compared with fewer than 75 units during 2013 (preliminary data). Although attached units are a more affordable alternative to single-family homes, new condominiums and townhomes in the Arlington-Fairfax submarket are relatively expensive compared with the prices of similar homes in other submarkets in the HMA. Despite the weaker sales market conditions and a decrease in owner multifamily construction after 2006, prices for new attached units in the submarket continued rising at a relatively steady pace, which partly reflected the continued desirability of the submarket. Prices for new attached units increased from an average of approximately $427,300 in 2005 to $585,700 in 2013, an average gain of nearly 5 percent a year (Metrostudy, A Hanley Wood Company).

In 2014, average prices for new multifamily owner units in the submarket rose sharply, in part because a large number of high-end units were completed. The average price for new condominiums and townhomes sold in the submarket in 2014 was approximately $785,400, a 34-percent increase from a year earlier (Metrostudy, A Hanley Wood Company). The redevelopment of the Potomac Yard area in Alexandria includes a 167-acre mixed-use development that began construction in 2011. When completed in 2016, the project is expected to include more than 2.0 million square feet of office and retail space and 300 hotel rooms. In addition, nearly 1,700 residential units are planned, including approximately 570 luxury townhomes and condominiums, that will range in size from 1,600 to 3,000 square feet. The first phase of condominiums and townhomes is currently for sale, with prices ranging from $620,000 to $1.13 million. The Ballston Row townhomes, in the Rosslyn-Ballston corridor in Arlington, began construction in early 2013. The size of the 68 units in the development averages about 2,300 square feet and the current price is approximately $820,000. In addition, significant homebuilding activity is occurring along the Columbia Pike corridor in Arlington, including projects such as the Columbia Place townhomes and condominiums, which began construction in early 2014. The condominiums range in size from about 1,125 to 1,325 square feet and the townhomes are approximately 2,200 square feet in size. Prices for the condominiums range from approximately $550,000 to $600,000 and the townhomes are priced at about $860,000.

During the next 3 years, demand is expected for 11,400 new sales units in the Arlington-Fairfax submarket, including 300 mobile homes. Demand is expected to strengthen during the 3-year period, and more than 4,000 units will be demanded during the third year of the forecast period (Table 2). An estimated 800 sales units currently under construction in the submarket will meet a portion of the demand. In addition, some of the 10,000 other vacant units could reenter the sales market and satisfy some of the forecast demand. Finally, as in the District of Columbia submarket, some of the demand for sales housing may be met by the conversion of apartment complexes to condominiums. Table 11 shows the estimated demand for new market-rate sales housing, by price range, during the 3-year forecast period. Because of the high cost of housing in the submarket and the dense pattern of existing development in parts of the submarket, approximately one-half of the forecast demand for new sales housing is expected to be for condominiums and townhomes. A relatively small percentage of the new homes for sale are expected to cost less than $300,000, including townhomes and condominiums in outlying areas of the submarket. More than one-half of the new home demand in the Arlington-Fairfax submarket is expected to be for units priced between $400,000 and $700,000.

Table 11. Estimated Demand for New Market-Rate Sales Housing in the Arlington-Fairfax Submarket During the Forecast Period

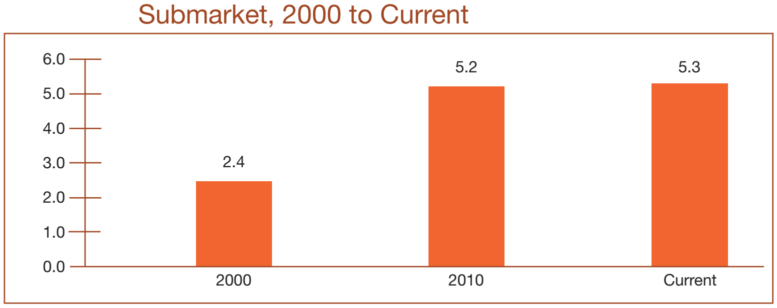
Price Range ($)		Units of Demand	Percent of Total
From	To		
250,000	299,999	560	5.0
300,000	399,999	1,550	14.0
400,000	499,999	2,000	18.0
500,000	599,999	2,225	20.0
600,000	699,999	2,000	18.0
700,000	799,999	1,675	15.0
800,000	and higher	1,100	10.0

Notes: The 800 homes currently under construction and a portion of the estimated 10,000 other vacant units in the submarket will likely satisfy some of the forecast demand. Excludes an estimated demand for 300 mobile homes. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Rental Market—Arlington-Fairfax Submarket

Figure 17. Rental Vacancy Rates in the Arlington-Fairfax Submarket, 2000 to Current



Note: The current date is January 1, 2015.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

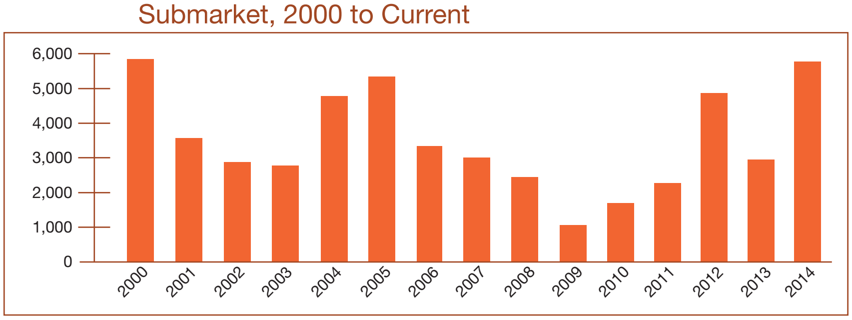
The rental housing market in the Arlington-Fairfax submarket is currently balanced. The vacancy rate for the overall rental housing market (which includes apartments, single-family homes, and mobile homes) is estimated at 5.3 percent, essentially unchanged from the 5.2-percent rate in April 2010 (Figure 17). Conditions are slightly tight, however, in the apartment market, where the vacancy rate was 4.3 percent in the fourth quarter of 2014, down from 5.5 percent in the first quarter of 2010 (Reis, Inc.). The average apartment rent in the submarket increased from $1,499 in the first quarter of 2010 to $1,716 in the fourth quarter of 2014, making it the most expensive apartment market in the HMA.

Similar to the District of Columbia submarket, many areas in the submarket are well served by public transit, reducing dependence on cars and allowing a greater share of income to be devoted to housing. In addition, the Arlington-Fairfax submarket has highly ranked schools, proximity to major job centers, and other amenities such as retail and entertainment venues that help to sustain rental demand. From 2003 through 2006, as household preferences increasingly shifted to homeownership, the high cost of sales housing in the submarket caused many households to migrate to other areas in the HMA with lower home prices. This shift resulted in net out-migration from the Arlington-Fairfax submarket. Beginning in 2007, however, net migration turned positive as home sales demand weakened and household preferences increasingly shifted to renting. Net in-migration to the submarket peaked in 2009, at more than 18,000 people (based on Census estimates as of July 1 each year). Although net in-migration declined steadily after 2009, to approximately 4,100 people in 2013, the positive net in-migration continues to support rental-housing demand in the submarket. Although the submarket remains attractive to renters because of its amenities and proximity to job centers, its status as the most expensive apartment market in the HMA means that it increasingly caters to a relatively narrow range of affluent renters. Because apartment rents have steadily increased since 2009, some households have been priced out of the submarket.

Despite the construction of many new apartments since 2010, rental demand in the submarket has been strong enough to allow for the new units to be absorbed relatively quickly. From 2010 through 2012, an average of more than 2,050 apartments a year were completed. Nevertheless, from the first quarter of 2010 to the first quarter of 2013, the apartment vacancy rate declined from 5.5 to 3.2 percent. Beginning in 2013, the pace of apartment construction slightly outpaced the growth in rental demand. Apartment completions averaged nearly 2,850 units a year. Although this level of construction caused the vacancy rate to rise more than 1 percentage point, apartment conditions remain somewhat tight.

Multifamily construction in the submarket, as measured by the number of units permitted, was strong during the 2000-through-2005 period, when an average of nearly 4,200 units a year were permitted (Figure 18). More than 50 percent of the units permitted during that period were sales units. The number of multifamily units permitted

Figure 18. Multifamily Units Permitted in the Arlington-Fairfax Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

decreased significantly from 2006 through 2009 and an average of approximately 1,675 units a year were permitted from 2009 through 2011. After 2011, however, multifamily construction increased significantly, with more than 4,850 units permitted in 2012. During 2014, approximately 5,750 multifamily units were permitted, compared with 2,950 units permitted during 2013 (preliminary data). In contrast to the earlier peak period of multifamily construction, more than 85 percent of the units permitted since 2010 have been rental units. Single-family homes and townhomes account for a modest share of the rental housing stock. Detached and attached single-family units combined account for less than 30 percent of occupied rental units in the submarket, whereas multifamily units account for more than 70 percent of the occupied rental housing (2009-13 American Community Survey, 5-year estimates).

In the northeastern part of the submarket, Arlington County and the city of Alexandria, the existing housing includes many midrise and highrise apartment buildings. In the past 30 years, local governments have supported Transit Oriented Development (TOD), particularly near major Metrorail stations in areas such as the Rosslyn/Ballston corridor. These TOD areas are designed for pedestrian access; have a mix of uses, including office and retail space; and have a high density of residences. The rest of the submarket, including much of Fairfax County, is mostly characterized by lower density residential patterns, but, because much of Fairfax County is well served by transit, the county also includes many areas of current or future TOD activity, such as Tysons Corner and Reston Town Center. Many of the new units built in the submarket since 2010 have been in highrise buildings. Since 2010, the most active areas in the submarket for new apartment construction , as defined by Reis, Inc., have been Western Fairfax County, Old Town (Alexandria), the Rosslyn/Ballston corridor in Arlington, and Tysons Corner/Fairfax City, where approximately 1,475, 1,650, 3,475, and 3,875 apartments, respectively, were completed. The new units added significantly to the supply, with the total inventory of apartments in those areas increasing 7, 26, 19, and 33 percent, respectively, since 2010. In addition, many of the new apartments were luxury units, which contributed to the overall increase in rents. Average apartment rents in the Western Fairfax County, Old Town, Rosslyn/Ballston, and Tysons Corner/Fairfax City areas in the fourth quarter of 2014 were up 14, 11, 14, and 23 percent, respectively, compared with rents in the first quarter of 2010.

The 257 units in The View Apartments in Arlington began construction in 2012 and the 17-story building was completed in early 2014. Rents range from $1,885 to $2,210 for studio units, from $2,235 to $3,105 for one-bedroom units, and from $3,000 to $4,140 for two-bedroom units. The 15-story, 359-unit Avant Apartments in Reston in western Fairfax County began construction in 2012 and was completed in early 2014. Rents currently start at $1,595 for studio units, $1,705 for one-bedroom units, $2,205 for two-bedroom units, and $4,105 for three-bedroom units. The 30-story, 429-unit Vita Apartments in Tysons Corner Center began construction in early

2013 and is currently preleasing. Rents for studio units start at $1,975, one-bedroom units range from $1,985 to $2,600, two-bedroom units range from $3,050 to $4,760, and three-bedroom units range from $6,020 to $6,145.

The high rents in the submarket created a need for alternative housing arrangements for students at major universities and for military personnel at bases in the submarket. Since 2010, dormitories for more than 1,450 students have been completed, including three large projects at George Mason University and Marymount University. In addition, a group quarters housing project that accommodates approximately 215 military personnel was completed at Fort Myer in Arlington. Group quarters projects currently under way in the submarket include the 295-bed Taylor Hall dormitory at George Mason University in Fairfax, which is expected to be complete in 2015.

Because of the surge in multifamily units permitted in 2014, many units are currently under construction. It is possible the tight apartment conditions will continue to ease during the next 2 years, when apartment completions continue to outstrip the growth in rental demand. During the next 3 years, demand is expected for 6,450 new rental units in the submarket (Table 2). An estimated 5,200 units are currently under construction and an estimated 350 units are in final planning, most of which are expected to be complete during the first 2 years of the forecast period. The units already under construction and in planning will meet most of the forecast demand. As a result, additional completions should be timed to enter the market during the third year of the forecast period, in 2017. Table 12 shows estimated demand for new market-rate rental housing in the submarket, by rent level, during the 3-year forecast period.

Table 12. Estimated Demand for New Market-Rate Rental Housing in the Arlington-Fairfax Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,300 to 1,499	130	1,500 to 1,699	1,150	1,700 to 1,899	1,025	2,100 to 2,299	260
1,500 to 1,699	95	1,700 to 1,899	870	1,900 to 2,099	770	2,300 to 2,499	190
1,700 to 1,899	50	1,900 to 2,099	440	2,100 to 2,299	390	2,500 to 2,699	95
1,900 to 2,099	30	2,100 to 2,299	290	2,300 to 2,499	260	2,700 to 2,899	65
2,100 or more	15	2,300 or more	150	2,500 or more	130	2,900 or more	30
Total	320	Total	2,900	Total	2,575	Total	650

Notes: Numbers may not add to totals because of rounding. The 5,200 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Sales Market—Remainder Submarket

Sales housing market conditions in the Remainder submarket are currently balanced. The sales vacancy rate is estimated at 1.4 percent, down from 1.8 percent in April 2010 (Table DP-5 at the end of this report). Following a period of very strong home sales demand from 2000 through 2005, sales market conditions weakened significantly from 2006 through 2009. The home sales market has gradually strengthened since 2010.

The major population centers in the submarket—the communities in Loudoun and Prince William Counties immediately west and south of Fairfax County, the communities clustered along I-95 in Stafford and Spotsylvania Counties, and the city of Fredericksburg—provide the most convenient access to job centers, retail, and other services in the HMA compared with the more outlying areas of the Remainder submarket. Hence, most of the home sales demand is concentrated in those areas. The demand for sales housing in the submarket is largely a result of its cost advantages: since 2000, sales prices for new and existing homes in the Remainder submarket have generally averaged 20 to 35 percent less than home sales prices in the nearby Arlington-Fairfax submarket (MRIS).

When household preferences in the HMA increasingly shifted to homeownership early in the past decade, it resulted in strong net in-migration to the submarket, particularly when households were priced out of higher cost areas such as the Arlington-Fairfax submarket. During the period of peak home sales demand in the HMA from 2000 through 2005, the Remainder submarket experienced the strongest net in-migration and the strongest growth in home sales among all submarkets in the HMA. New and existing home sales, including single-family homes, townhomes, and condominiums, nearly doubled during that period, from approximately 17,900 homes sold in 2000 to 32,200 homes sold in 2005, an increase of 16 percent a year (MRIS). Demand began to weaken after 2005 and home sales fell sharply. During 2006 and 2007, the number of homes sold declined an average of 25 percent a year. The number of new and existing home sales then stabilized, averaging about 18,800 homes a year from 2007 through 2012.

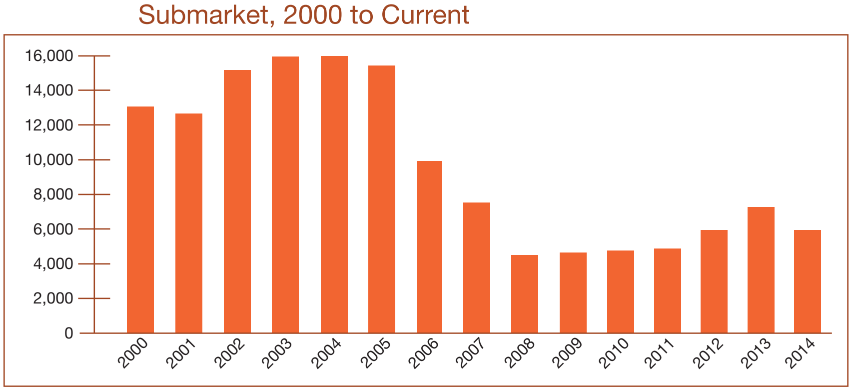
The strong sales demand early in the past decade led to a significant rise in home prices. Average sales prices for new and existing homes in the submarket more than doubled, from approximately $187,400 in 2000 to $439,300 in 2005, an average increase of 27 percent a year (MRIS). When sales demand began to weaken, home prices at first leveled off, to an average of approximately $433,900 during the 2005-through-2007 period, but, when market conditions continued to weaken, home prices fell significantly. During 2008 and 2009, prices for homes declined an average of 18 percent a year, to a recent low of $267,500 in 2009. After 2009, prices for new and existing homes began to increase as home sales demand recovered, but prices in the submarket remained below their previous peak. During the 2010-through-2012 period, sales prices for new and existing homes increased an average of 7 percent a year, to approximately $325,300 in 2012.

Home sales demand strengthened somewhat in the past 2 years, but the improvements have been sporadic. In 2013, sales of new and existing homes increased 23 and 17 percent, to approximately 6,200 and 20,500 homes sold, respectively, but, in 2014, new and existing home sales declined 10 and 9 percent, to approximately 5,600 and 18,600 homes sold, respectively (Metrostudy, A Hanley Wood Company). Prices continued to increase steadily during the past 2 years, however. In 2013, sales prices for new and existing homes were up 4 and 6 percent, respectively, from a year earlier. In

2014, average prices for new and existing homes increased 7 and 3 percent, to approximately $495,500 and $341,200, respectively.

When market conditions weakened significantly from 2007 through 2009, the number of home foreclosures mounted and sales of REO homes increased, contributing to the declines in home prices. REO home sales accounted for less than 1 percent of existing home sales in the submarket during 2005 and 2006, but the REO share of existing sales rose sharply in 2007 and peaked at more than 50 percent of existing home sales during 2008 and 2009 (Metrostudy, A Hanley Wood Company). From 2008 through 2013, prices for REO homes averaged nearly one-third less than traditional resale home prices. During 2014, sales prices for REO homes in the submarket averaged about $245,600 compared with an average traditional resale home price of $352,400. The REO share of sales has declined steadily since 2009 but remains elevated. During 2014, REO home sales accounted for 11 percent of existing home sales in the submarket, down from 12 percent a year earlier. In a further sign of improvement, the rate of seriously delinquent loans and the number of loans that transferred into REO status also decreased in 2014. In December 2014, 2.4 percent of mortgages in the submarket were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 2.8 percent a year earlier and down from the peak of 8.1 percent during 2009 (Black Knight Financial Services, Inc.).

Figure 19. Single-Family Homes Permitted in the Remainder Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Although the Remainder submarket remains relatively affordable for homebuyers compared with many other areas in the HMA, the greater affordability of housing is partly offset by longer commutes and higher transportation costs. Transportation costs in the submarket typically consume more than 17 percent of incomes for owner households compared with 15 percent for residents in the Arlington-Fairfax submarket and less than 13 percent for residents of the District of Columbia (HUD Location Affordability Index data). As a result, housing and transportation costs combined account for a slightly higher share of incomes in the submarket compared with such costs in the overall HMA. Owner households in the submarket devote 49.4 percent of their income to housing and transportation costs compared with an HMA average of 48.7 percent.

New residential construction in the submarket, based on the number of homes permitted, has mirrored the changes in sales demand since 2000. Homebuilding activity was strongest during the period of peak home sales demand from 2000 through 2005, when an average of nearly 14,700 single-family homes a year were permitted (Figure 19). When demand weakened, housing construction decreased sharply. From 2006 through 2008, permitting of single-family homes declined an average of nearly 24 percent a year.

Homebuilding activity then leveled off to an average of less than 4,700 single-family homes a year permitted from 2008 through 2011. After 2011, single-family construction increased, but building activity remains well below its previous peak. During 2012 and 2013, the number of single-family homes permitted in the submarket increased more than 24 percent a year, but construction activity decreased recently. During 2014, approximately 5,950 single-family homes were permitted in the submarket compared with more than 7,200 homes in 2013, a 17-percent decline.

The most active areas for new home construction from 2000 through 2009 were Loudoun and Prince William Counties, each of which accounted for 33 percent of single-family homes permitted in the submarket, followed by Spotsylvania and Stafford Counties, each of which accounted for 10 percent of the submarket total. The independent cities of Fredericksburg, Manassas, and Manassas Park are largely built out; each of those areas accounted for 1 percent or less of single-family homes permitted in the submarket. The more sparsely populated outlying areas of the submarket—Clarke, Fauquier, and Warren Counties in Virginia and Jefferson County, West Virginia—also had a relatively small share of homebuilding activity; the four counties combined accounted for 12 percent of new single-family construction in the submarket from 2000 through 2009. Since 2010, the most active areas for homebuilding in the submarket have been Loudoun and Prince William Counties, accounting for 47 and 25 percent, respectively, of single-family homes permitted. The Glenmere at Brambleton is a single-family development of 100 homes in eastern Loudoun County, west of Dulles International Airport. The size of a new home ranges from approximately 2,600 to 3,900 square feet, and the price ranges from approximately $580,000 to $698,000. Cardinal Grove is a 158-home development in eastern Prince William County, near I-95. The size of a new single-family home in the subdivision ranges from approximately 2,300 to 3,400 square feet, and the price ranges from approximately $480,000 to $585,000.

Multifamily owner units, such as condominiums and townhomes, represent a smaller share of the home sales market in the Remainder submarket compared with other submarkets in the HMA, accounting for less than 5 percent of new owner units permitted since 2000. The decline and subsequent recovery in homebuilding activity for condominiums and townhomes slightly lagged that of single-family home construction. From 2000 through 2008, permits for multifamily owner units averaged nearly 650 homes a year. From 2009 through 2012 permits for multifamily owner units decreased to an average of approximately 270 units a year, but construction increased in 2013. During 2014, approximately 500 multifamily owner units were permitted, down from 820 units during 2013. The Virginia Manor development in Aldie in central Loudoun County includes townhomes that range in size from approximately 1,450 to 2,700 square feet and in price from approximately $290,000 to $350,000. Construction of the 300 units is expected to be complete in late 2015.

During the 3-year forecast period, demand is expected for 19,400 new sales units in the Remainder submarket, including 1,000 mobile homes (Table 2).

Most of the demand is expected to be for single-family homes, but, in the lowest price ranges, attached units such as townhomes and condominiums will largely meet the demand. As with recent residential construction activity, most new units built are expected to be in Loudoun and Prince William Counties. Table 13 shows the estimated demand for new market-rate sales housing, by price range, during the 3-year forecast period. An estimated 1,750 homes are currently under construction and expected to be complete within the next 3 years; these homes will meet a portion of the demand. In addition, some of the 10,000 other vacant units in the submarket could enter the sales market and satisfy a portion of the forecast demand. Demand is expected to gradually strengthen during the next 3 years, with nearly 7,000 units demanded during the third year of the forecast period.

Table 13. Estimated Demand for New Market-Rate Sales Housing in the Remainder Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
150,000	199,999	920	5.0
200,000	299,999	2,025	11.0
300,000	399,999	4,600	25.0
400,000	499,999	4,050	22.0
500,000	599,999	3,675	20.0
600,000	and higher	3,125	17.0

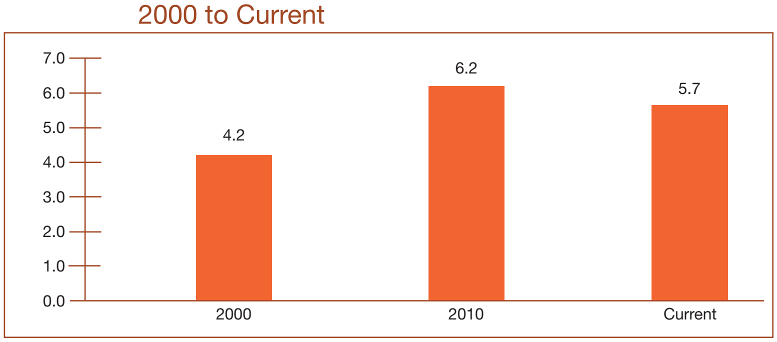
Notes: The 1,750 homes currently under construction and a portion of the estimated 10,000 other vacant units in the submarket will likely satisfy some of the forecast demand. Excludes an estimated demand for 1,000 mobile homes. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Rental Market—Remainder Submarket

Rental housing market conditions in the Remainder submarket are currently balanced. The vacancy rate for the overall rental market (which includes apartments, townhomes, single-family homes, and mobile homes) is estimated at 5.7 percent, down from 6.2 percent in April 2010 (Figure 20). Single-family homes and townhomes represent a relatively large share of the rental market, accounting for more than 50 percent of occupied rental units in the submarket (2009-13 American Community Survey, 5-year estimates). In the other submarkets of the HMA combined, such units account for less than 25 percent of the rental-housing inventory. Conditions in the apartment market are somewhat tighter than in the overall rental market. The apartment market is currently slightly tight, with a vacancy rate of 4.9 percent in the fourth quarter of 2014, down from 6.8 percent in the first quarter of 2010 (Reis, Inc.). Apartment rents in the submarket averaged $1,305 in the fourth quarter of 2014, up from $1,279 a year earlier, a 2-percent increase.

Figure 20. Rental Vacancy Rates in the Remainder Submarket, 2000 to Current

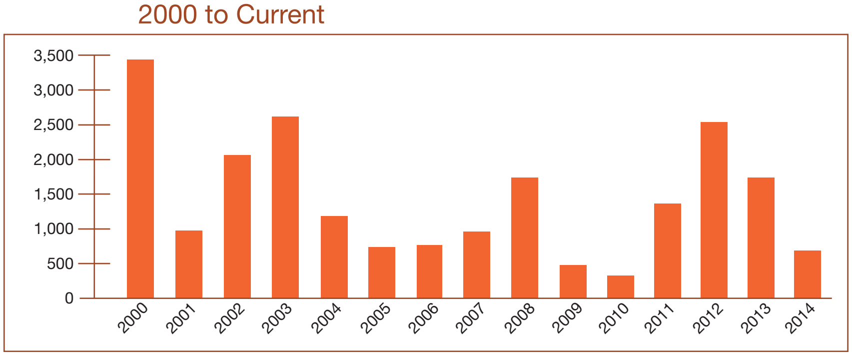


Note: The current date is January 1, 2015.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Apartment market conditions were slightly tight from 2000 through 2004, the period of peak population growth in the Remainder submarket. Apartment rents increased an average of 4 percent a year, and the vacancy rate generally remained below 5.0 percent. Although rental demand began to weaken in 2005, construction of new rental units decreased as well, which prevented the apartment market from becoming overbuilt. Apartment vacancies increased slightly from 2005 through 2008, but market conditions remained balanced and vacancy rates generally remained below 6.0 percent. Average apartment rents increased nearly 3 percent a year from 2005 through 2008. In 2009, however, as rental demand continued to weaken, apartment market conditions softened. In addition, new apartment complexes that were permitted in 2008, containing more than 1,000 units, began to lease up, contributing to a rise in vacancies. The apartment vacancy rate peaked in the second quarter of 2010, at 7.4 percent. Despite the increase in vacancy rates during 2009 and 2010, apartment rents continued to rise, increasing an average of nearly 3 percent a year. Rental demand remained sufficiently strong that apartment conditions began to tighten again in 2011. The apartment vacancy rate declined to a recent low of 3.9 percent in the first quarter of 2013. Although vacancies began increasing again in 2013, it was largely because new apartment complexes were leasing up. As a result of the continued strong rental demand, apartment rents increased an average of slightly more than 3 percent a year from the first quarter of 2010 through the fourth quarter of 2014.

Figure 21. Multifamily Units Permitted in the Remainder Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

During the period of peak renter household growth early in the past decade, rental unit construction activity was strong, based on the number of units permitted. From 2000 through 2004, multifamily permitting averaged more than 2,000 units a year, of which approximately 1,400 units a year were apartments (Figure 21). Rental construction declined sharply in 2005 and remained relatively subdued for most of the next 5 years. From 2005 through 2010, an average of 825 multifamily units a year were permitted. Multifamily construction during this period included a significant number of condominiums; the number of apartments permitted from 2005 through 2010 averaged less than 350 units a year, but this number included nearly 900 units in three projects permitted in Prince William County during 2008, which caused a temporary spike in multifamily permitting that year. As demand strengthened after 2010, builders responded with increased construction of rental units. From 2011 through 2013, an average of approximately 1,850 multifamily units a year were permitted, of which approximately 1,100 units a year were apartments. In 2014, permits for new multifamily units declined, partly because many units were already under way and expected to reach the market in 2014 and 2015, with the potential of causing market conditions to soften slightly. Approximately 675 multifamily units were permitted in 2014, a decrease of more than 60 percent from a year earlier (preliminary data). Only about 100 of the multifamily units permitted in 2014 were apartments.

Since 2010, the most active areas within the submarket for apartment construction were Loudoun and Prince William Counties, where approximately

1,550 and 1,350 units, respectively, were completed (Reis, Inc.). In addition, approximately 550 new apartments were completed in the city of Fredericksburg. The 496-unit Atley on the Greenway Apartments began construction in 2012 and is nearing completion. Located in Ashburn in northeastern Loudoun County, the project began preleasing in mid-2014. The rents currently range from approximately $1,340 to $1,590 for one-bedroom units, $1,515 to $1,820 for two-bedroom units, and $1,960 to $2,850 for three-bedroom units. The Elan Potomac Heights Apartments in Woodbridge in eastern Prince William County was completed in mid-2014. In the 288-unit complex, rents range from $1,370 to $1,790 for one-bedroom apartments and from $1,870 to $2,415 for two-bedroom apartments. The 368-unit Orchard Bridge Apartments in Manassas was completed in mid-2014. Rents for the apartments range from approximately $1,260 for one-bedroom units to $1,400 for two-bedroom units with dens.

Nearly 900 beds in new group quarters projects have been added since 2010. These projects include a 152-bed dormitory for upper division students at the Prince William Campus of George Mason University in Manassas and a 120-bed dormitory at the Smithsonian-Mason School of Conservation in Front Royal. Both projects were completed in 2012. At the Marine Corps Base in Quantico in Prince William County, two projects containing barracks for more than 500 military personnel were completed from 2010 through 2013. Two additional projects, providing barracks for 1,400 military personnel, are currently under way and are expected to be complete during 2015.

Although multifamily permitting in the Remainder submarket increased substantially during the 2011-through-2013 period, most of the rental units started during that period are complete. As a result, only about 100 units are estimated to be currently under construction in the submarket and expected to meet a portion of the forecast demand. During the next 3 years, demand is expected for 4,700 new market-rate rental units in the submarket (Table 2). Demand is expected to strengthen during the 3-year forecast period, with an estimated 1,800 units demanded during the third year of the forecast period. Table 14 shows estimated demand for new market-rate rental housing in the submarket, by rent level, during the forecast period.

Table 14. Estimated Demand for New Market-Rate Rental Housing in the Remainder Submarket During the Forecast Period

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
800 to 999	560	1,000 to 1,199	1,025	1,200 to 1,399	280
1,000 to 1,199	420	1,200 to 1,399	780	1,400 to 1,599	210
1,200 to 1,399	210	1,400 to 1,599	390	1,600 to 1,799	110
1,400 to 1,599	140	1,600 to 1,799	260	1,800 to 1,999	70
1,600 or more	70	1,800 or more	130	2,000 or more	35
Total	1,400	Total	2,575	Total	710

Notes: Numbers may not add to totals because of rounding. The 100 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2015, to January 1, 2018.

Source: Estimates by analyst

Data Profiles

Table DP-1. Washington HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	2010 to Current
Total resident employment	2,014,123	2,287,298	2,439,000	1.3	1.6
Unemployment rate	2.8%	6.6%	5.1%		
Nonfarm payroll jobs	2,133,500	2,407,700	2,518,000	1.2	1.1
Total population	3,727,565	4,377,008	4,743,000	1.6	1.7
Total households	1,405,638	1,632,844	1,734,100	1.5	1.3
Owner households	870,932	1,027,882	1,075,000	1.7	0.9
Percent owner	62.0%	63.0%	62.0%		
Renter households	534,706	604,962	659,100	1.2	1.8
Percent renter	38.0%	37.0%	38.0%		
Total housing units	1,482,388	1,747,711	1,838,000	1.7	1.1
Owner vacancy rate	1.5%	1.9%	1.5%		
Rental vacancy rate	4.2%	6.6%	6.4%		
Median Family Income	$78,900	$102,700	$107,300	2.7	1.1

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through December 2014. Median Family Incomes are for 1999, 2009, and 2013. The current date is January 1, 2015.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. District of Columbia Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	2010 to Current
Total population	572,059	601,723	665,800	0.5	2.2
Total households	248,338	266,707	288,400	0.7	1.7
Owner households	101,214	112,055	119,500	1.0	1.4
Percent owner	40.8%	42.0%	41.4%		
Rental households	147,124	154,652	168,900	0.5	1.9
Percent renter	59.2%	58.0%	58.6%		
Total housing units	274,845	296,719	316,300	0.8	1.4
Owner vacancy rate	2.9%	3.4%	2.3%		
Rental vacancy rate	5.9%	8.0%	7.7%		
Median Family Income	$46,283	$64,600	$82,400	3.4	6.3

Notes: Numbers may not add to totals because of rounding. Median family incomes are for 1999, 2009, and 2013. The current date is January 1, 2015.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Maryland Counties Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	2010 to Current
Total population	996,624	1,098,708	1,150,000	1.0	1.0
Total households	353,725	386,129	401,400	0.9	0.8
Owner households	231,427	257,180	264,800	1.1	0.6
Percent owner	65.4%	66.6%	66.0%		
Rental households	122,298	128,949	136,600	0.5	1.2
Percent renter	34.6%	33.4%	34.0%		
Total housing units	373,857	416,925	428,600	1.1	0.6
Owner vacancy rate	2.1%	2.5%	2.0%		
Rental vacancy rate	4.9%	7.6%	7.0%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2015.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-4. Arlington-Fairfax Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	1,319,360	1,464,216	1,570,000	1.0	1.5
Total households	511,461	571,207	598,300	1.1	1.0
Owner households	319,193	353,038	364,600	1.0	0.7
Percent owner	62.4%	61.8%	60.9%		
Rental households	192,268	218,169	233,700	1.3	1.5
Percent renter	37.6%	38.2%	39.1%		
Total housing units	527,017	599,947	625,100	1.3	0.9
Owner vacancy rate	0.6%	1.2%	1.0%		
Rental vacancy rate	2.4%	5.2%	5.3%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2015.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-5. Remainder Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	839,522	1,212,361	1,357,000	3.7	2.4
Total households	292,114	408,801	445,600	3.4	1.8
Owner households	219,098	305,609	325,800	3.4	1.4
Percent owner	75.0%	74.8%	73.1%		
Rental households	73,016	103,192	119,800	3.5	3.2
Percent renter	25.0%	25.2%	26.9%		
Total housing units	306,669	434,120	467,500	3.5	1.6
Owner vacancy rate	1.4%	1.8%	1.4%		
Rental vacancy rate	4.2%	6.2%	5.7%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2015.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 1/1/2015—Analyst's estimates
Forecast period: 1/1/2015–1/1/2018—Analyst's estimates

The metropolitan division definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated December 1, 2009, and does not reflect changes defined by the OMB Bulletin dated February 28, 2013. The Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division is coterminous with the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area, excluding the Bethesda-Rockville-Frederick, MD Metropolitan Division (consisting of Montgomery and Frederick Counties in Maryland), which was examined in a 2013 Comprehensive Housing Market Analysis report.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_Washington-Arlington-AlexandriaDC-VA-MD-WV_15.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.