



HOUSING MARKET OUTLOOK FOR THE WASHINGTON, DC REGION

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REGION NOT RECESSION PROOF

MORE LIKE RECESSION RESISTANT

Nonfarm Employment Growth and Growth Rates
Washington, DC MSA

2008 Job Growth
by MSA

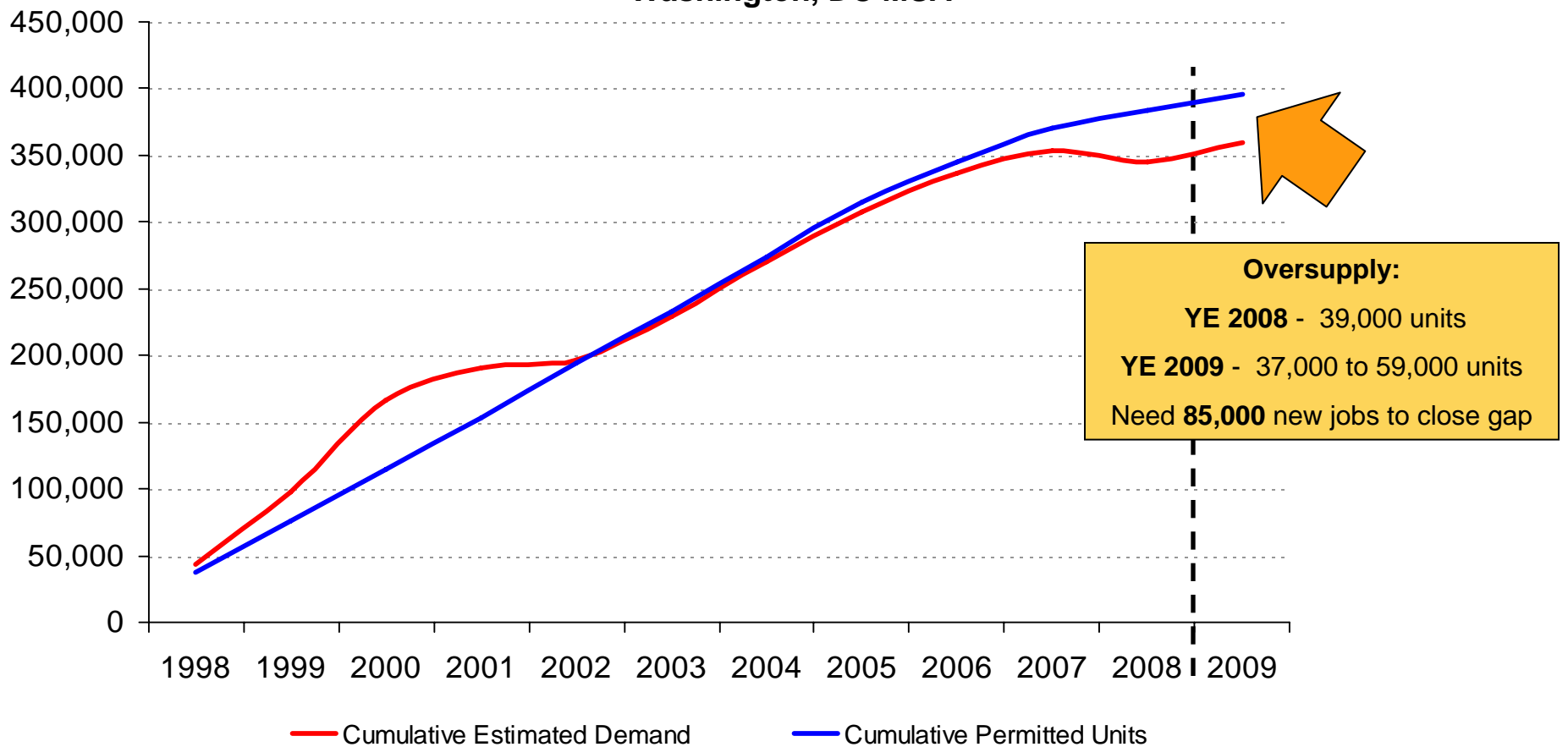
MSA	Job Growth
Atlanta	-96,300 (-4.0%)
Boston	-45,000 (-1.8%)
Chicago	-116,500 (-2.5%)
Dallas	+2,500 (0.0%)
Detroit	-120,500 (-6.1%)
Houston	+22,500 (0.9%)
L.A.	-213,100 (-3.7%)
New York	-152,400 (-1.7%)
Phoenix	-117,600 (-6.1%)
Washington	-13,800 (-0.5%)



SOURCE: Bureau of Labor Statistics

REGION DRIFTING INTO HOUSING OVERSUPPLY LESS SEVERE THAN MANY OTHER METRO AREAS

Housing Supply and Demand
Washington, DC MSA



Oversupply:
YE 2008 - 39,000 units
YE 2009 - 37,000 to 59,000 units
Need 85,000 new jobs to close gap

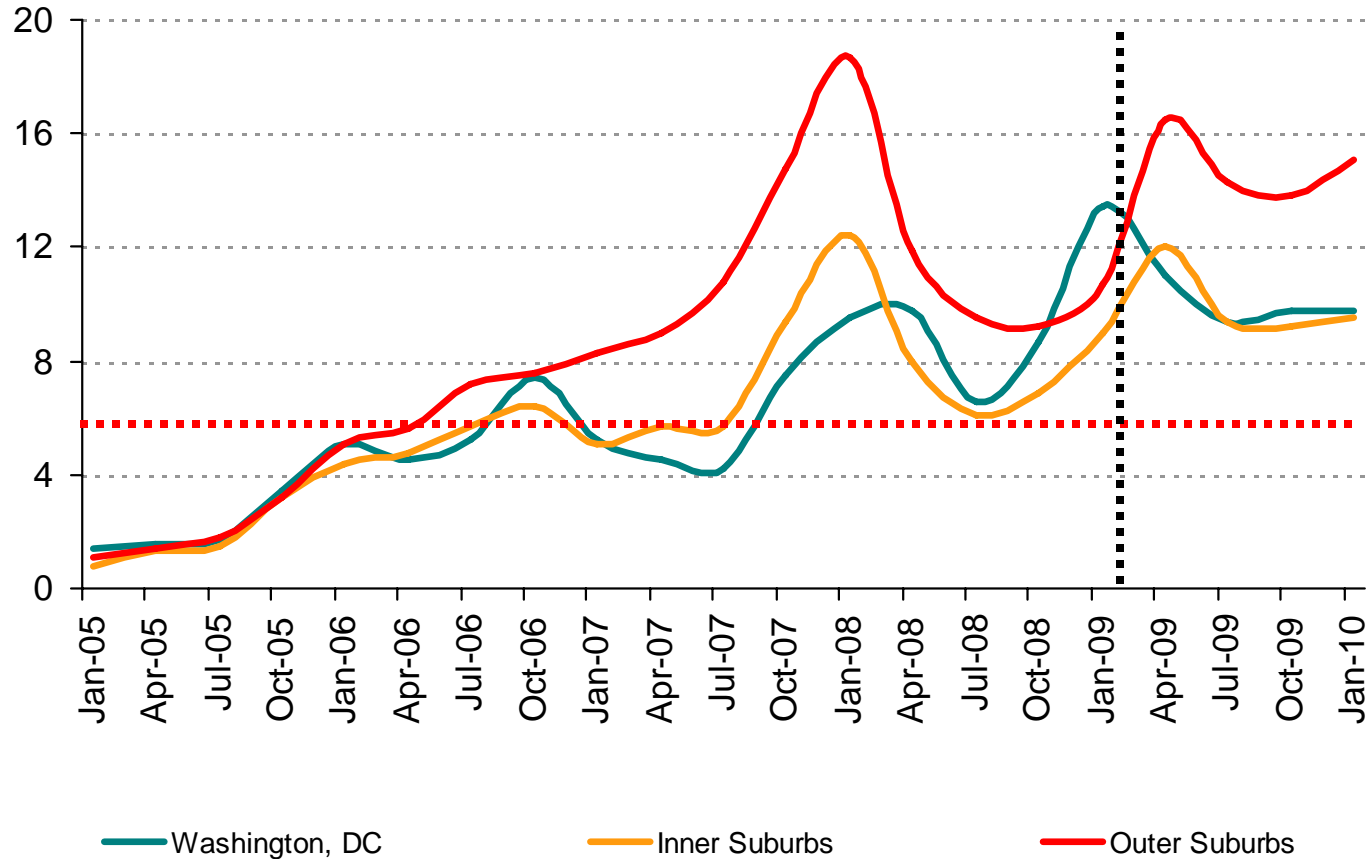
¹ Assumes 2009 permit forecast of 12,200

² Best case = 23,700 new jobs in 2009; middle of road = zero new jobs; worst case = -13,800 jobs lost in 2009 (same as 2008)

SOURCE: RCLCO, U.S. Census Bureau, Bureau of Labor Statistics

RECENT UPTICK IN METRO HOUSING INVENTORY CLOSER-IN AREAS LIKELY TO FARE BETTER IN 2009

Months of Supply for Existing Homes
Washington, DC MSA



Assume 23,700 new jobs in 2009

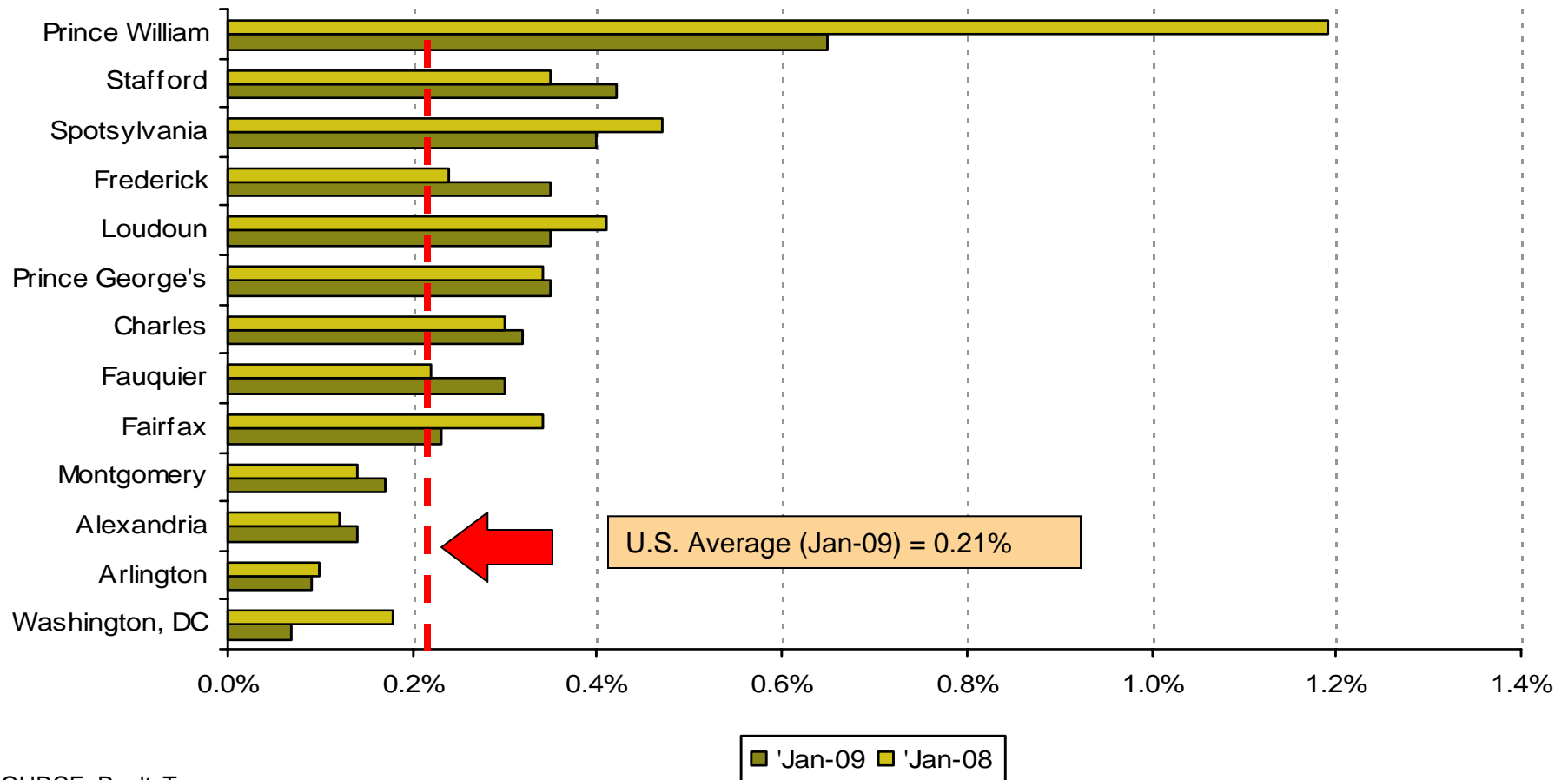
SOURCE: RCLCO, MRIS

6 months of inventory = equilibrium

FORECLOSURES STILL PREVALENT

SOME COUNTIES SHOWING MARKED IMPROVEMENT

Foreclosures as a Percent of Total Households (Jan-08 & Jan-09)
Washington, DC Region

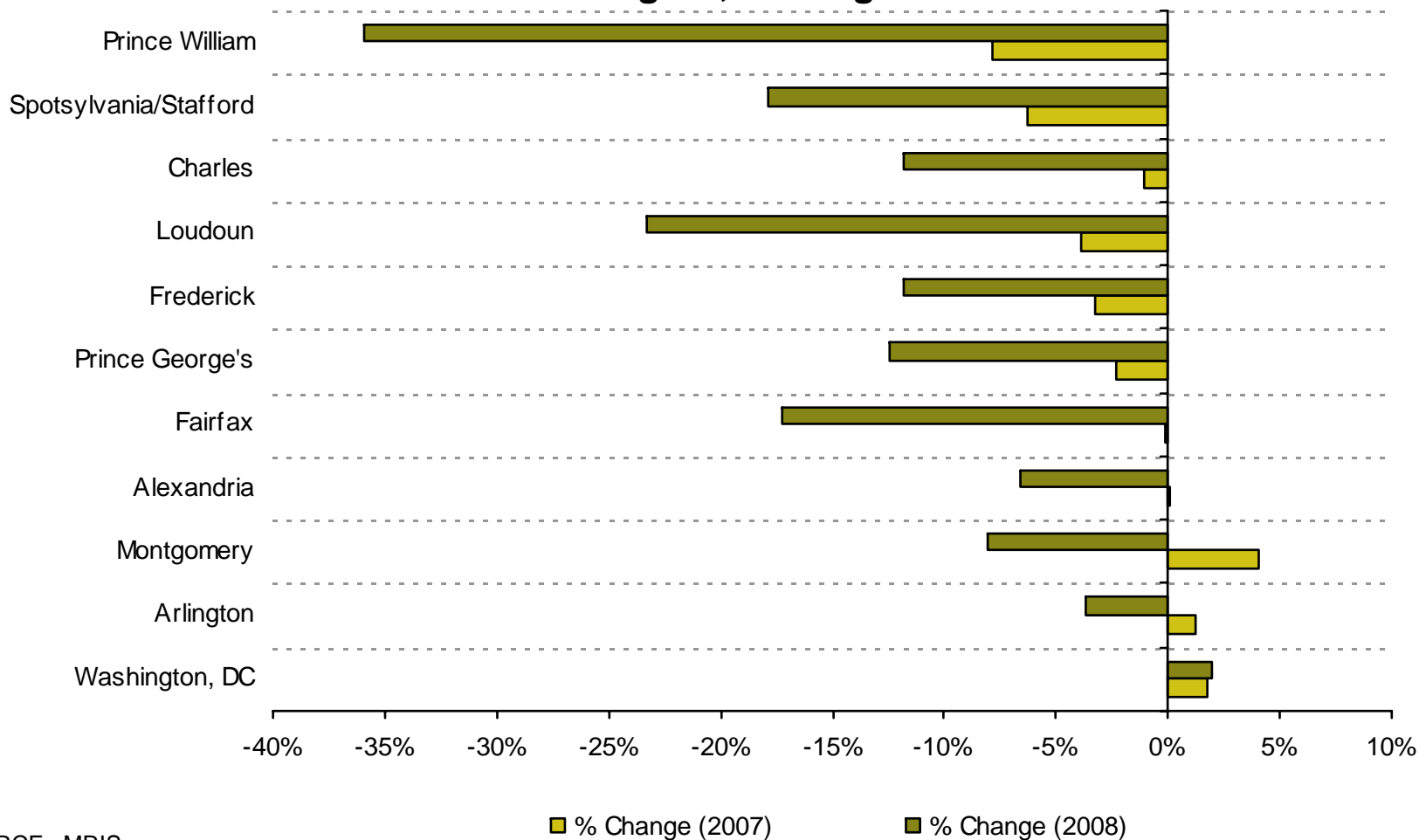


SOURCE: RealtyTrac

SHARP PRICE DECLINES IN 2008

CLOSER-IN PRICE DROP LESS DRAMATIC THAN OUTLYING AREAS

**Change in Average Home Sale Price
Washington, DC Region**

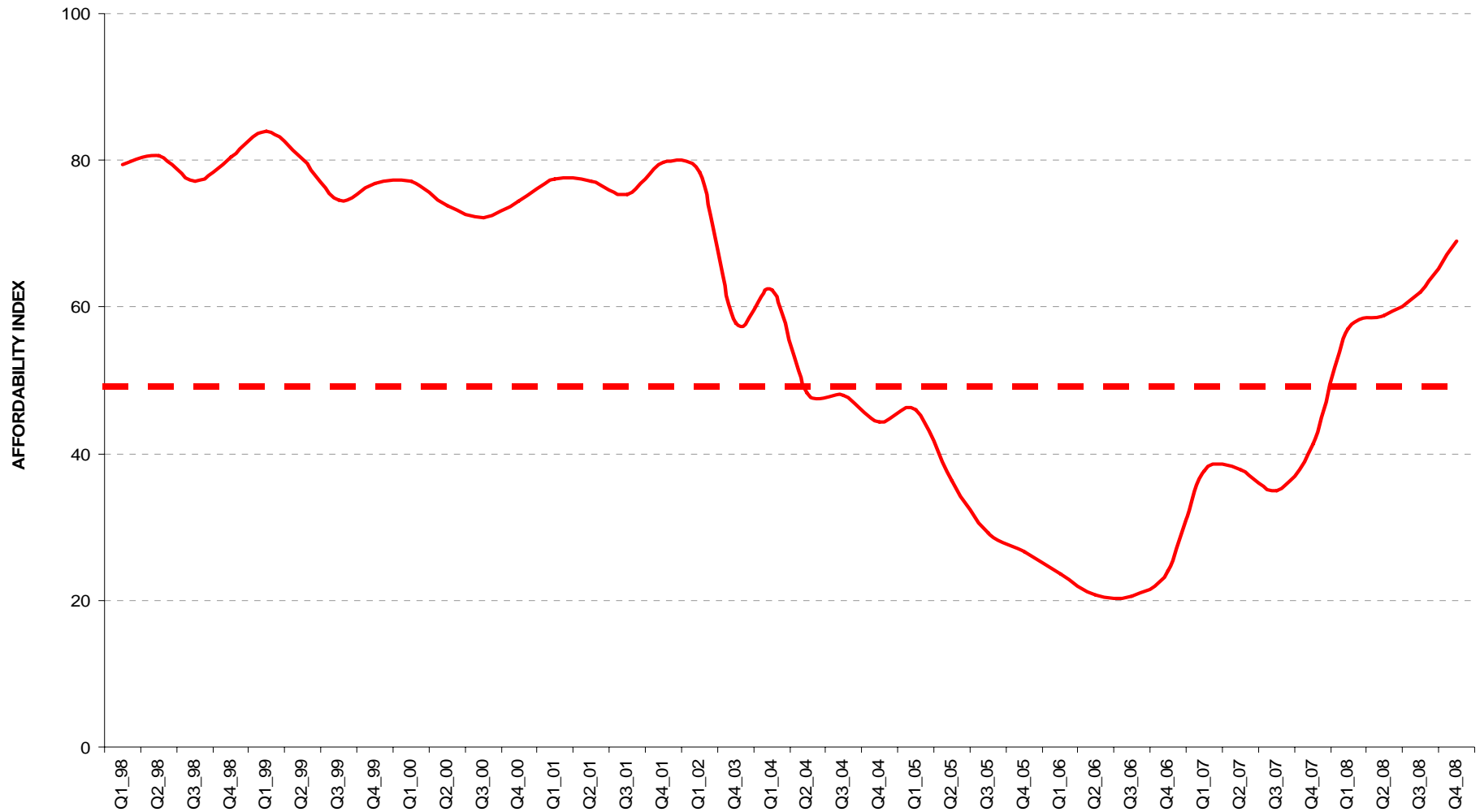


SOURCE: MRIS

THERE IS SOME GOOD NEWS OUT THERE

LOWER PRICES => HIGHER AFFORDABILITY

Affordability Index – % of HHs That Can Afford the Median Home Price

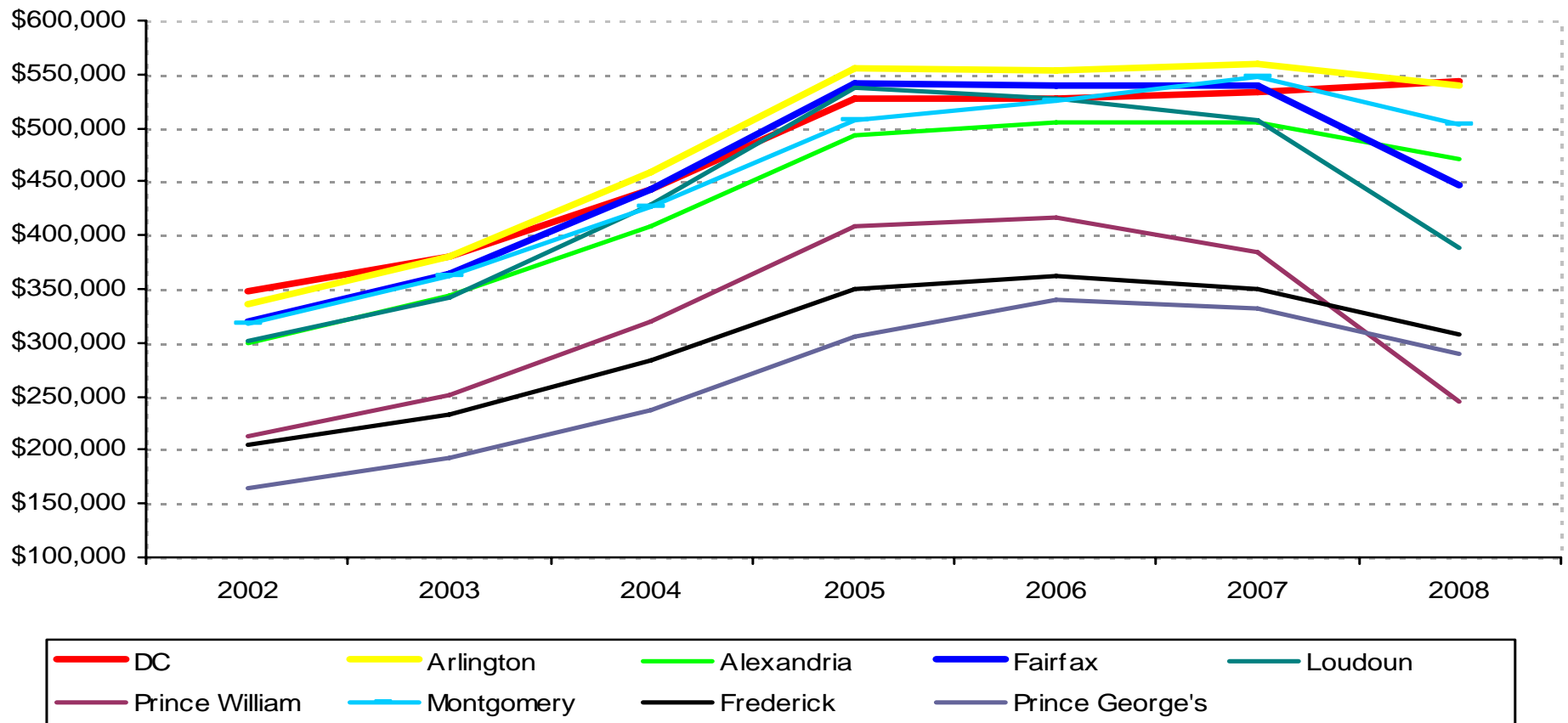


SOURCE: NAHB/ Wells-Fargo Housing Opportunity Index

— Washington, DC MSA

CLOSER-IN AREAS LARGELY HOLDING VALUE SOME OUTER AREAS APPROACHING PRE-BOOM PRICING

**Change in Average Home Sale Price - 2002 to 2008
Washington, DC Region**

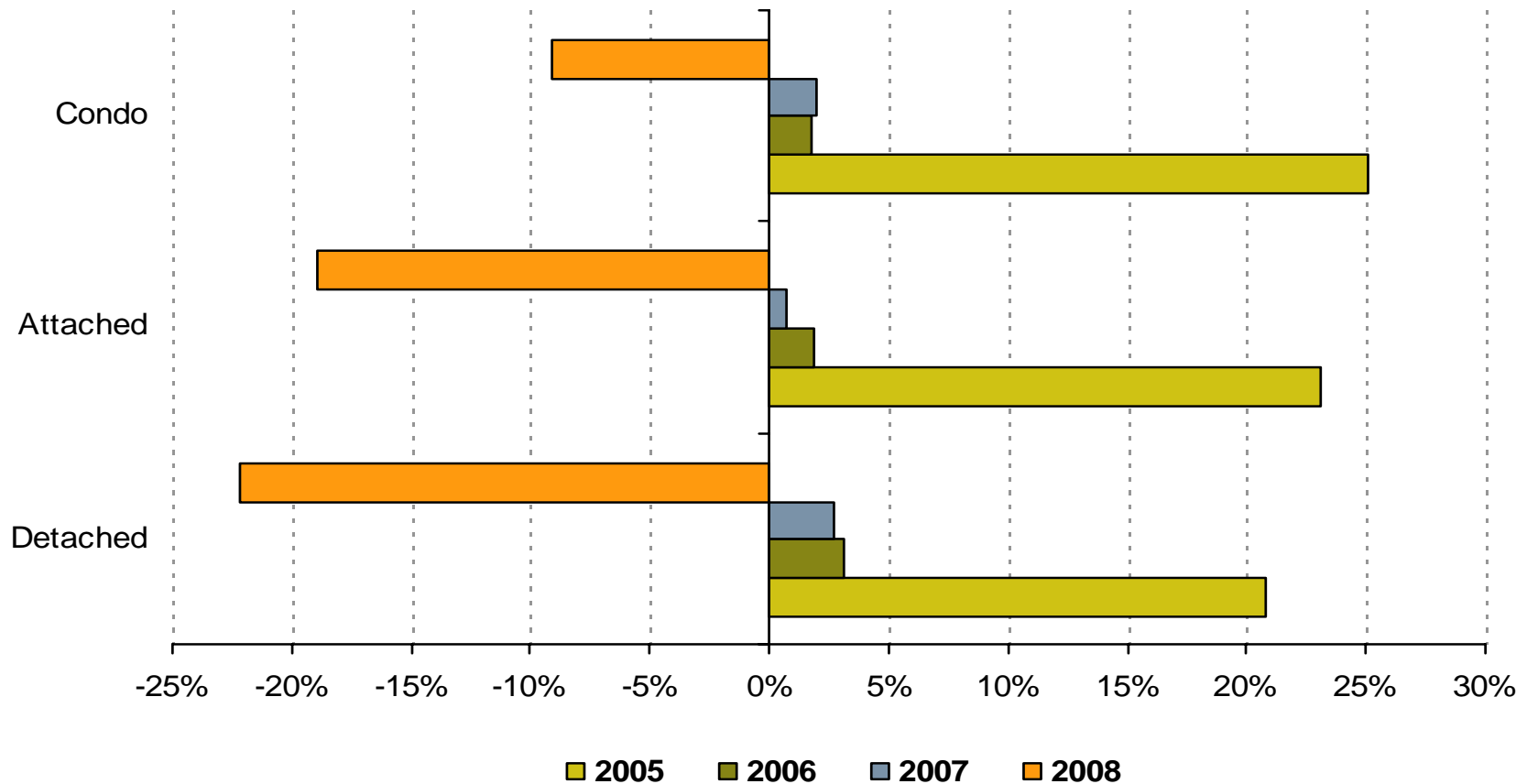


SOURCE: MRIS

FINALLY REGION PRICES DROPPING

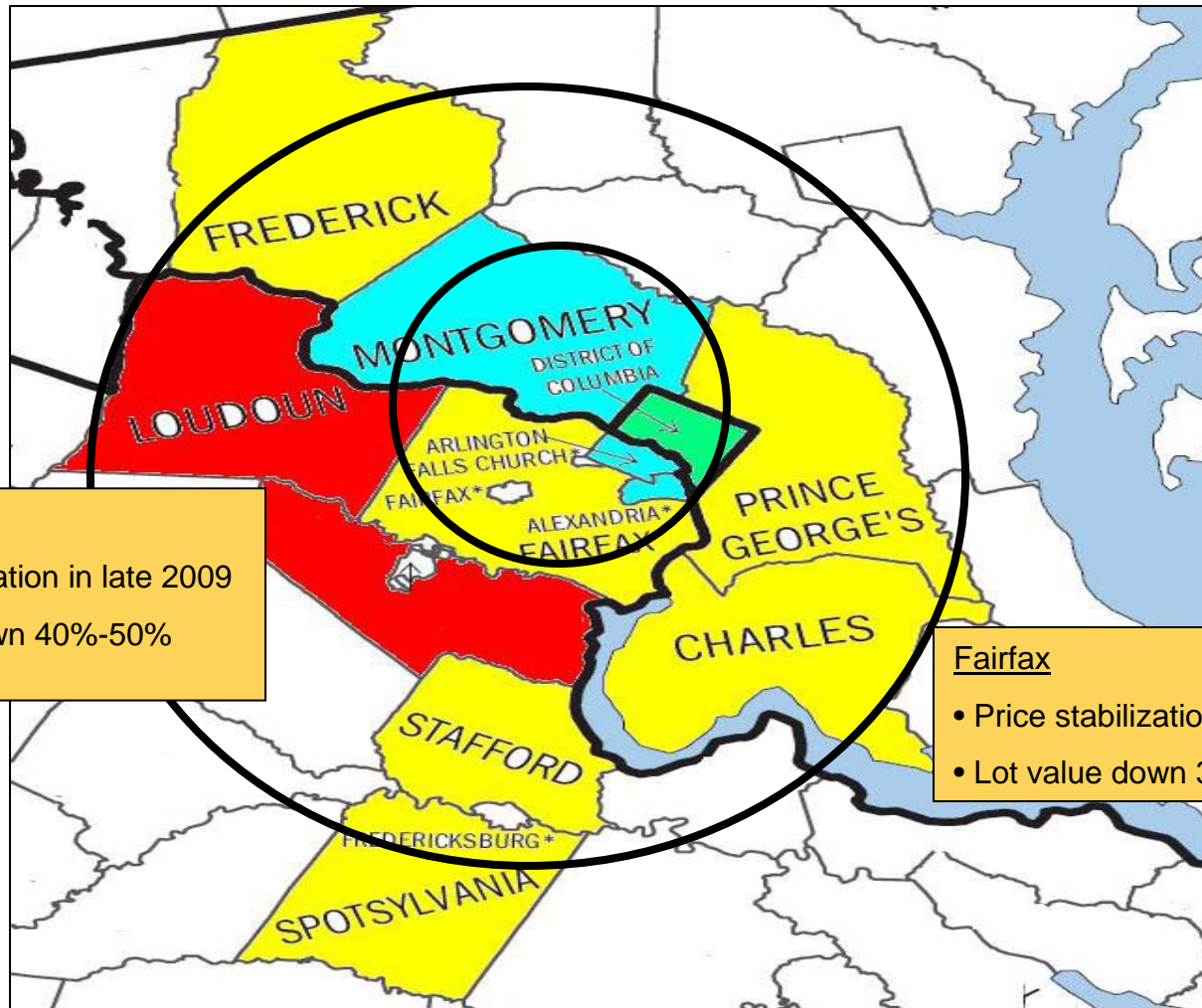
ALL PRODUCTS EXPERIENCED PRICE PRESSURE IN 2008

Percent Change in Average Sale Price by Product Type
Washington, DC Region

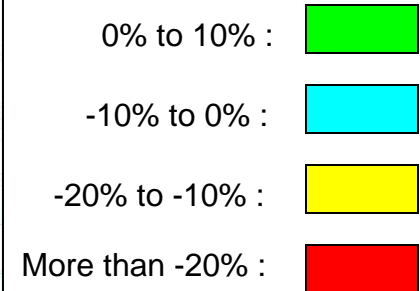


SOURCE: MRIS

LAND VALUES DOWN DRAMATICALLY PRICE/SF AND NEW HOME SIZES BOTH DECLINE



Change in Existing Home Sale Price (2007 to 2008)



Loudoun

- Price stabilization in late 2009
- Lot value down 40%-50% since 2005

Fairfax

- Price stabilization in early/mid-2010
- Lot value down 30%-40%

SOURCE: RCLCO

OVERSUPPLY OF CONDOS PARTICULARLY IN OUTER SUBURBS

	Total Pipeline	Unsold Units in Projects Currently Marketing or U/C	Planned w/ Probable Sales within 36 Months	Long-Term Delivery Expected	Estimated Annual Demand	Years Supply (vs. Total Condo Pipeline)	Years Supply (vs. Unsold Units)	Years Supply (vs. 36-Month Pipeline)	Years Supply (vs. Long-Term Delivery Expected)
District of Columbia	7,457	1,809	1,895	3,753	782	9.5	2.3	2.4	4.8
Inner Suburbs	10,981	3,473	1,699	5,809	2,575	4.3	1.4	0.7	2.3
Outer Suburbs	17,844	3,773	4,376	9,695	614	29.1	6.1	7.1	15.8

SOURCE: RCLCO, Delta Associates

OVERSUPPLY OF APARTMENT PIPELINE PARTICULARLY IN DC

	Total Rental Pipeline	Avail. Units Actively Marketing or U/C	Likely Units to Deliver over Next 36 Months	Longer-Term Planned/Ru mored Rentals	Estimated Annual Demand	Years Supply (vs. Total Pipeline)	Years Supply (vs. Actively Marketing or U/C)	Years Supply (vs. 36 months)	Years of Supply (vs. Longer-Term)
District of Columbia	17,687	4,017	5,386	8,284	706	25.0	5.7	7.6	11.7
Inner Suburbs	34,264	9,656	10,079	14,529	2,662	12.9	3.6	3.8	5.5
Outer Suburbs	23,285	4,355	8,026	10,904	1,231	18.9	3.5	6.5	8.9

- Some of the planned pipeline will not materialize or turn to condo when for-sale market improves
- Large near-term supply may drive up vacancies and put pressure on effective rental rates

SOURCE: RCLCO, Delta Associates

HOUSING DEMAND THROUGH 2020

LONG-TERM DEMAND PICTURE POSITIVE

Households	2008	2020	Additional Households 2008-2020	Percent Growth
1 person	534,000	651,000	125,000	23%
2 person	620,000	751,000	137,000	22%
3+ person	870,000	1,038,000	154,000	18%
TOTAL	2,024,000	2,440,000	416,000	21%

Average Annual Demand (2008 – 2020):

NEW UNITS	MF (Rental)	MF (For-Sale)	ATD	SFD	TOTAL
1 Person	2,500	1,300	1,800	4,800	10,400
2 Person	1,300	700	1,300	8,300	11,600
3+ Person	800	400	1,000	10,600	12,800
TOTAL	4,600	2,400	4,100	23,700	34,800
% of Demand	13%	7%	12%	68%	100%

Average annual permits:

~32,000 ('80 – '08)

~50,000 ('08 – '10)

~37,000 ('11 – '20)

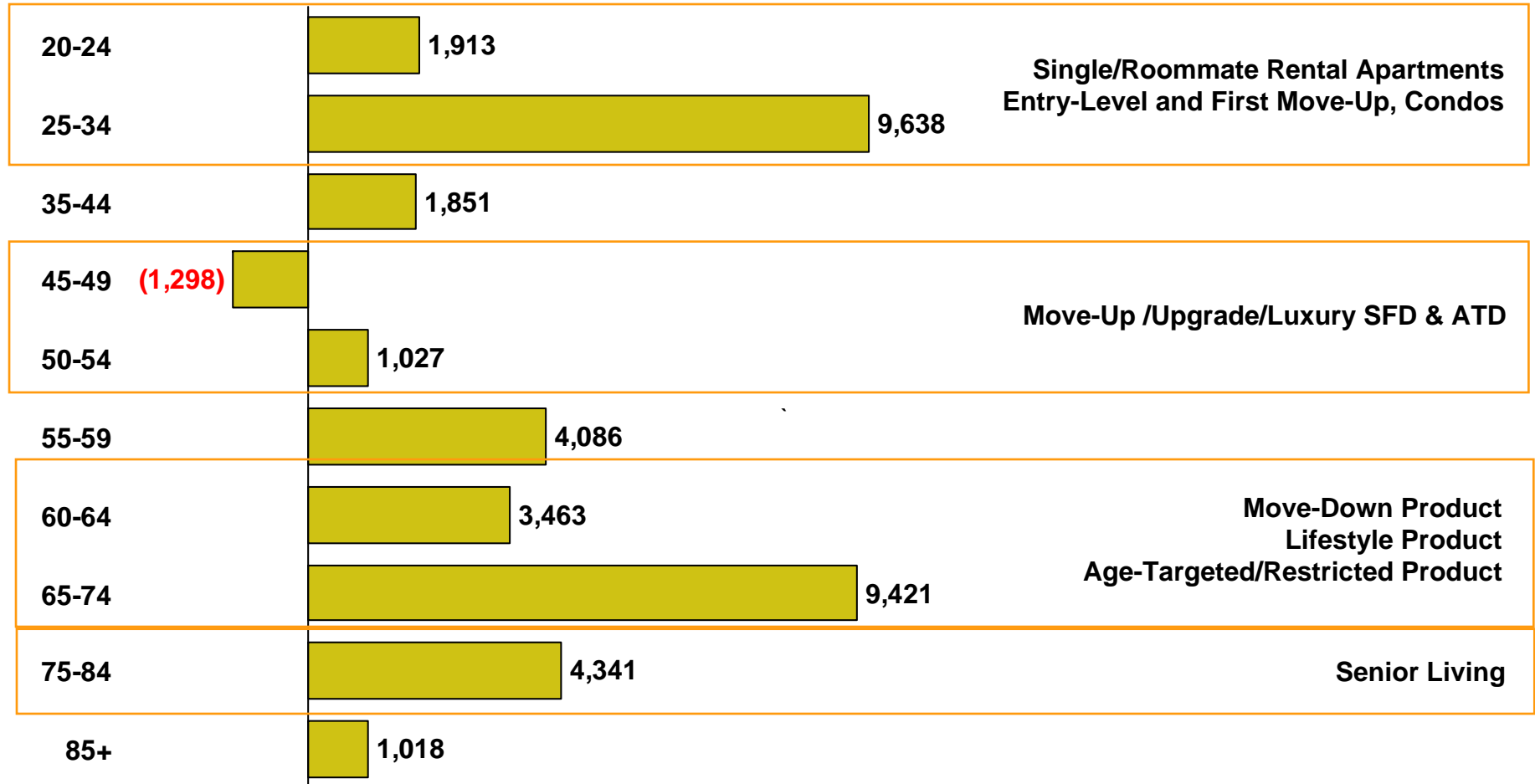
SOURCE: RCLCO, Metropolitan Washington Council of Governments, U.S. Census Bureau

LIFE STAGE INFLUENCES HOUSING CHOICE

THE STORY FOR THE NEXT 10 YEARS IS THE 25-34 GROUP

Projected Annual Population Growth by Age

Washington MSA, 2010 – 2020



SOURCE: Virginia Employment Commission

SAMPLING OF PRODUCT OPPORTUNITIES

BUILD TO CONSUMER'S UNIQUE LIFESTYLE

▶ **Location-Driven Urban Rental Housing**

- Smaller unit sizes, amenity rich
- Higher rent per sq ft.; lower absolute rents
- Capitalizes on location premium

TARGET: Gen Y, WINKs

WHERE: Metro-oriented mixed-use cores
(particularly DC, Montgomery, Arlington, Alexandria)



▶ **Urban/ Suburban Infill, Clustered Townhomes & Condo Flats**

- Moderately-sized units with spare bedroom(s) and ample storage
- Walking distance to retail and services; close to cultural amenities
- “Lock it and leave it” configuration (e.g., low maintenance and on-site security)

TARGET: Baby Boomer households looking to “age in place”

WHERE: Inner suburban areas (e.g., Arlington, Fairfax, Montgomery)



▶ **Detached Homes with Separated Living Quarters**

- En-suite or apartment configuration separate from main living area (creates privacy for elderly occupant or returning child) – basement retrofit, “granny flats” above garage, small backyard unit, etc.
- Unit features geared can be geared to older occupants (walk-in tub, hand rails, etc.)

TARGET: Multi-generational households

WHERE: Throughout MSA (particularly in age-integrated areas or those with large foreign-born populations)

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