

2017

# WHY INVEST IN — WASHINGTON D.C. — REAL ESTATE?

ANNUAL MARKET REVIEW AND OUTLOOK



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## EXECUTIVE SUMMARY

Washington D.C. continues to provide investors with a real estate market filled with increased opportunity.

Our city, and surrounding metro, feature a robust economy that continues to grow into one of the nation's largest and most productive. After decades of decline, our population continues to grow, while maintaining some of the highest levels of income and education in the country. And our housing market has continued to exhibit the rock-solid fundamentals of decreasing inventory and increasing demand, leading to continued, healthy, year-over-year increases in housing prices.

Perhaps even more important—for both investors and residents—Washington remains a great place to live. Multiple prestigious rankings have once again listed our city as one of the world's desirable cities to live within.

Across each key metric, Washington D.C., and our surrounding metro, has once again indicated continued opportunity over both the near and long term.

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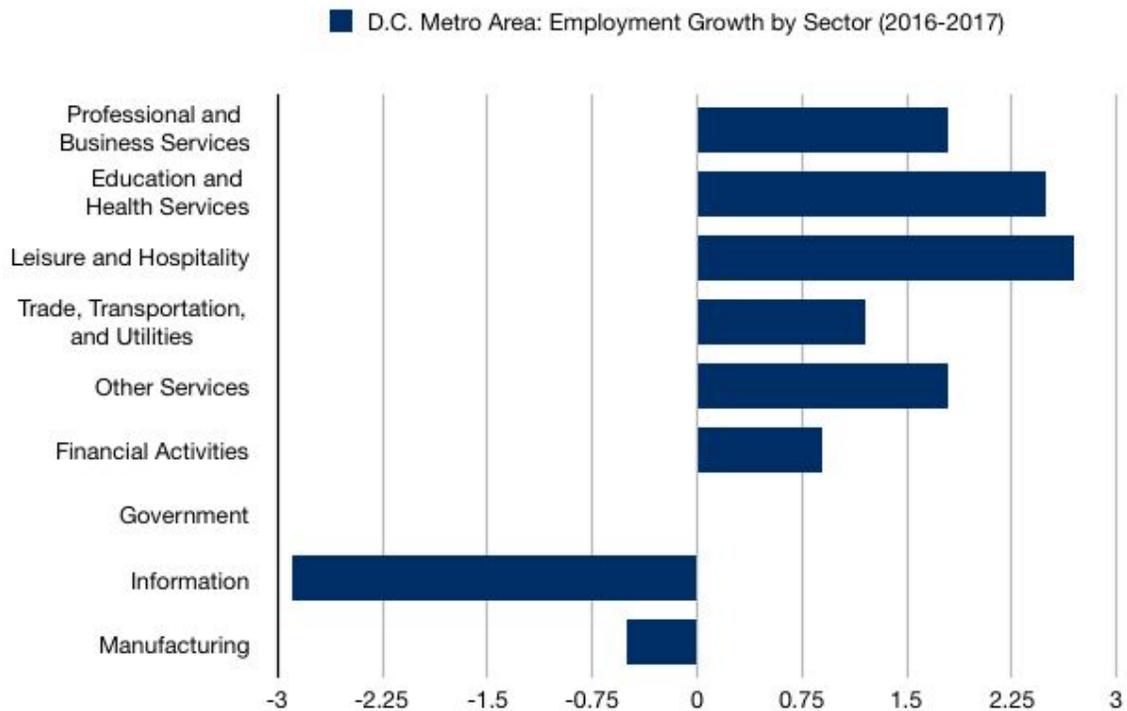
## WASHINGTON D.C. ECONOMY

Washington D.C., and its surrounding metro, continues to feature one of the country's largest economies.

### Consider these key facts about the Washington D.C. Metro Area economy:

- A \$449.3 billion economy.
- The 5th largest metro area in the U.S. by GDP (up from the 6th largest last year)<sup>1</sup>
- Employment increased 1.4% year-over-year, for the 43<sup>rd</sup> consecutive employment gain.<sup>2</sup>
- Unemployment dropped to 3.6% in 2017, from 3.9% in 2016, and 4.8% in 2015.<sup>3</sup>

The largest employment gain between 2016-2017 came from Professional & Business Services. This sector added 13,300 jobs and increased 1.8% year-over-year. The second-largest employment gain came from Education and Health Services, which added 11,200 jobs and grew 2.5%. Most new jobs within the Professional & Business Services sector, and the Education & Health Services sector, were concentrated within the city of Washington D.C. itself. The remaining largest gains in employment last year came from Leisure & Hospitality (8,800 new jobs, 2.7% growth) and Mining/Logging/Construction (5,300 new jobs, 3.4% growth).<sup>4</sup>



Source: Bureau of Labor Statistics

**Washington D.C. Economy Summary:** Washington D.C., and its surrounding metro, feature a growing economy that is gradually climbing to one of the largest in the country. D.C.'s economy continues to develop away from a primarily public-sector economy, and towards a primarily private sector economy, at the same time many of these jobs are returning to the city itself.

<sup>1</sup> <http://www.businessinsider.com/us-cities-with-the-biggest-economies-2017-9>

<sup>2</sup> [https://www.bls.gov/regions/mid-atlantic/news-release/areaemployment\\_washingtondc.htm](https://www.bls.gov/regions/mid-atlantic/news-release/areaemployment_washingtondc.htm)

<sup>3</sup> <https://www.bls.gov/web/metro/laummtrk.htm>

<sup>4</sup> [https://www.bls.gov/regions/mid-atlantic/news-release/areaemployment\\_washingtondc.htm](https://www.bls.gov/regions/mid-atlantic/news-release/areaemployment_washingtondc.htm)



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## WASHINGTON D.C. DEMOGRAPHICS

Washington D.C.'s population continues to grow. The city's population reached 693,972 residents, gaining 12,802 new residents and growing by approximately 1.9% last year. The population has increased by nearly 92,000 new residents, and grown approximately 15.3% in just seven years, since the last full census in 2010.<sup>5</sup>

The city's population has once again been rated as one of the world's highest concentrations of human capital. Forbes' Cities in Motion Index again named Washington D.C. as one of the world's "smartest" cities. In the Index, Washington D.C.'s human capital ranked 3rd in the world.<sup>6</sup> Washington D.C. was also recently named the 2<sup>nd</sup> most educated city in the United States, with the 2<sup>nd</sup> highest percentage of bachelor's degree holders and 2<sup>nd</sup> highest percentage of graduate or professional degree holders.<sup>7</sup>

D.C.'s population is also considerably wealthier than most of the nation. While D.C. has traditionally held the highest median household income in the country, last year the city dropped to second place due to a surge in median household income within San Francisco in 2017.<sup>8</sup> Still, D.C.'s median household income sits just below its peak, and has grown 3.9% since its recent 2012 low,<sup>9</sup> and D.C. was found to have the 2nd highest share of millionaire households in the United States.<sup>10</sup>

	Washington Metro	Washington D.C.	United States
Median Family Income	\$112,792	\$98,498	\$71,062
Per Capita Income	\$45,545	\$50,567	\$31,128
Median Household Income	\$95,843	\$75,506	\$57,617

Source: Department of Numbers, Census ACS 1-year survey<sup>11</sup>

**Washington D.C. Demographics Summary:** *Washington D.C.'s population continues to grow in size, while maintaining its high income and education levels—relative to other cities and regions within the United States, but also internationally.*

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<sup>5</sup> <https://www.census.gov/quickfacts/DC>

<sup>6</sup> <https://www.forbes.com/sites/iesee/2017/05/31/the-smartest-cities-in-the-world-for-2017/#330095fd5c4c>

<sup>7</sup> <https://wallethub.com/edu/most-and-least-educated-cities/6656/>

<sup>8</sup> <https://www.census.gov/library/visualizations/2017/comm/income-dot.html>

<sup>9</sup> <http://www.deptofnumbers.com/income/district-of-columbia/washington/>

<sup>10</sup> <https://dc.curbed.com/2017/8/29/16220104/millionaire-households-dc-washington>

<sup>11</sup> <http://www.deptofnumbers.com/income/district-of-columbia/washington/>





## WASHINGTON D.C. HOUSING MARKET

Washington D.C. again saw increasing demand, decreasing inventory, and a requisite price increase.

### Washington D.C. Housing Market: Key Data

	December 2016	December 2017
<b>Closed Sales</b>	<b>632</b>	<b>695</b>
<b>New Pending Sales</b>	<b>594</b>	<b>613</b>
<b>New Listings</b>	<b>567</b>	<b>511</b>
<b>Active Listings</b>	<b>1,080</b>	<b>1,069</b>
<b>Median Sales Price</b>	<b>\$550,000</b>	<b>\$565,000</b>

Source: RBIntel: 2016<sup>12</sup>; 2017<sup>13</sup>

D.C. housing market continued to heat up in 2017. Compared to December 2016, D.C. closed out 2017 with greater demand (more sales), decreased supply (fewer listings) and a median sales price that increased 2.7% year-over-year.

2017 saw additional encouraging signs within D.C.'s housing market. Last year one in three homes in D.C. sold above their asking price<sup>14</sup>, D.C. saw 2,279 multi-million-dollar home sales and ranked number two among East Coast cities with homes selling over \$1 million<sup>15</sup>, and the number of D.C. homes that sold for over \$2.5 million increased 71% between 2016-2017.<sup>16</sup>

D.C.'s increasingly hot housing market performance has led some to question whether or not we are in a housing bubble, similar to what we saw in 2008, or that homes in D.C. are overvalued. This is unlikely. As the above data demonstrate, D.C.'s increasing prices are driven by the fundamentals of increasing demand and decreasing supply. D.C.'s inventory levels have declined for 20 consecutive months, and our region's total active listings in December 2017 (6,466 regional active listings) are a fraction of their levels in December 2008 (regional active listings 21,080).<sup>17</sup>

**Washington D.C. Housing Market Summary:** *D.C.'s housing market continues to see housing prices increase due to the city's (and metro area's) strong fundamentals—with no indication they will drop.*

<sup>12</sup> <http://www.rbintel.com/blog/2017-closed-familiar-territory-higher-prices-and-extremely-low-inventory-dc-area-market>

<sup>13</sup> <http://www.rbintel.com/blog/dc-area-home-prices-reach-highest-december-level-record>

<sup>14</sup> <https://dc.urbanturf.com/articles/blog/36-percent-of-homes-sold-in-dc-in-2017-went-for-above-asking/13442>

<sup>15</sup> <https://dc.curbed.com/2017/12/6/16742308/million-dollar-sales-dc>

<sup>16</sup> <https://dc.curbed.com/2017/7/28/16055550/home-sale-data-dc-washington>

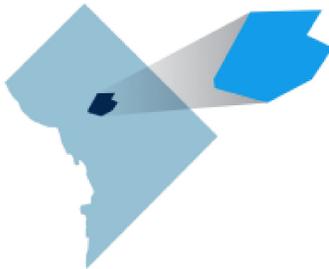
<sup>17</sup> <https://dc.urbanturf.com/articles/blog/2017-ends-with-...-back-up-and-inventory-back-down-in-dc/13433>



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## TOP NEIGHBORHOODS FOR WASHINGTON D.C. REAL ESTATE INVESTMENT

In 2017, D.C. gained many new, high-opportunity neighborhoods—including three new million-dollar neighborhoods<sup>18</sup>. While these, and most other neighborhoods in D.C., offer high opportunity, we consider the following three neighborhoods to currently provide the greatest unique value:



### Hillcrest

Hillcrest is a neighborhood poised to explode in popularity in coming years. The neighborhood has still experienced relatively low home prices and levels of development. The median home value in Hillcrest is \$465,000—very low, considering the wealth of tudors, colonials, and other large, charming homes available in the neighborhood. However, home prices in Hillcrest are unlikely to stay this low for much longer.

Hillcrest's average price per square foot was only \$287 in 2017—but

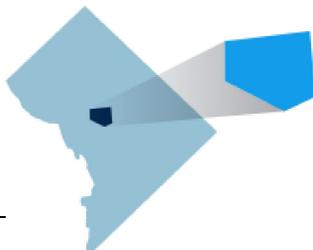
that represented a 59% increase over 2016's price. Currently, 59% of Hillcrest's residents are homeowners, and the median age is 46 years old.<sup>19</sup> While Hillcrest still lacks a central shopping district or "main street", the neighborhood is unlikely to remain a hidden gem for much longer.



### Glover Park

Glover Park is another relatively "hidden" and undervalued neighborhood in Washington D.C. poised to grow in popularity—and price—in the coming years. In 2017, the median sold price of a home in Glover Park was only \$437,000, but this value represented a year-over-year price increase of +24.24% compared to 2016's prices.

Glover Park was also one of only eight neighborhoods in D.C. where buyers paid above asking price in 2017<sup>20</sup>, and Glover Park experienced one of the most severe inventory shortages in all of D.C., with supply ranging between one and two weeks throughout the year. At the moment, Glover Park is primarily considered off the beaten path, due to its lack of a metro station, and has primarily appealed to families, as well as college students and academic professionals (due to its proximity to Georgetown). However, this is already changing, as over two-thirds of home sales in Glover Park in 2017 were condominiums.



### LeDroit Park

One of D.C.'s oldest neighborhoods, LeDroit Park remains a perennial hotspot for real estate investment opportunities. The neighborhood is convenient to downtown, 14th street, and Columbia via walking or biking, and is a short walk away from numerous bus lines and the

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<sup>18</sup> <https://www.zillow.com/blog/2017/07/23/16189272/million-dollar-neighborhoods-zillow>

<sup>19</sup> [https://www.trulia.com/real\\_estate/Hillcrest-Washington/1848/](https://www.trulia.com/real_estate/Hillcrest-Washington/1848/)

<sup>20</sup> [https://dc.urbanturf.com/articles/blog/the\\_8\\_dc\\_neighborhoods\\_where\\_you\\_paid\\_above\\_asking\\_in\\_2017/13371](https://dc.urbanturf.com/articles/blog/the_8_dc_neighborhoods_where_you_paid_above_asking_in_2017/13371)



Shaw-Howard University Metro Station. LeDroit Park was one of the first “suburbs” of downtown Washington D.C., and residents—new and old—flock to its small streets, and classic architecture. While the neighborhood experienced sluggish home prices just six years ago—with four-bedroom homes selling for as low as \$330,000—the neighborhood continues to revitalize and renovate. In 2017, LeDroit Park was home to many home sales north of \$1 million. In 2017, LeDroit Park was also one of seven neighborhoods in D.C. that experienced severe inventory shortages, averaging a month’s supply throughout the year.

## WASHINGTON D.C.: A GREAT PLACE TO INVEST AND A GREAT PLACE TO LIVE

In 2017 Washington D.C. remained one of the world’s top-ranked cities for both investors and residents.

Washington D.C., and the D.C. metro area, remain prime locations for foreign investment. In 2017 Washington D.C. rose to the 4th most sought-after U.S. city for foreign investors<sup>21</sup>. The Association of Foreign Investors in Real Estate initially dropped D.C. to the 6th best U.S. market for foreign investment in 2017, but they have already brought D.C. back to 5th ranking in 2018.<sup>22</sup>

But as strong as D.C. may be as a global investment hub, we believe our city’s ranking as one of the world’s best places to live says more about D.C.’s strength as a long-term real estate market. In the previously-cited Forbes Cities in Motion Index, D.C. was ranked, overall, as North America’s 4th most appealing city in North America (behind only New York City, Boston, and San Francisco).<sup>23</sup> Forbes’ report also noted D.C. is one of the few cities that ranks as both one of the world’s top-10 most prosperous cities, and often ranks one of the world’s cities with “the best quality of life”.<sup>24</sup>

In 2017, many other rankings named D.C. as one of the world’s best cities. AT Kearney’s Global Cities Index Leaders named D.C. the 10th highest ranked city in the world, and one of the “Global Elite”. D.C. has held this rank for the last three years. Within AT Kearney’s rankings, D.C. stands 4th among cities within the Americas, and first in Political Engagement and Think Tanks.<sup>25</sup> The Economist Intelligence Unit’s livability index also, once more, ranked D.C. as one of the highest-ranked, most-livable cities in the world, according to 30 factors related to safety, health care, educational resources, and infrastructure.<sup>26</sup>

*Why Invest in Washington D.C. Real Estate? In 2017, D.C. continued to develop its strong economic, demographic, and housing market performance. Furthermore, D.C. continued to rank as one of the world’s most desirable cities for both residents and investors. These strong fundamentals suggest D.C. will continue to provide ample opportunities—in both the short and long-term—for investors.*

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<sup>21</sup> <https://www.bizjournals.com/washington/news/2018/01/08/d-c-regains-standing-among-top-u-s-cities-for.html>

<sup>22</sup> [http://www.afire.org/Files/2018\\_Survey/GlobeStreetFeature.pdf](http://www.afire.org/Files/2018_Survey/GlobeStreetFeature.pdf)

<sup>23</sup> <https://www.forbes.com/sites/iese/2017/05/31/the-smartest-cities-in-the-world-for-2017/#330095fd5c4c>

<sup>24</sup> <http://www.iese.edu/research/pdfs/ST-0442-E.pdf>

<sup>25</sup>

<https://www.atkearney.com/documents/10192/12610750/Global+Cities+2017+-+Leaders+in+a+World+of+Disruptive+Innovation.pdf/c00b71dd-18ab-4d6b-8ae6-526e380d6cc4>

<sup>26</sup> <https://www.attomdata.com/news/home-prices-and-sales-2017-pre-mover-index/>



## REFERENCES

