

CAPITOL HILL YESTERDAY, TODAY AND TOMORROW - FROM A REAL ESTATE PERSPECTIVE!

Where are we today?

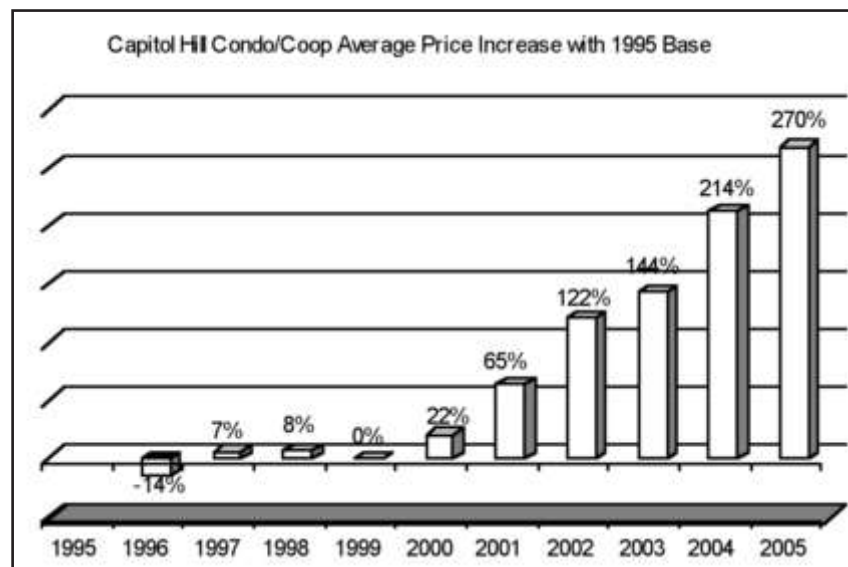
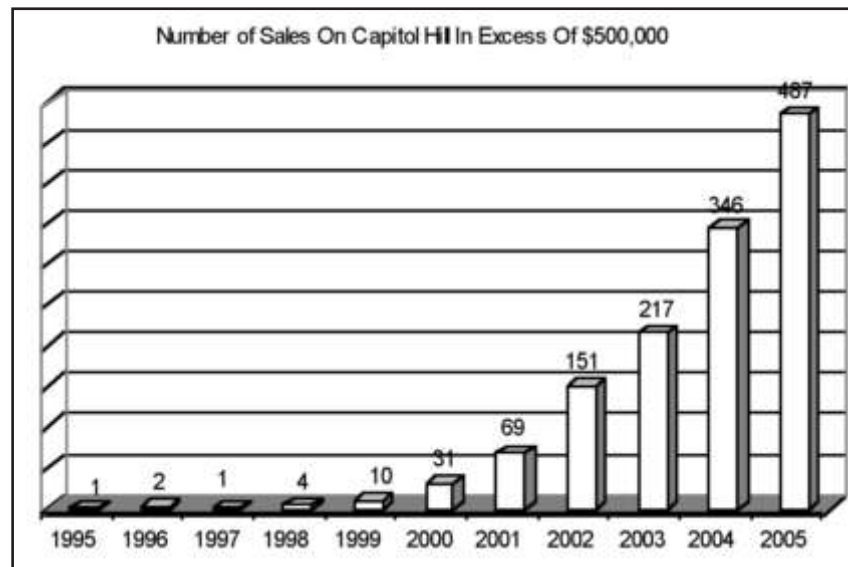
BY DON DENTON

As we begin 2006, the words that many people would use to describe the residential real estate market in this country are tentative, faltering, inflated, overbuilt, etc. First, I think we have to be careful not to paint the whole country with the same brush. Barring a national calamity - and I think that would have to be related to at least a 2%+ mortgage rate increase to impact us - any declines in the residential market will be spotty and totally related to local, regional economic issues.

I find it fascinating to watch the press coverage of our industry and to listen to the popular response to this coverage. We are all starved for data and look to any twist and turn of the few sources that we have to try to predict what will happen next - what direction we may be heading in. One number closely watched is new home starts. That number means absolutely nothing in relation to what is happening in Washington DC proper. While we currently have a lot of new building activity, new home starts data generally means tract homes in Loudoun County. Resale of existing homes, our primary market, is a very different animal. Our market is generally finite. Our market is not generally impacted negatively by an increase in the price of oil and therefore building products. Higher construction costs driven by increases in prime lending rates don't hit us as hard. Lead times beginning from the identification and acquisition of land to final sales can be years. A whole different set of decision criteria are at work in new home sales. If Capitol Hill sat in Stafford County and the prosperity of our marketplace depended on robust new home sales over the next decade, I would be a little more concerned. There is data available on resale activity and I think that is more useful but not necessarily definitive. Let's look at Capitol Hill over just the last 10 years.

Capitol Hill By The Numbers

Following the real estate recession in the early '90s, our neighborhood had a lot of rental properties owned by reluctant landlords. These were individuals who,



usually because of job transfer, had to relocate and could not sell their homes. The only viable alternative was to rent their home and wait for better times. In the late '90s, better times were back and these reluctant landlords responded. For a while our markets were flooded with these rental properties and they were sold in almost every case, more than a 1,000 in our neighborhood alone, to owner occupants. As we have moved further into the 21st century, that part of the inventory is gone. My point is that if you look back over the past three years, and probably continuing in

2006, you will see a decline in the number of sales, and might think "the sky is falling!" ... I think not. As the following chart indicates, during this same three year period, median sales prices rose from \$340,000 to \$535,000 - A WHOPPING 57%!

Capitol Hill Condos & Coops

In the early to mid 1990's, the only thing worse than owning one condo was owning two! There was virtually no market. Our condos buildings contained a high percentage of investor units, many of them our "reluctant landlords." Anyone

that knows condos and coops knows that a high investor concentration is death to a condo building. Lenders, particularly in the mid '90s, literally ran from condo buildings with high investor ratios. If you could find a buyer for your condo, prices hovered around \$100 per square foot. Our condo inventory was minimal and many were dated.

By the early 21st century, condos were back with a vengeance. Property values and demand had risen to a level that many heretofore "worthless" properties were hot commodities. Excess school buildings, former churches and blighted lots found new life. Much of this development has been quality and creative design. As a marketplace, we have gone from a top price of \$200 - \$300 per square foot in 2000 to over \$500 per foot last year. This year will probably see prices hovering at \$600 per square foot for the very best.

Capitol Hill Development

While prices have skyrocketed over the past few years, the most significant thing to happen has been the expansion of our Capitol Hill boundaries, the development of many of our contiguous neighborhoods, the constructive development of many, many in-fill sites scattered throughout the Hill, the "redevelopment" of three major public housing projects and the miraculous recovery of Barracks Row and the implementation of the Capitol Hill BID and the maturity of the Capitol Hill Community Foundation.

Prior to the late 90's, the areas between Florida and New York Avenue and south of the Eisenhower Freeway were not viable residential neighborhoods for many who were looking to live on Capitol Hill. Today, scores of new projects are coming out of the ground in these neighborhoods. Take a look at www.jdland.com or Jim Abdo's site www.abdo.com and look at up and coming condos as a sample of what is happening. Hundreds of new condos and thousands of square feet of new retail space are being built. There is lots of existing townhouse renovation and new townhouse construction. There is a new METRO in the northeast corner and recreational access to the Anacostia. Two major federal departments and all their employees are new to our neighborhood.

Neighborhoods all around Capitol Hill have seen levels of investment equal to or greater than what we have seen on Capitol Hill--Ledroit, Shaw, Hillcrest and Southwest/Waterfront to name a few. Not to mention what has happened downtown just at the foot of Capitol Hill. Restaurants, movie theaters and hundreds of upscale condos now exist. This area has brought a whole new dimension to night life for those of us who live on Capitol Hill. The devel-

opment of these areas which border Capitol Hill will have a significant insular effect should we experience future ebbs in the housing market. We are in a very different place than we were in 1980 or 1990!

Sprinkled throughout Capitol Hill are projects completed or too far down the pipeline to stop. Properties that were a drag on the community are now contributing mightily to the city budget and to the quality of life of the neighbors around these properties. Vacant school properties, churches and lots are now home to hundreds of new Capitol Hill residents. Just a few examples: the Bryant School, Lenox School, Lovejoy School, the hospital parking lot at 7th and Mass., Ave, the Bogan site at 13th and Pa. Ave., SE, the PEPCO site at 13th and D, NE.

When John Ray ran for Mayor in the early 90's, I stood with him on the steps of Kentucky Courts as he preached about the failure of public housing in the District of Columbia. Drug dealings and shootings were nightly occurrences. The neighborhood around Kentucky Courts was virtually held hostage. Today, the site has been developed and is a quiet, contributing element in its community. Kentucky Courts has been joined by Ellen Wilson Dwellings at 6th and I St. SE (a national model) and the soon-to-be-redeveloped Capper Carrolsburg.

Barracks Row, one of the City's oldest commercial districts, was a drag on its neighborhood with no apparent solution. No solution until Barracks Row Mainstreet, now a model that will be studied by students of urban development for decades. The strip has become so popular that finding a parking space almost any day of the week or any time of day has become a real challenge. Not as "glitzy" as Barracks Row Mainstreet, but very significant for the progress of the Hill, has been the implementation of the Capitol Hill BID. Three years ago the Capitol Hill business community voted to become a self-taxing entity and since then has had staff on the street every day cleaning and assisting residents and visitors. Because of the BID efforts, Capitol Hill is a far cleaner and friendlier neighborhood.

Since 1993, the Capitol Hill Community Foundation has raised and redistributed more than a million dollars throughout the community. From landscaping at the Eastern Market metro plaza to tutorial programs for Potomac Garden's youth, from the Eastern High Choir to computers for our students, from a landmark Capitol Hill history project to sponsorship of public/private school partnerships, the Foundation has performed a Herculean task all in support of our Capitol Hill community building blocks. And they are only getting started. Just this fall, the Foundation embarked on a project to renovate eight public school libraries. Initially raising \$25,000 through a series of dinners, the Foundation just last week voted to provide another \$200,000 to this worthwhile project. The Foundation is another reason that our neighborhood will continue to progress no matter the economy.

The Future Of Capitol Hill Residential Real Estate

Our neighborhood is not some new planned community in the suburbs. It is one of the most historic neighborhoods in the country. It is a neighborhood of people who care and who are dedicated to making this an even better place to live. This heart is what makes us what we are and what will sustain us. But, let's just look at the more quantifiable facts. First, Capitol Hill has only recently achieved its true potential. We have made steady progress, but our

real estate values have always been depressed. There is no other major capitol in the world where you could buy a nice place to live for less than \$250,000 and still be within a half dozen blocks of the seat of government - except here until the mid 1990's. We were cheap and terribly undervalued. A lot of what we have seen has been "catch-up."

In addition to playing a lot of catch-up when it comes to pricing, look at other local factors impacting our market.

Traffic: almost weekly I speak with a new buyer who has sold in Herndon and moved to the Hill. The fact is, if you work downtown, commuting from outside the beltway has become a nightmare. If you live outside the beltway and work downtown, you are looking at one to two hours each way every day. That isn't going to change. No more benefits from reverse commutes or from staggered hours. The noose is tightening and there is no short term relief in sight.

Lifestyle: many of us who have lived on the Hill for a long time have appreciated the fact that we are able to spend that extra time every day with our children or in their schools or at a restaurant with friends - anywhere but a car. More and more, people are trading a little larger house for a more convenient lifestyle. Imagine working at the Pentagon and living in Woodbridge. A long days work and drive home and then drive back for a show at the Kennedy Center - not going to happen!

Expanding economy: we are fortunate to be living in a region that is experiencing a tremendous benefit from the current economy. Our local industry, government, is booming.

Immigration: The Washington metropolitan region is one of the top destinations for immigrants to this country. These new residents all have homeownership and investment in real estate at the top of their list. This has a significant growing impact on our local marketplace.

Baby-boomers: Capitol Hill as a retirement destination?? Not so far fetched. Yes it would be expensive. But, we are seeing a lot of older buyers who are within a few years of retirement and want a different lifestyle for the last few years of their professional life. While expense would be a deterrent for many, many more will find a way to make it work in retirement. Capitol Hill will be a very desirable retirement location - small waterside condominium, a walkable community, several metro stops, access to several universities and many, many cultural attractions.

What Happens Next

The for sure thing is that the many projects that are coming out of the ground will be finished. Coupled with what has already happened, these projects will make Capitol Hill an even more desirable and livable neighborhood - through good times and bad. If you were a first time buyer and boxed out of the market last spring, than this spring might be your chance. The only thing that I feel certain of is that if there is a dip in the market, it will be short and shallow. On Capitol Hill, the good news community, we have always had higher highs and higher lows. Pay your nickel and take your chances - this looks like a good bet to me. Just look at your home as a great place to live and not a piggy bank and you can't go wrong! ■

Don Denton is Manager of Coldwell Banker Residential Brokerage and a longtime resident of Capitol Hill.



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