

# *The Real Deal*

## **The Economic Forecast for the 2007/2008 Real Estate Industry**

**Stephen S. Fuller, PhD**

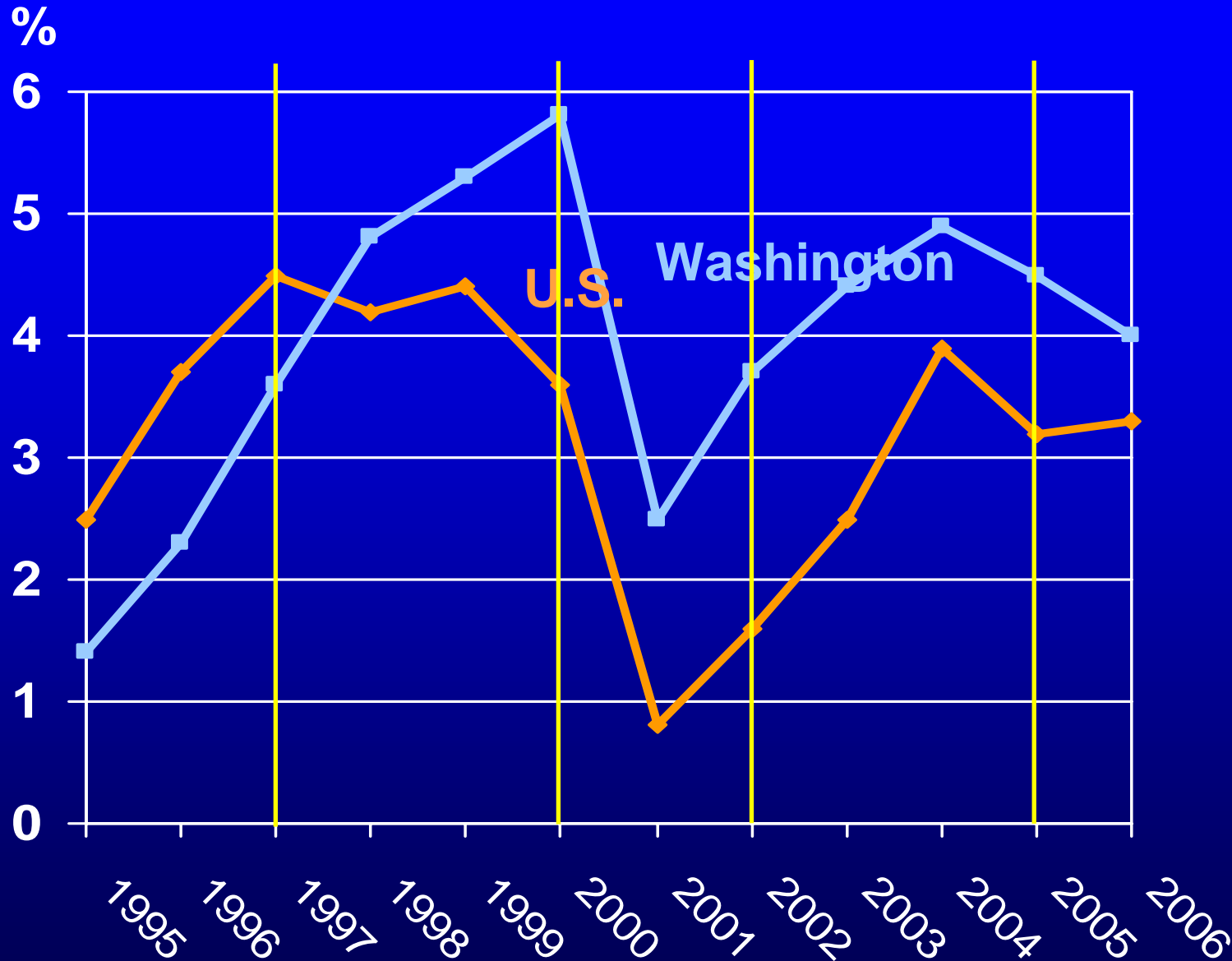
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**Director, Center for Regional Analysis**

**School of Public Policy, George Mason University**

**January 18, 2007**

# GRP 1995 - 2006



Source: GMU Center for Regional Analysis

# Metro Comparisons

## Job Change 2000-2005

15 Largest Metro Areas

Thousands

**WASHINGTON**

Miami

Phoenix

Los Angeles

New York

Houston

Atlanta

Dallas-FW

Philadelphia

Minneapolis

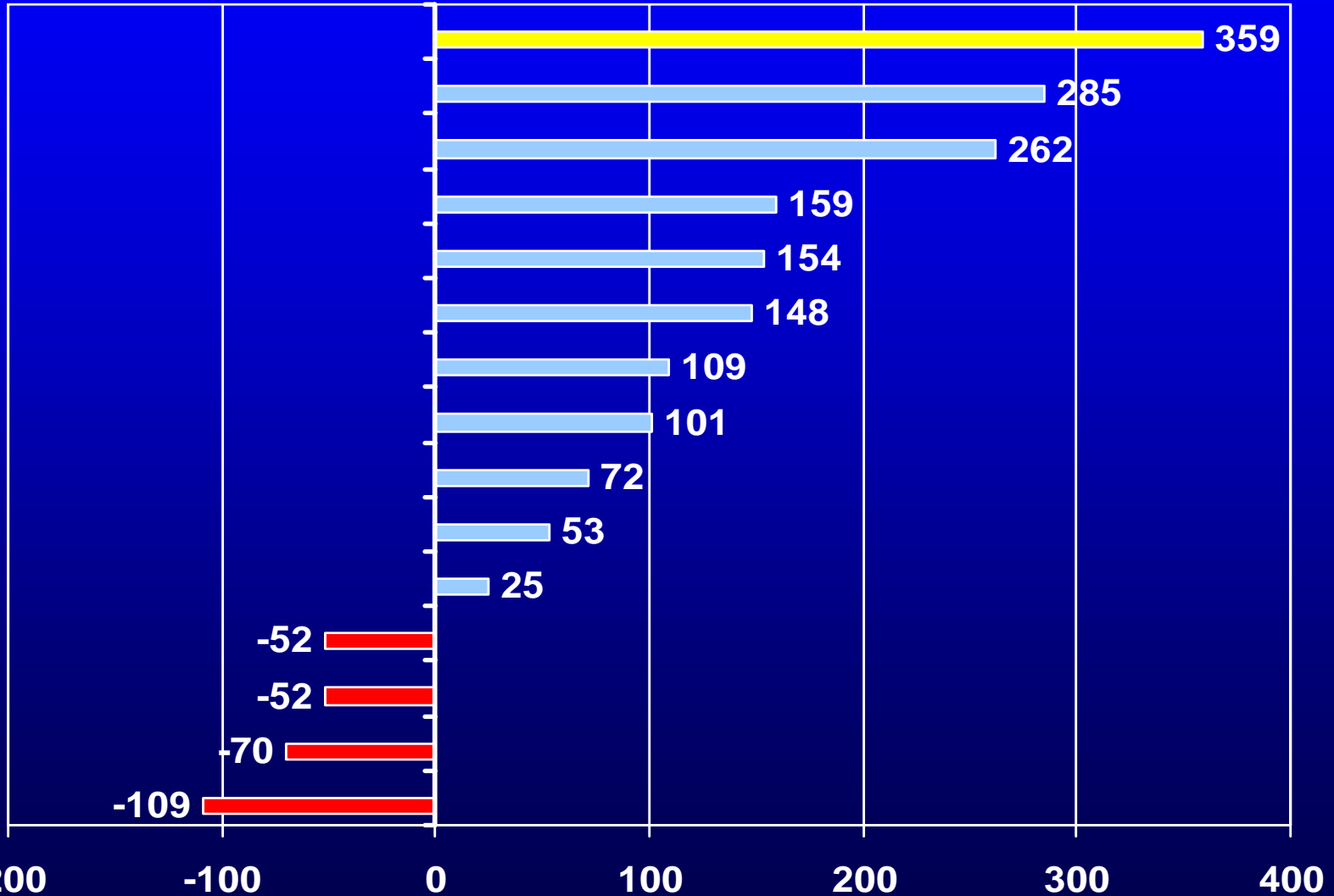
Seattle

Boston

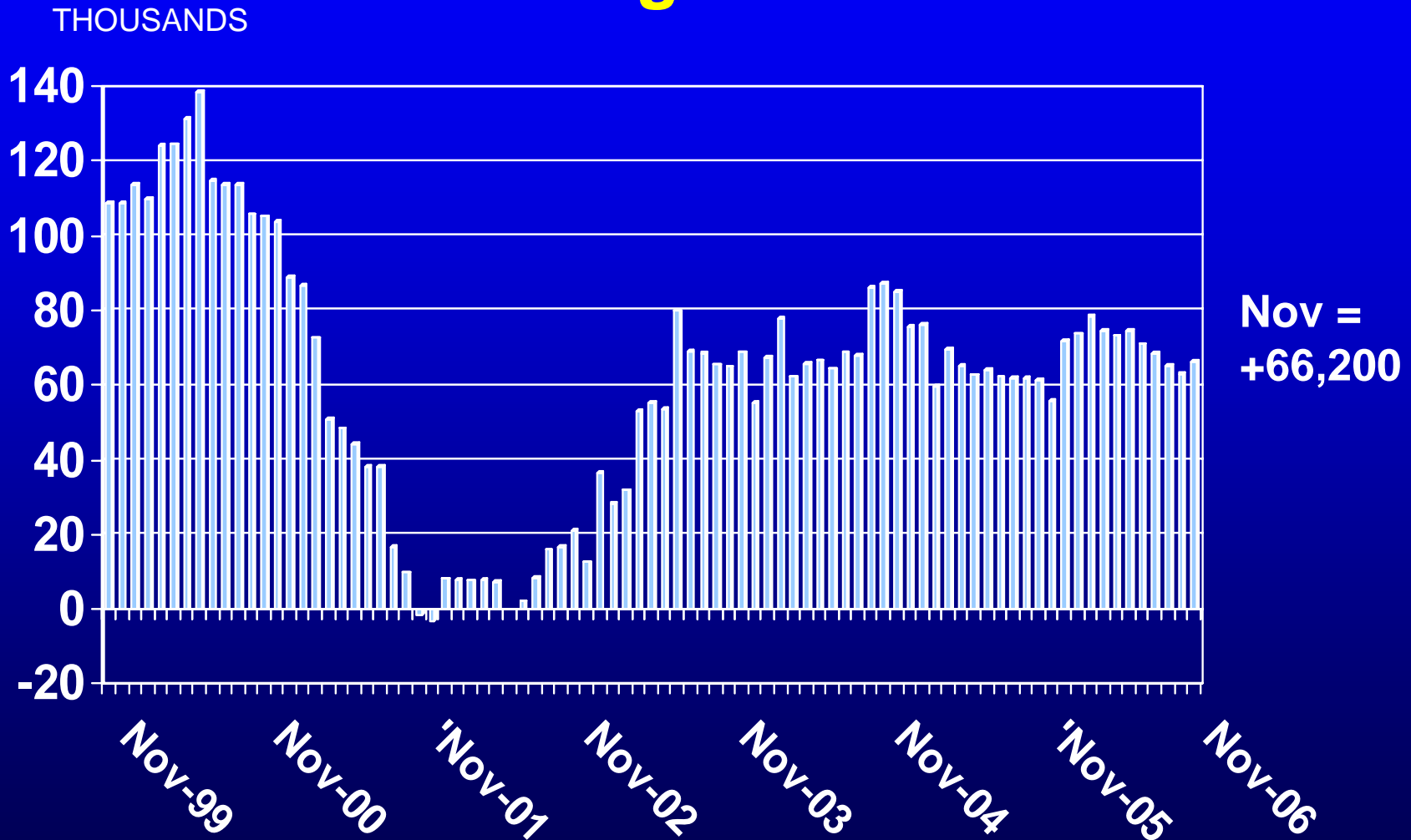
Chicago

SF-Oakland

Detroit

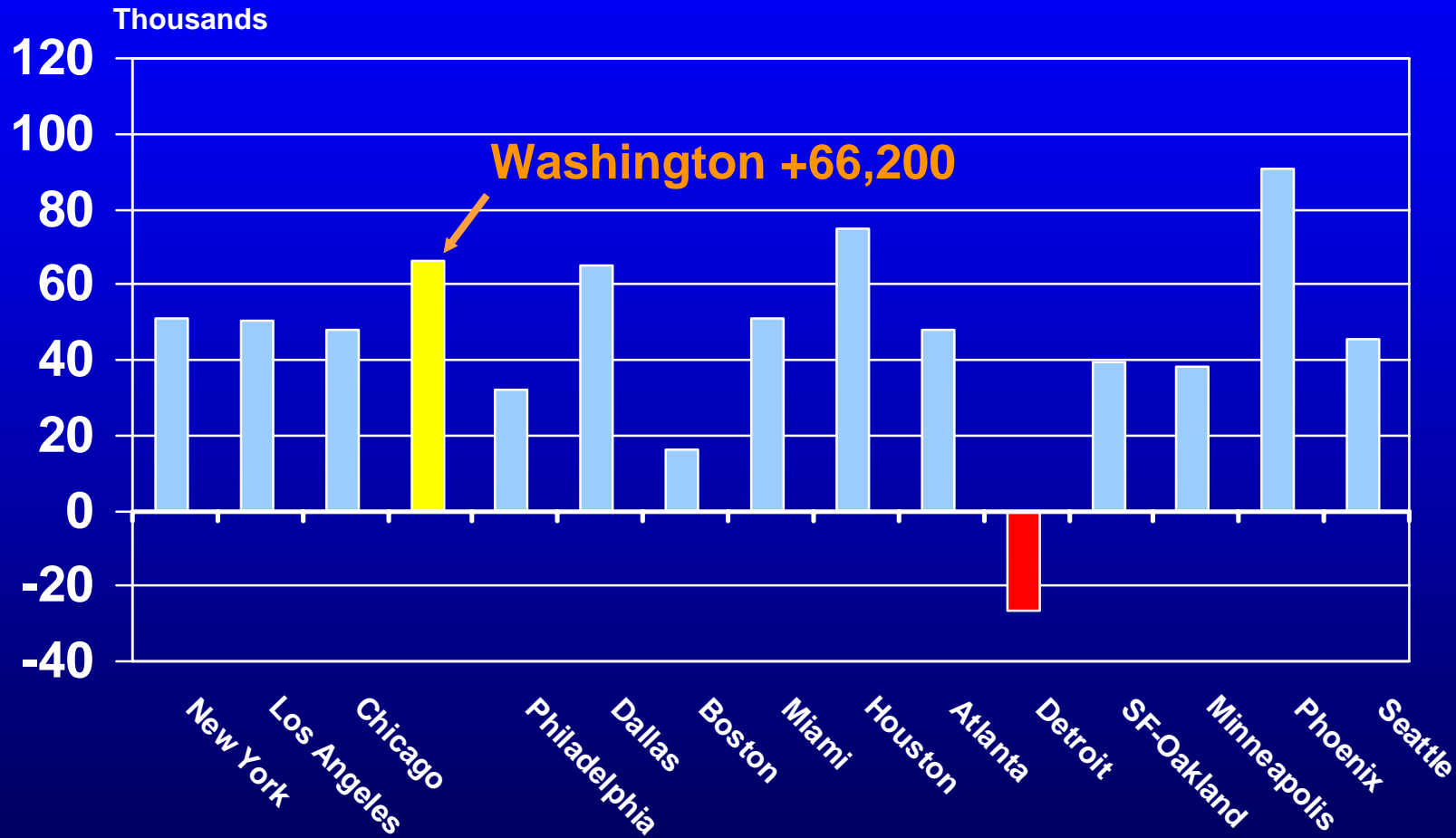


# Annual Job Change Washington MSA



# 15 Largest Job Markets

## Job Change Nov 05 – Nov 06



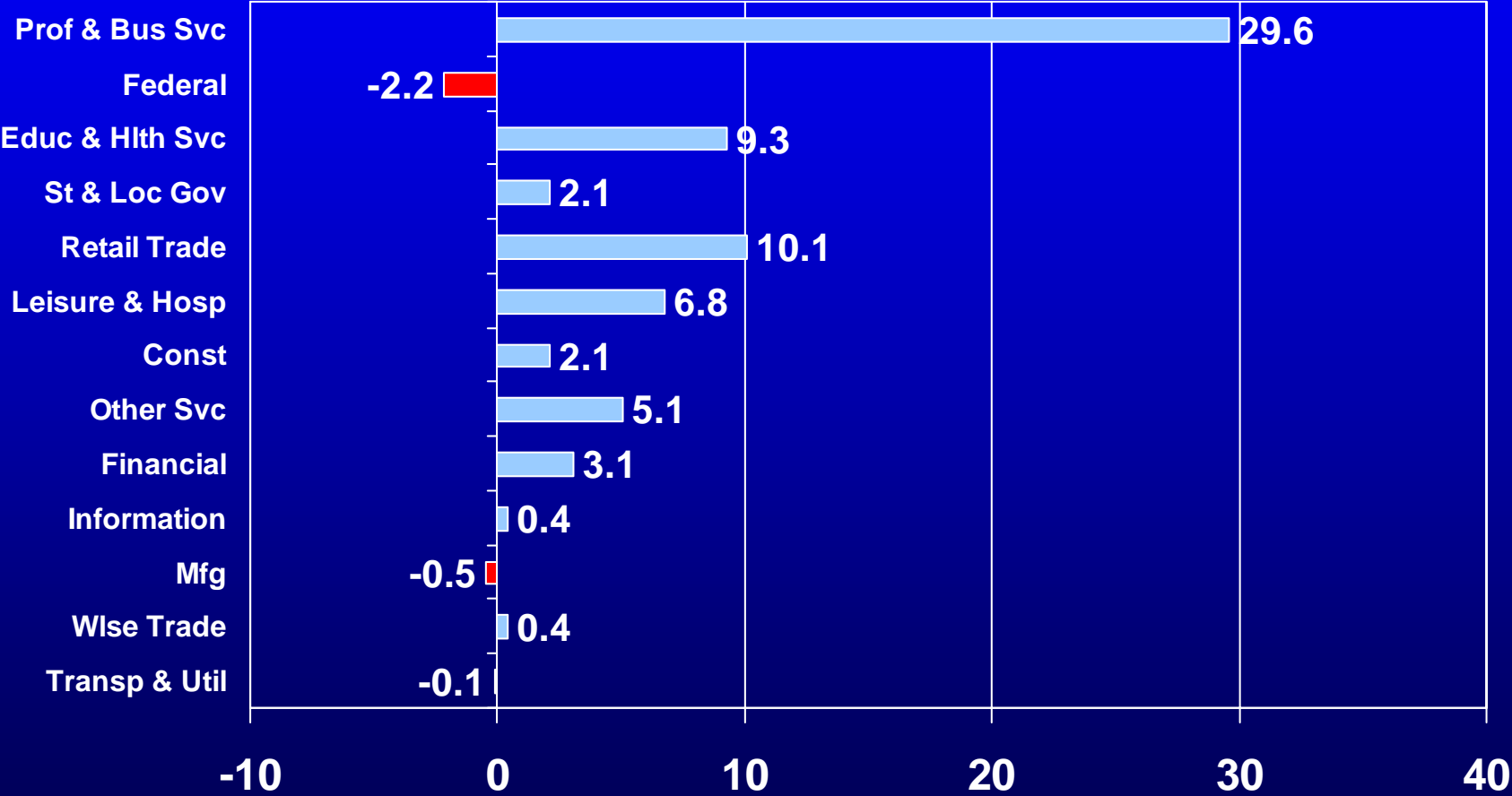
Source: BLS, GMU Center for Regional Analysis

# November 05 – November 06 Job Change By Sector MSA

(000s)

Total = 66,200

(Ranked by Size of Sector)



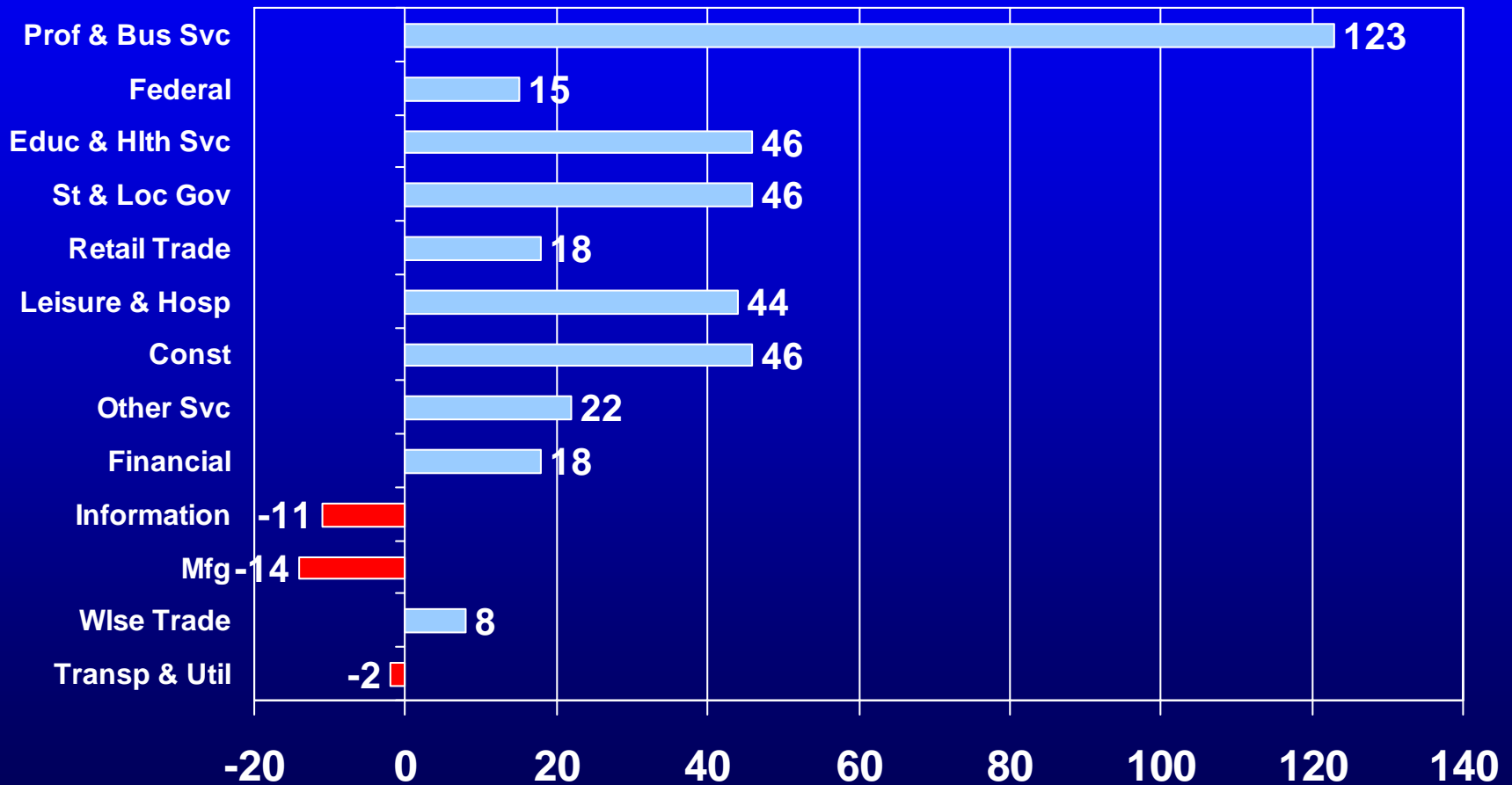
Source: BLS, GMU Center for Regional Analysis

# Job Change By Sector MSA 2000 - 2005

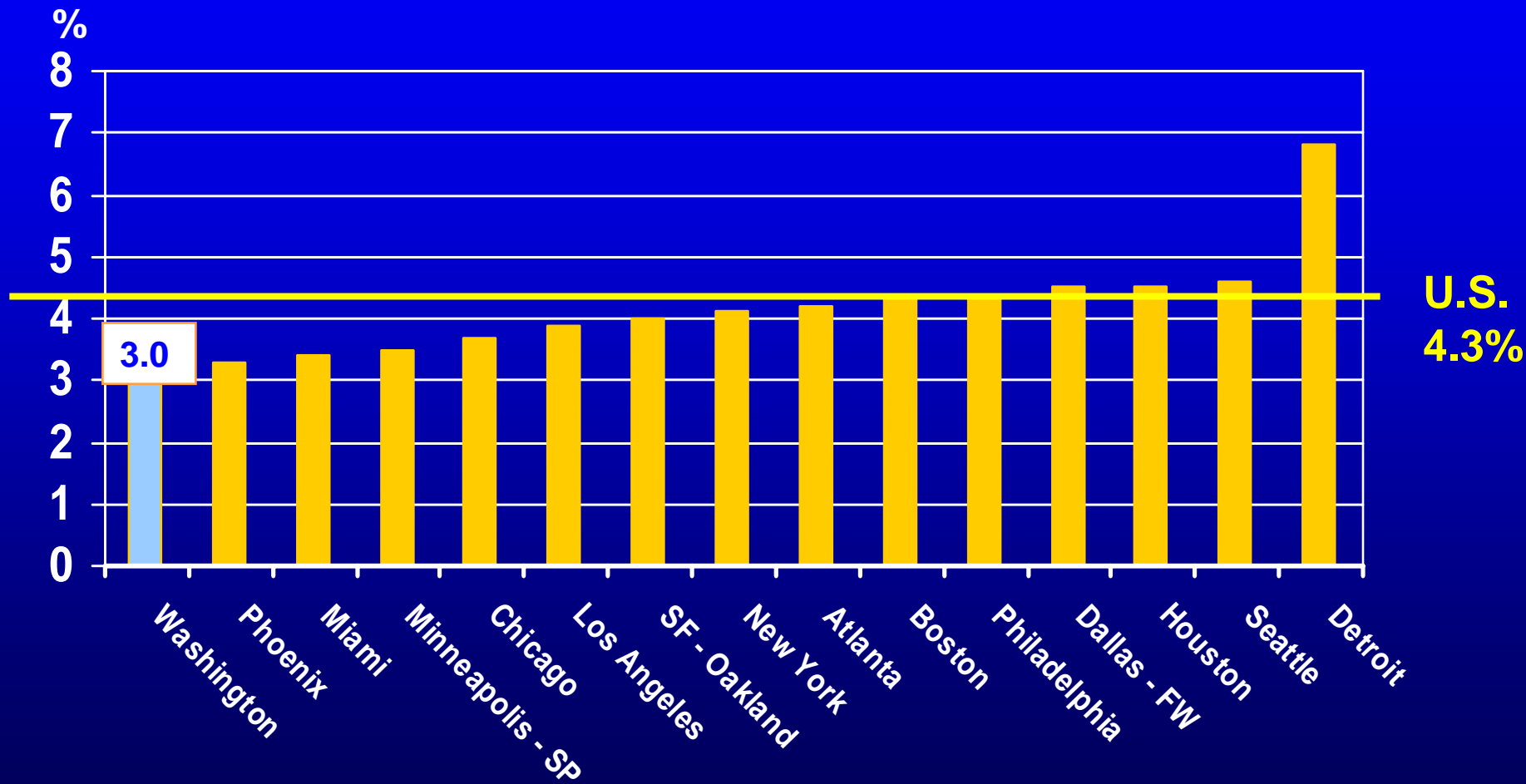
(000s)

Total = 359,000

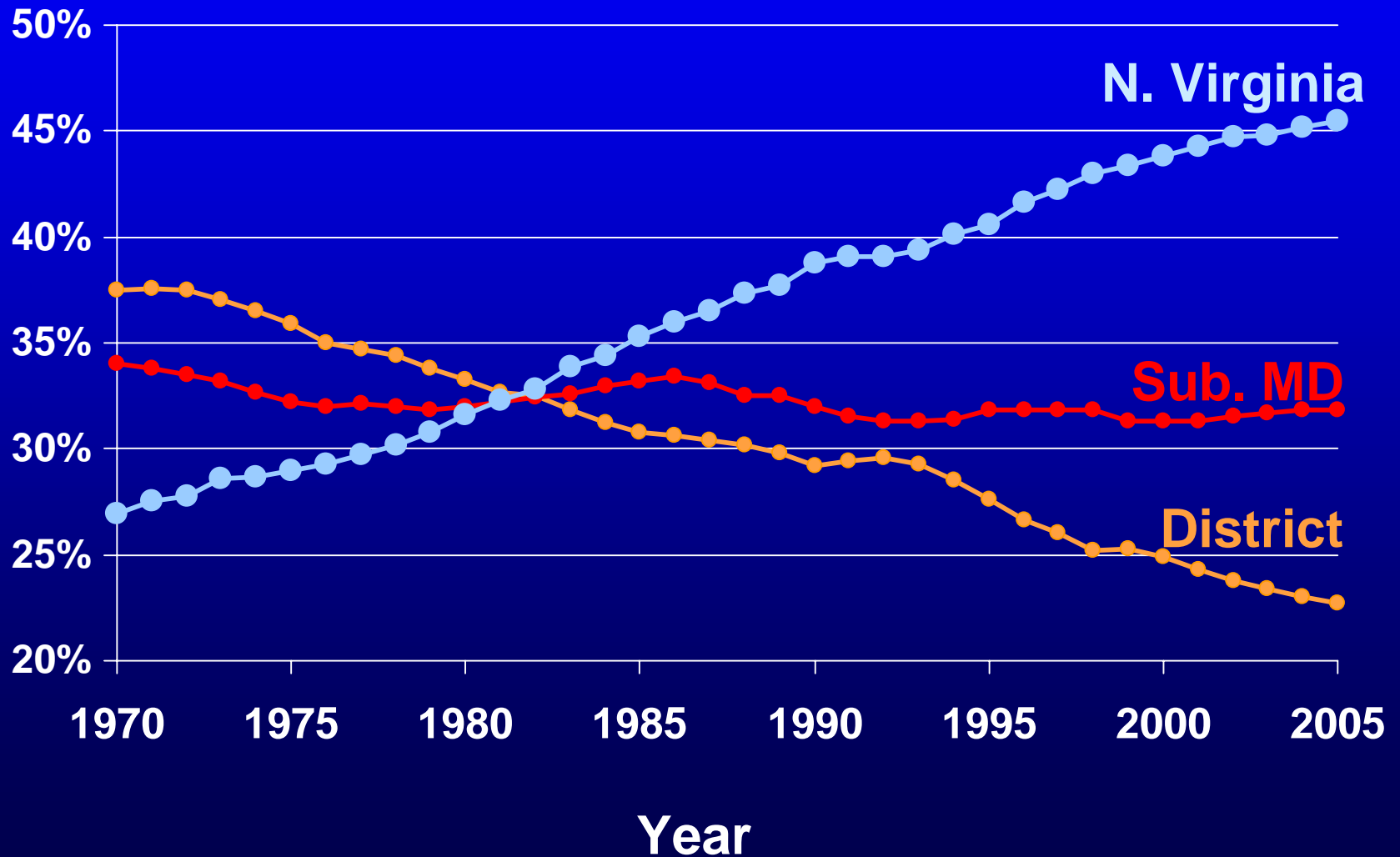
(Ranked by Size of Sector)



# 15 Largest Job Markets Ranked by Unemployment Rate November 2006



# Share of Washington Area Economy 1970-2005



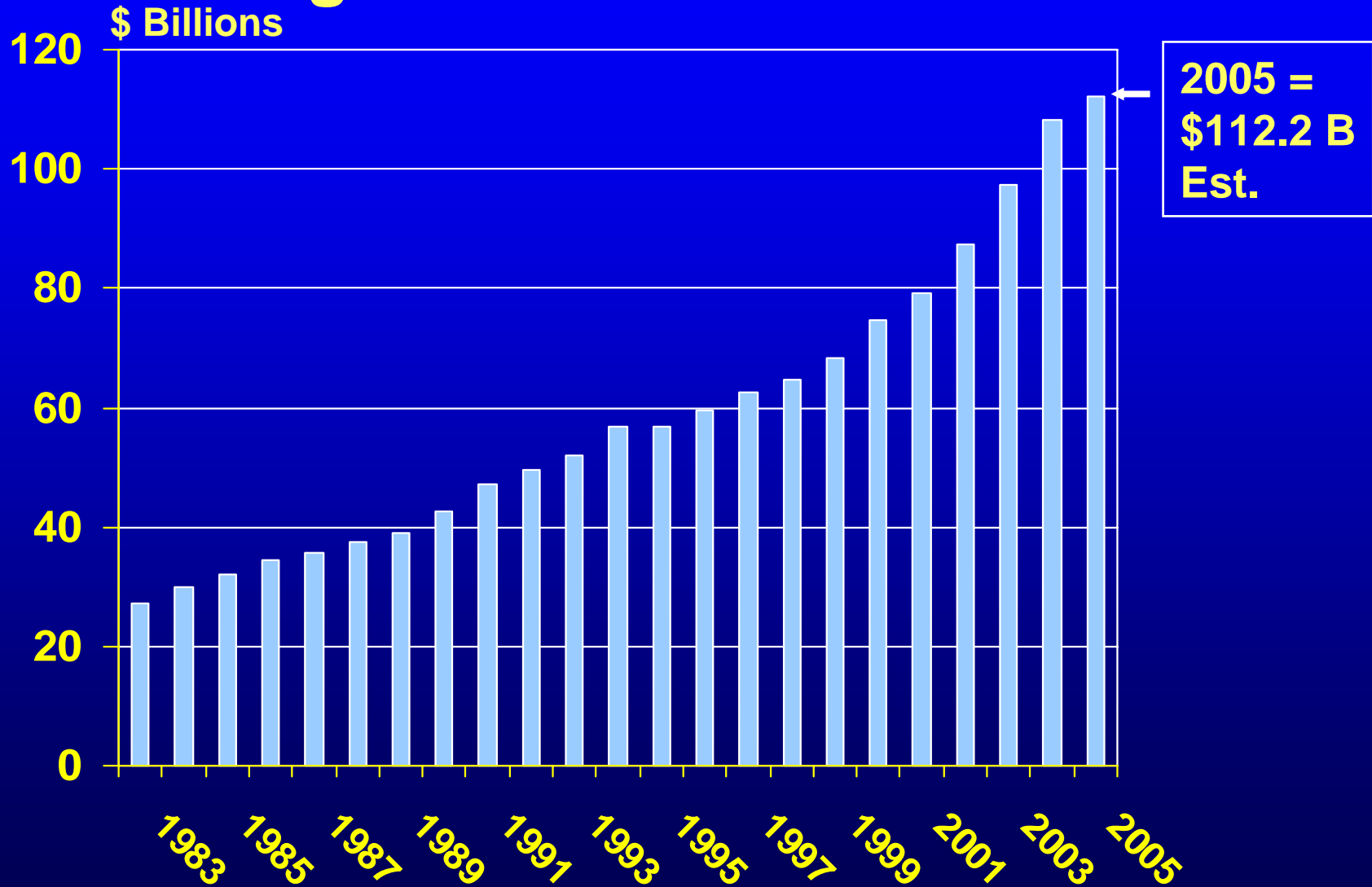
# **What is Different About The Washington Area Economy?**

# Washington Area Core Industries Outlook

<b>Core Sector</b>	<b>\$ Value 2005</b>	<b>Ann % Chg 95-2000</b>	<b>% Chg 2005</b>	<b>% Chg 2006</b>	<b>% Chg 2007</b>	<b>% Chg 2008</b>	<b>% Chg 2009</b>	<b>% Chg 2010</b>
<b>Fed Govt. Total</b>	112.0	4.0	3.7	4.0	4.2	4.0	3.9	4.0
<b>Fed Proc.</b>	52.4	7.0	2.5	4.0	4.5	4.7	4.3	4.5
<b>Technology</b>	51.2	12.0	8.2	6.0	6.5	6.7	7.0	7.0
<b>Building Ind.</b>	20.3	6.0	8.5	5.2	5.5	4.8	4.5	5.0
<b>International</b>	17.3	3.0	3.6	3.2	3.0	2.8	2.7	2.7
<b>Hospitality</b>	7.2	2.0	4.3	3.5	3.3	3.0	2.9	2.9
<b>TOTAL GRP</b>	321.9	3.2	4.5	4.0	3.5	3.7	3.5	3.5

# Total Federal Spending

## Washington Metro Area: 1983 - 2005

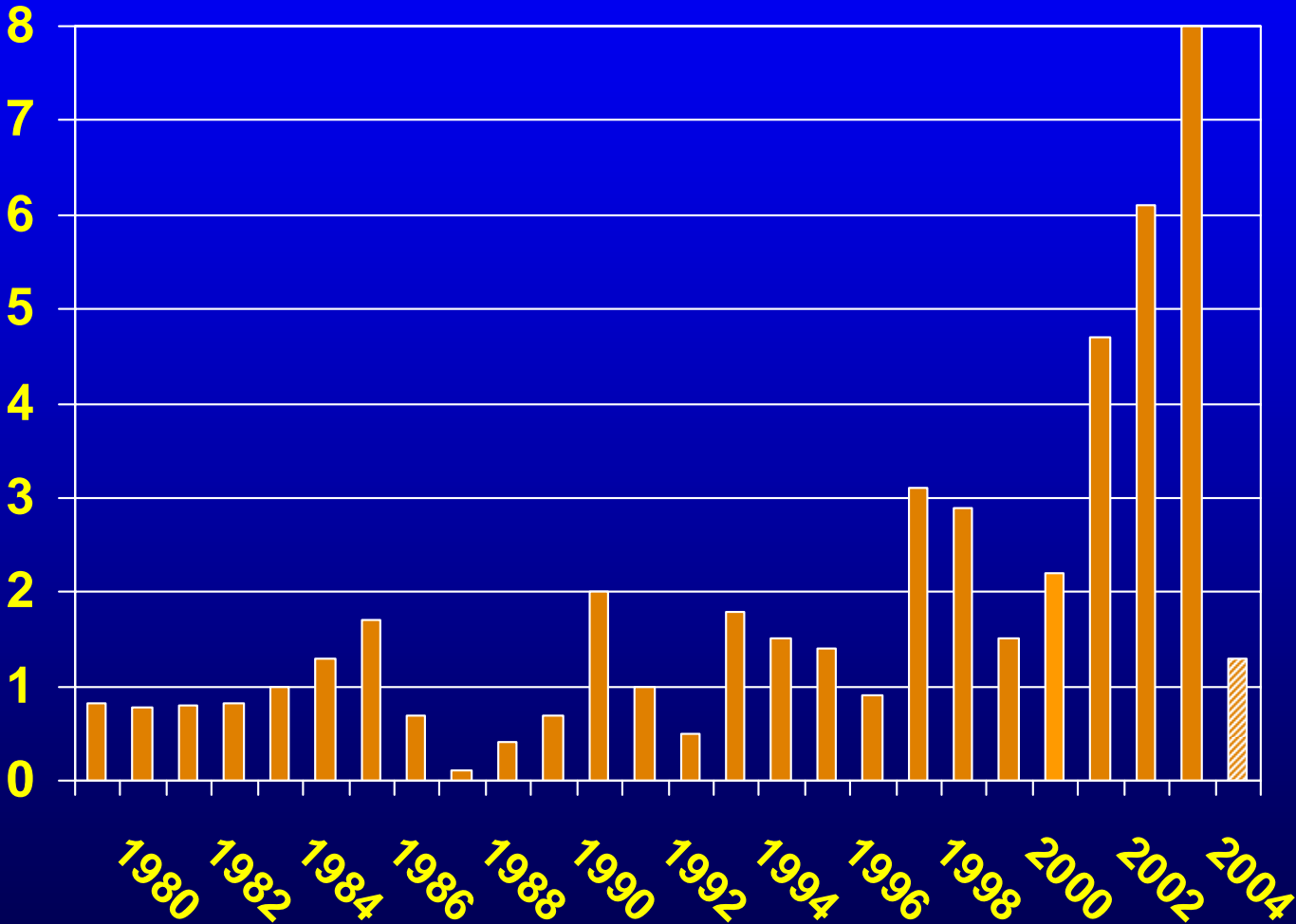


# Federal Spending by Type 1983 - 2005



# Annual Change in Federal Procurement Spending Washington Metro Area

\$ Billions



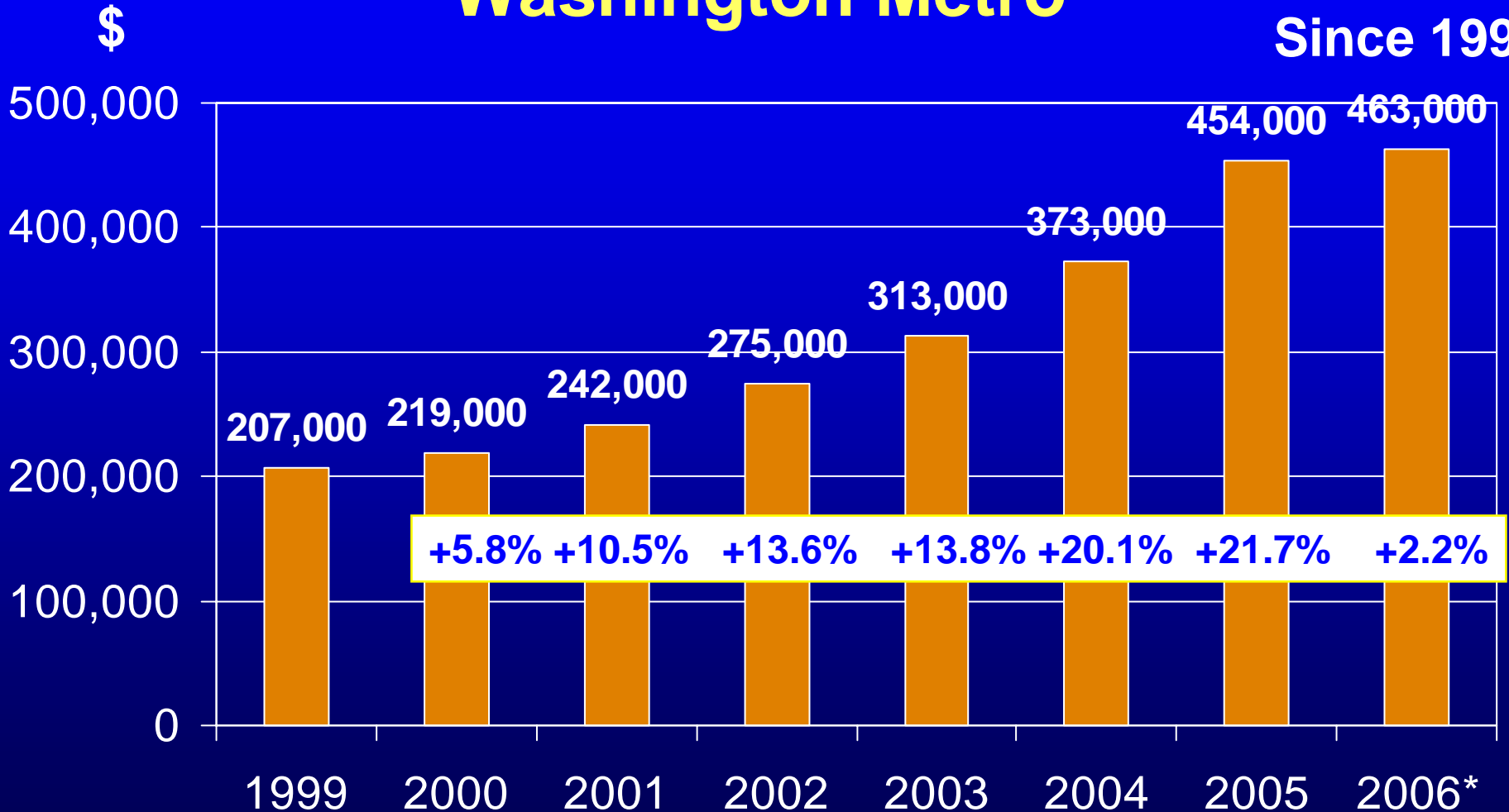
# Real Estate Trends

# Where Is the Market?

- **Record inventory levels in 2006**
- **Month-over-the-year price changes turned negative in July**
- **Inventory returning to normal levels at end of year**
- **Price changes likely to remain in negative territory through the winter**

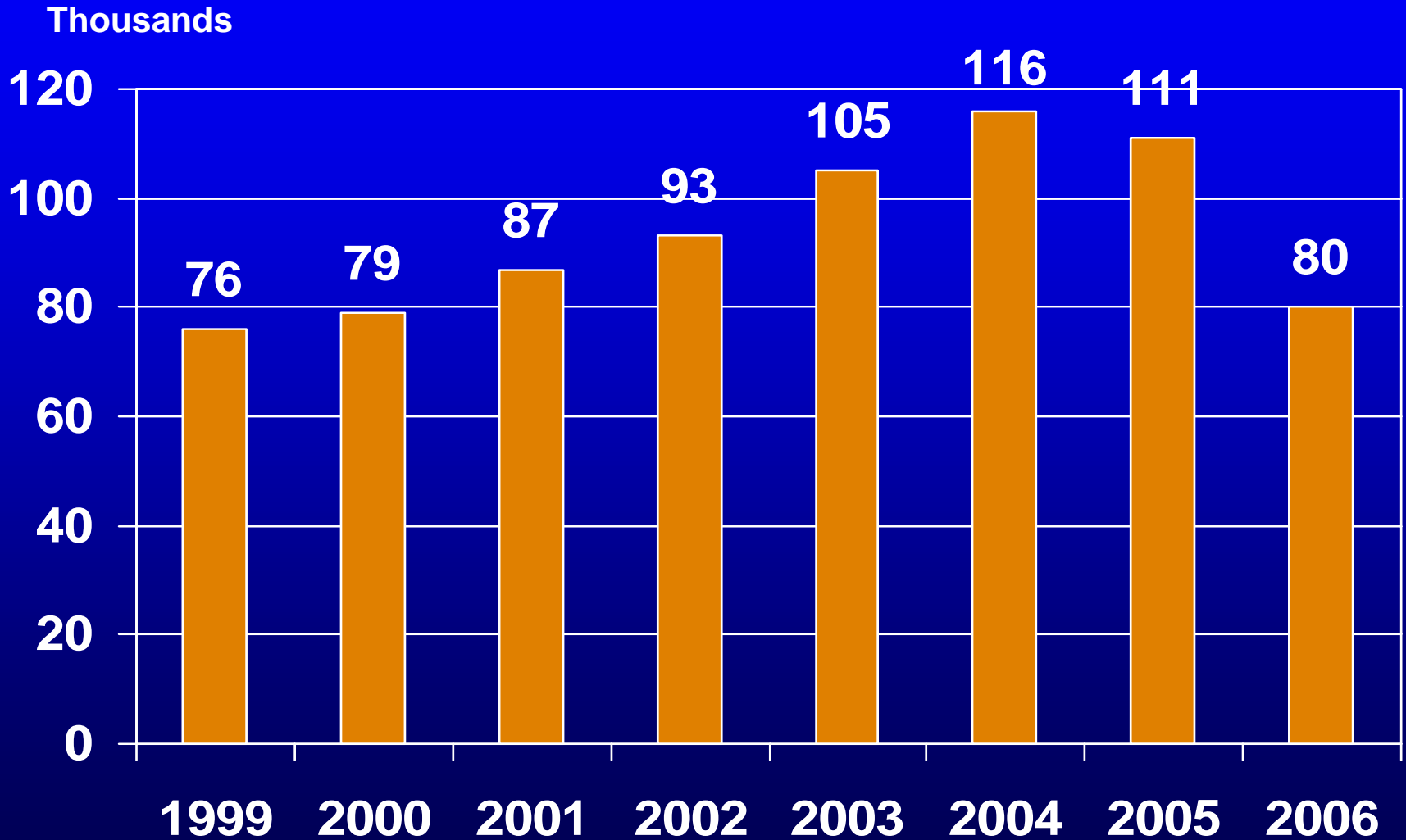
# Average Sales Price All Housing Types Washington Metro

+ 124%  
Since 1999

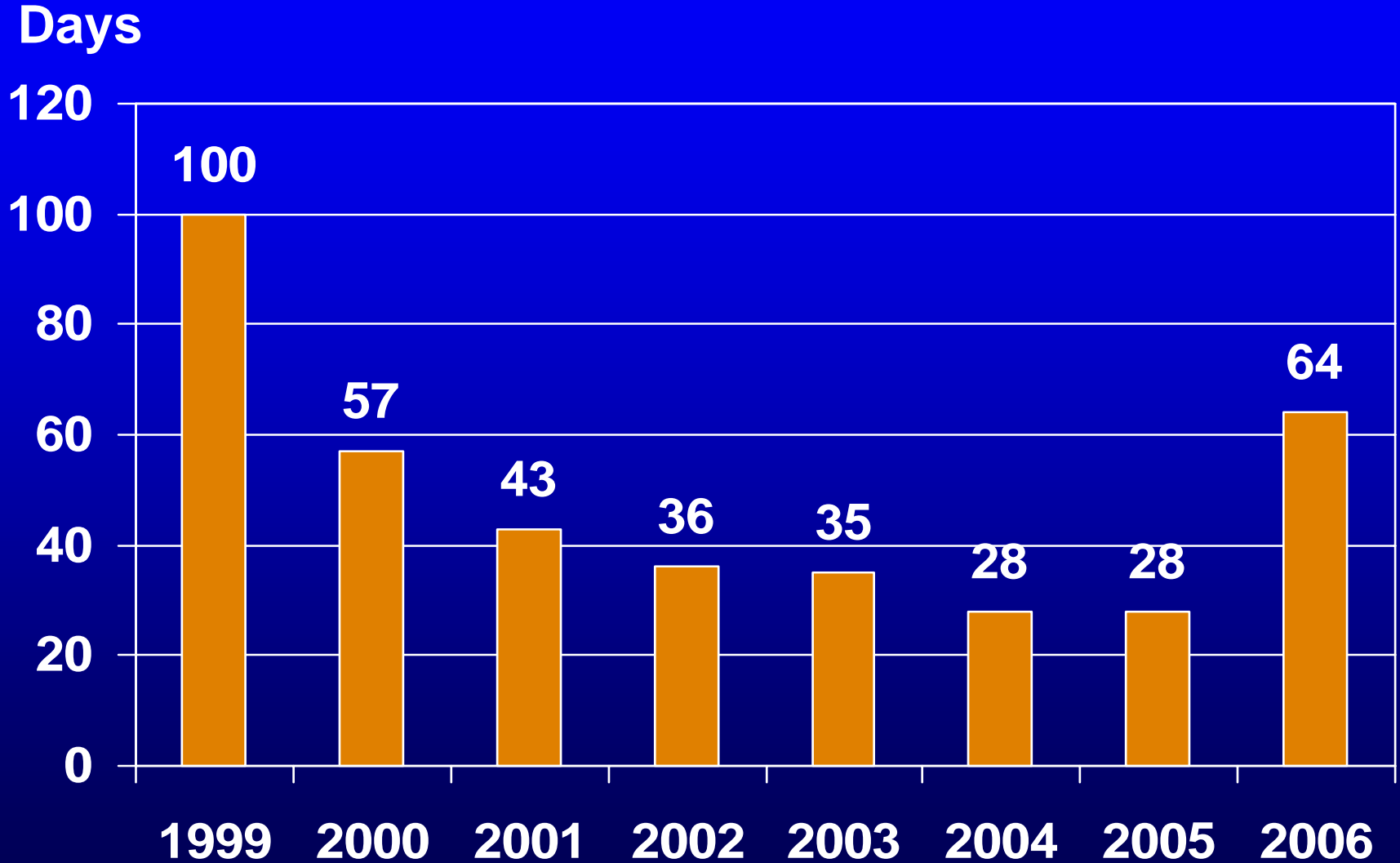


Source: MRIS, GMU Center for Regional Analysis

# Total Units Sold Washington Metro Area



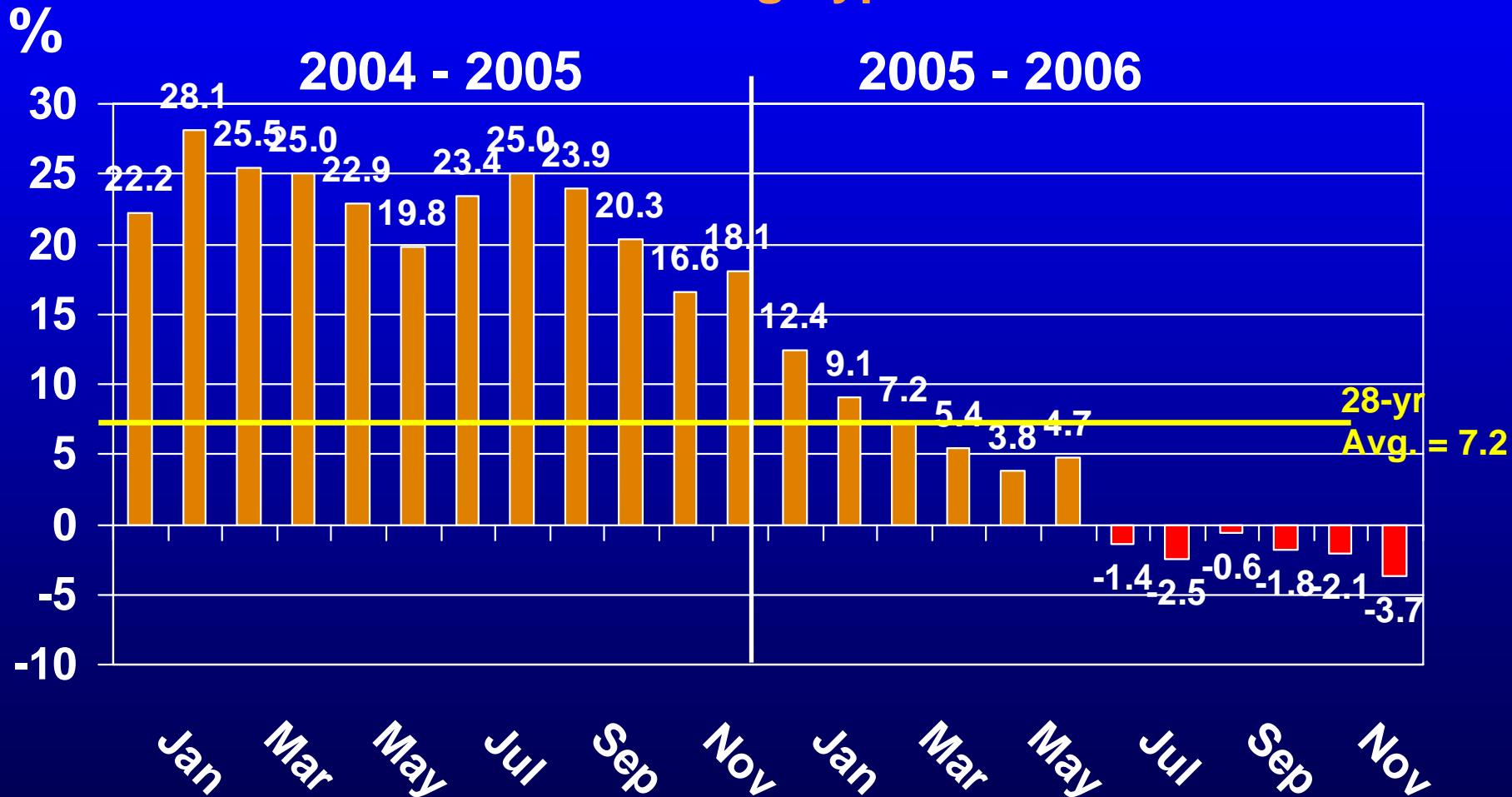
# Days on Market Washington Metro Area



Source: MRIS, GMU Center for Regional Analysis

# Average Sales Price Percent Change Month-over-the-year, 2004 - 2005 - 2006

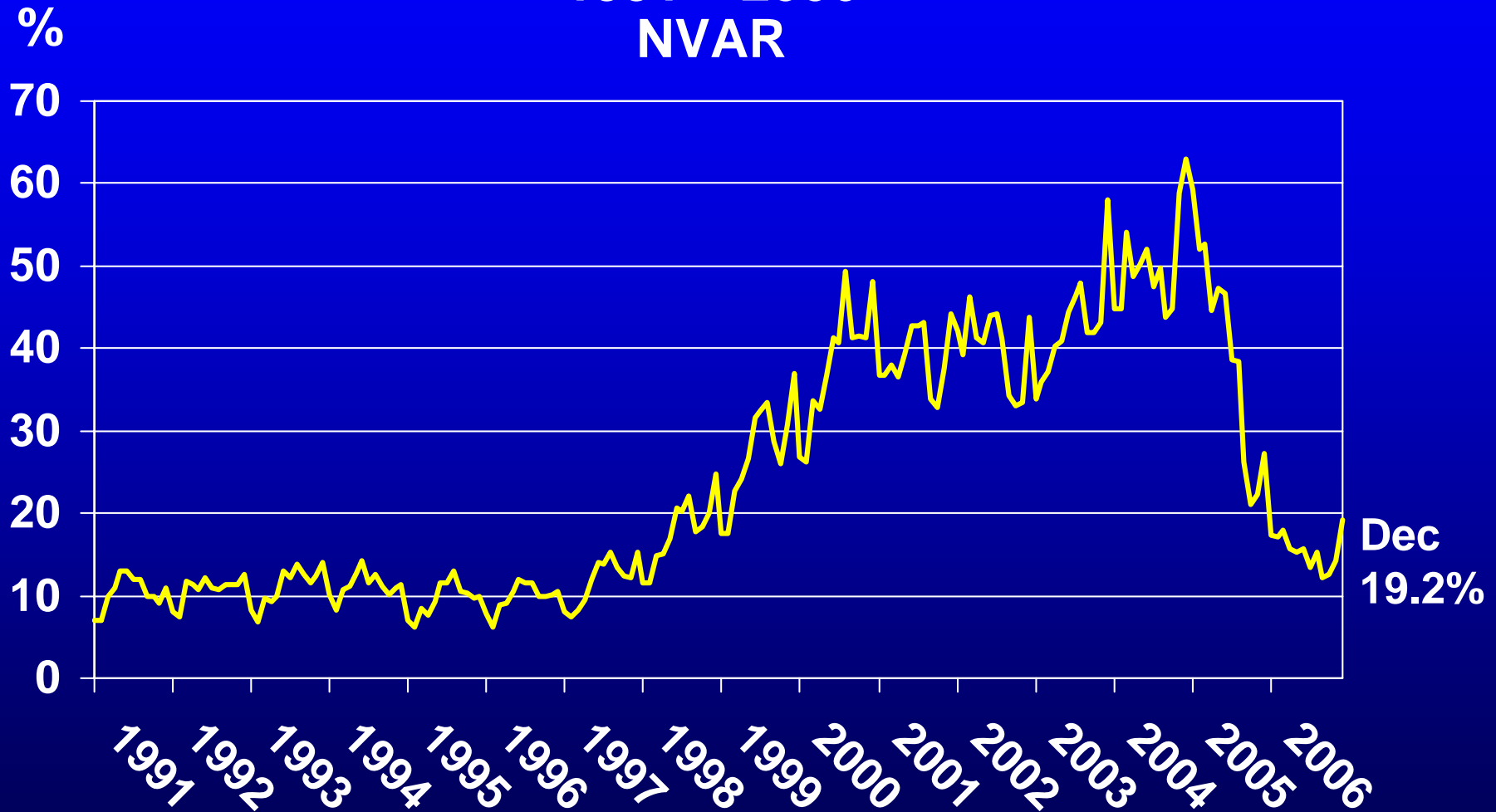
Washington MSA  
All Housing Types



# Percent Change in Inventories of Existing Homes Month-Over-the-Year-Change 2000 – 2006, MSA



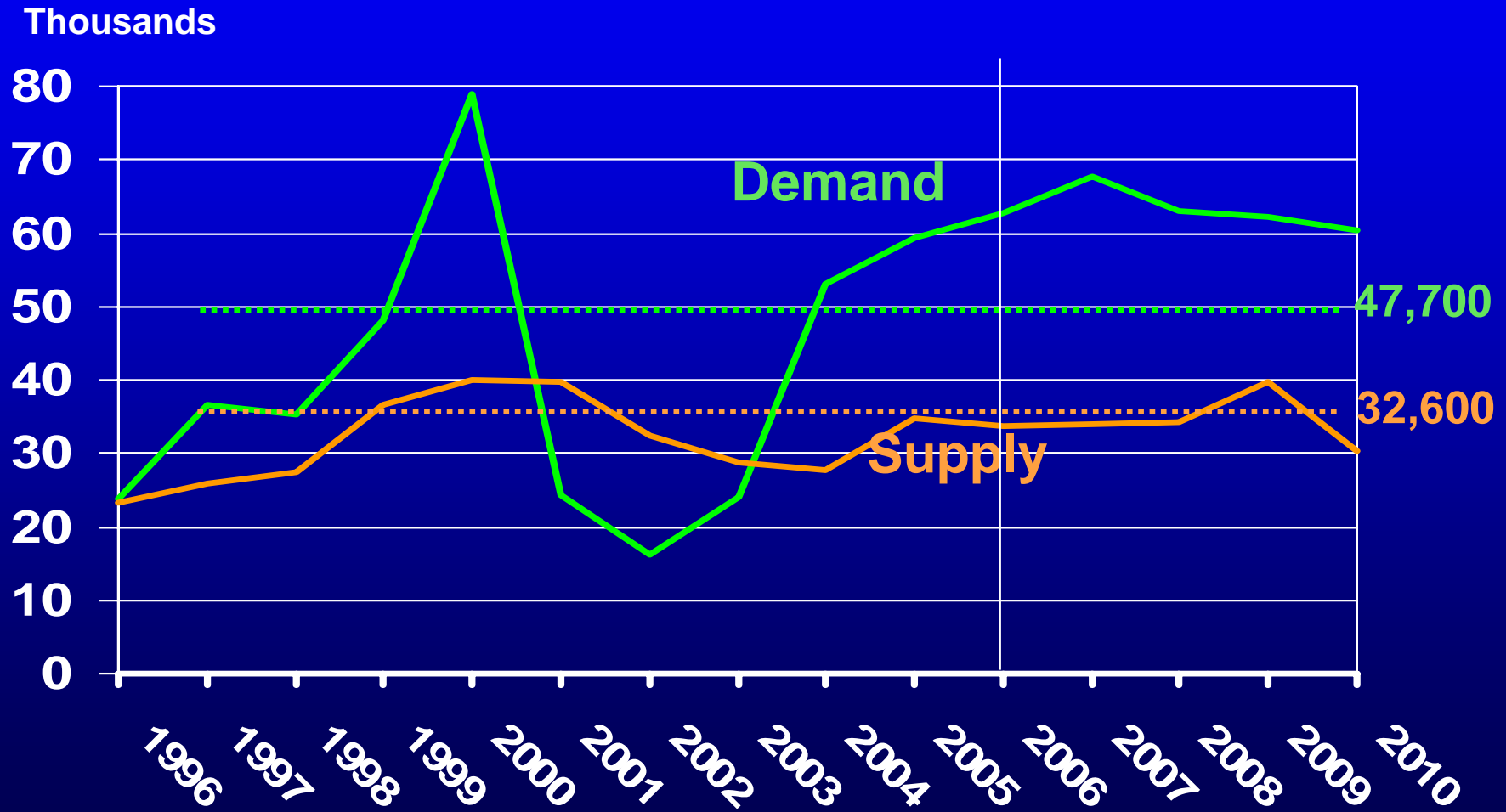
# Monthly Sold Units as a Percentage of Active Listings: 1991 – 2006 NVAR



Source: MRIS, NVAR

(NVAR: Arlington, Alexandria, Fairfax)

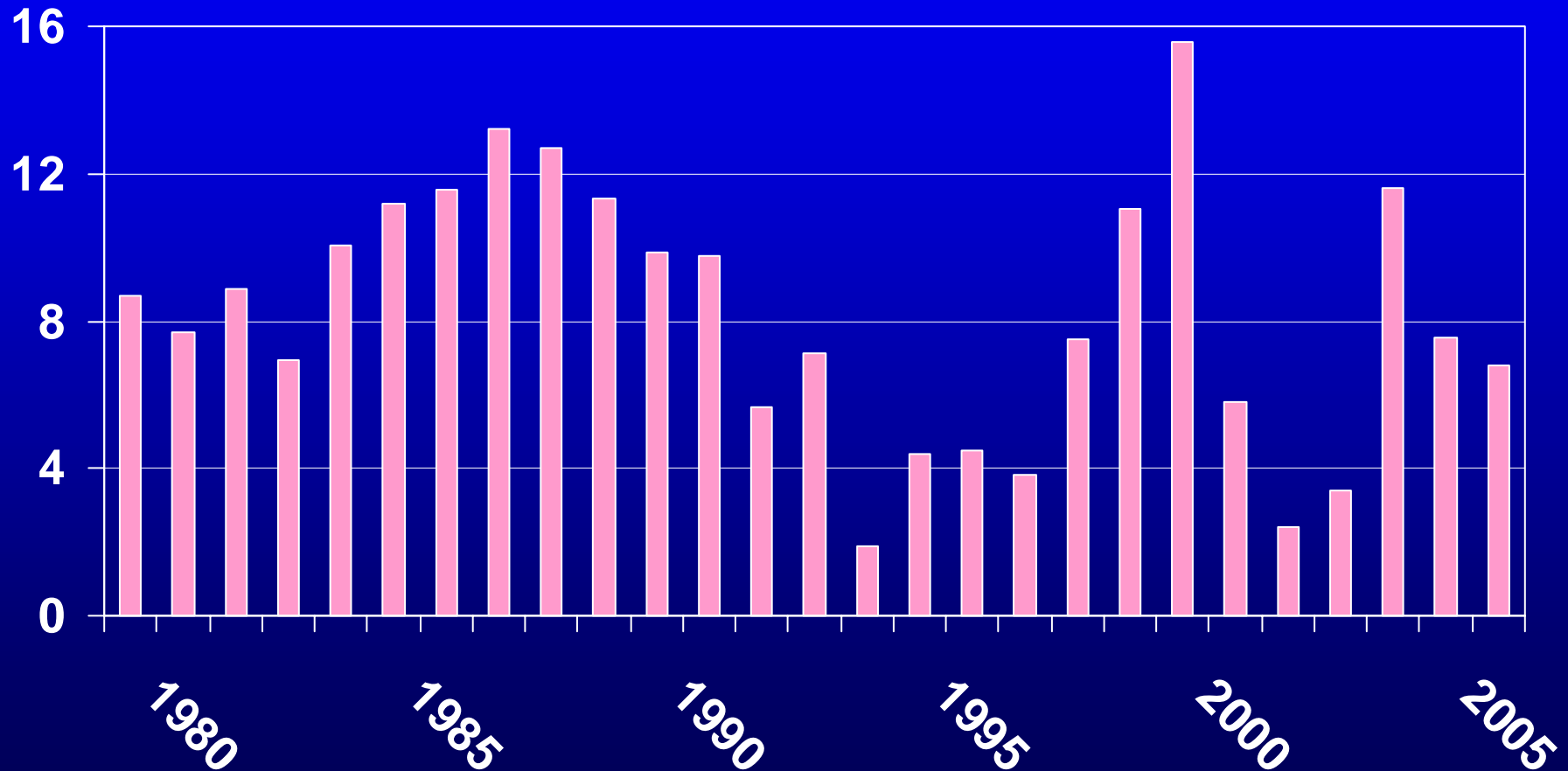
# Annual Change In Housing Demand vs. Housing Supply 1995 - 2010 Washington MSA



# Housing Outlook for 2007

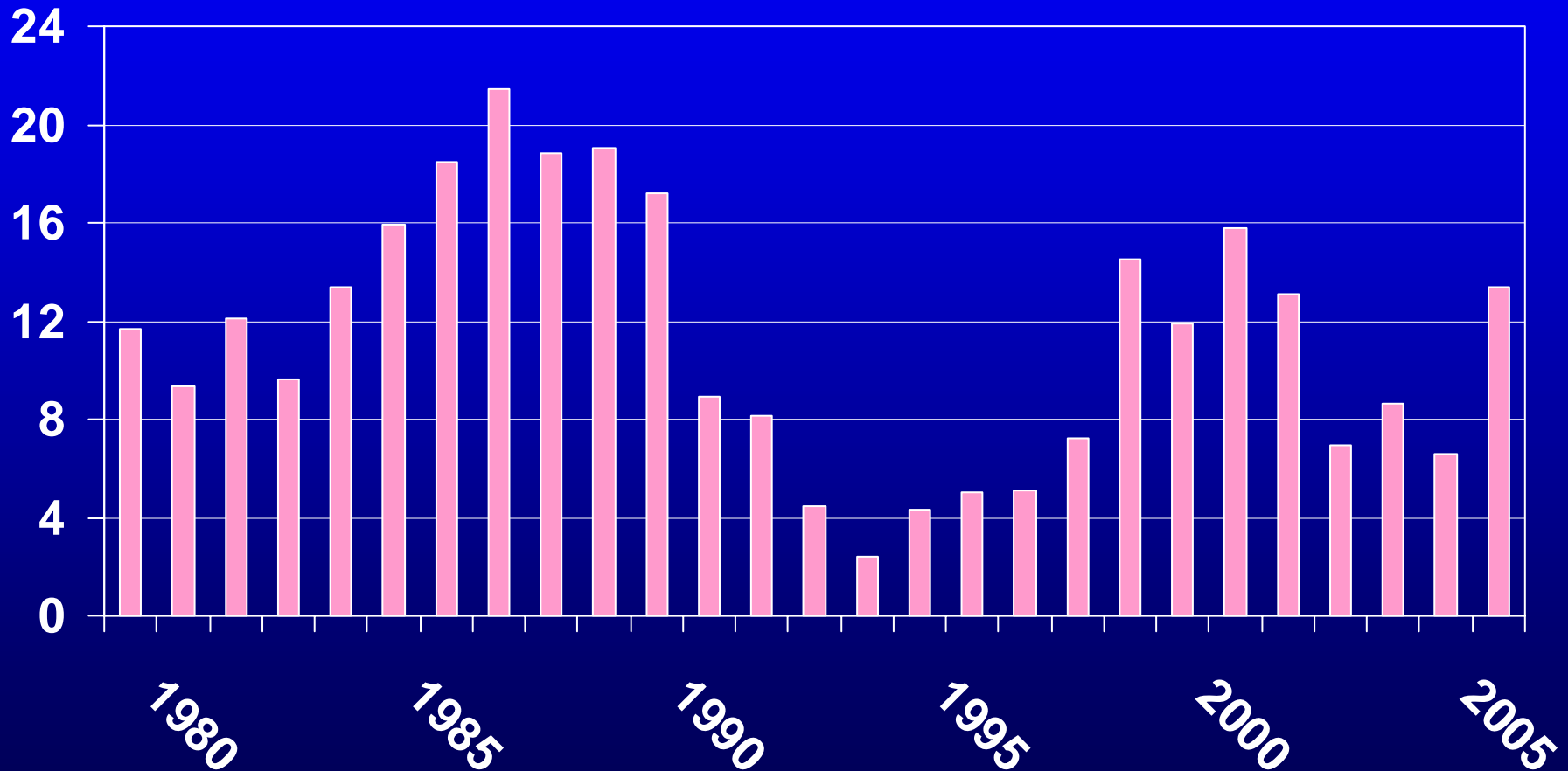
- **Market Adjustment nearing end – inventory stabilizing and prices will begin stabilizing**
- **2007 Prices will increase in the range of 0 - 5 %  
- by 2008-9 returning to long-term normal of 7%**
- **Sales volume will drop back to 1998 – 1999 levels**
- **Days on Market leveling in the 90s**

# Net Absorption of Office Space Washington MSA 1980 Through 2006



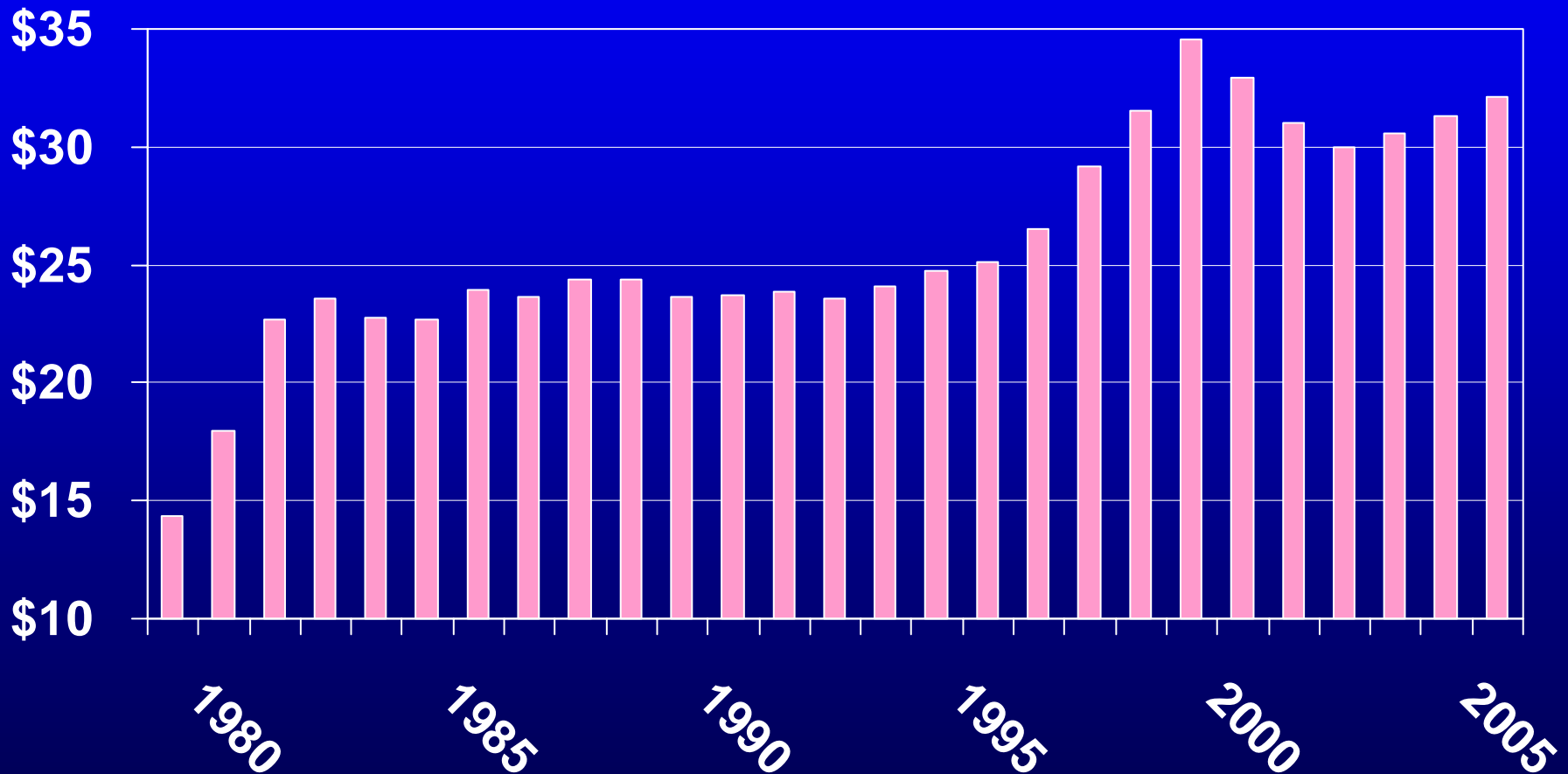
Source: Delta Associates

# Office Space Deliveries Washington Metro Area 1980 Through 2006



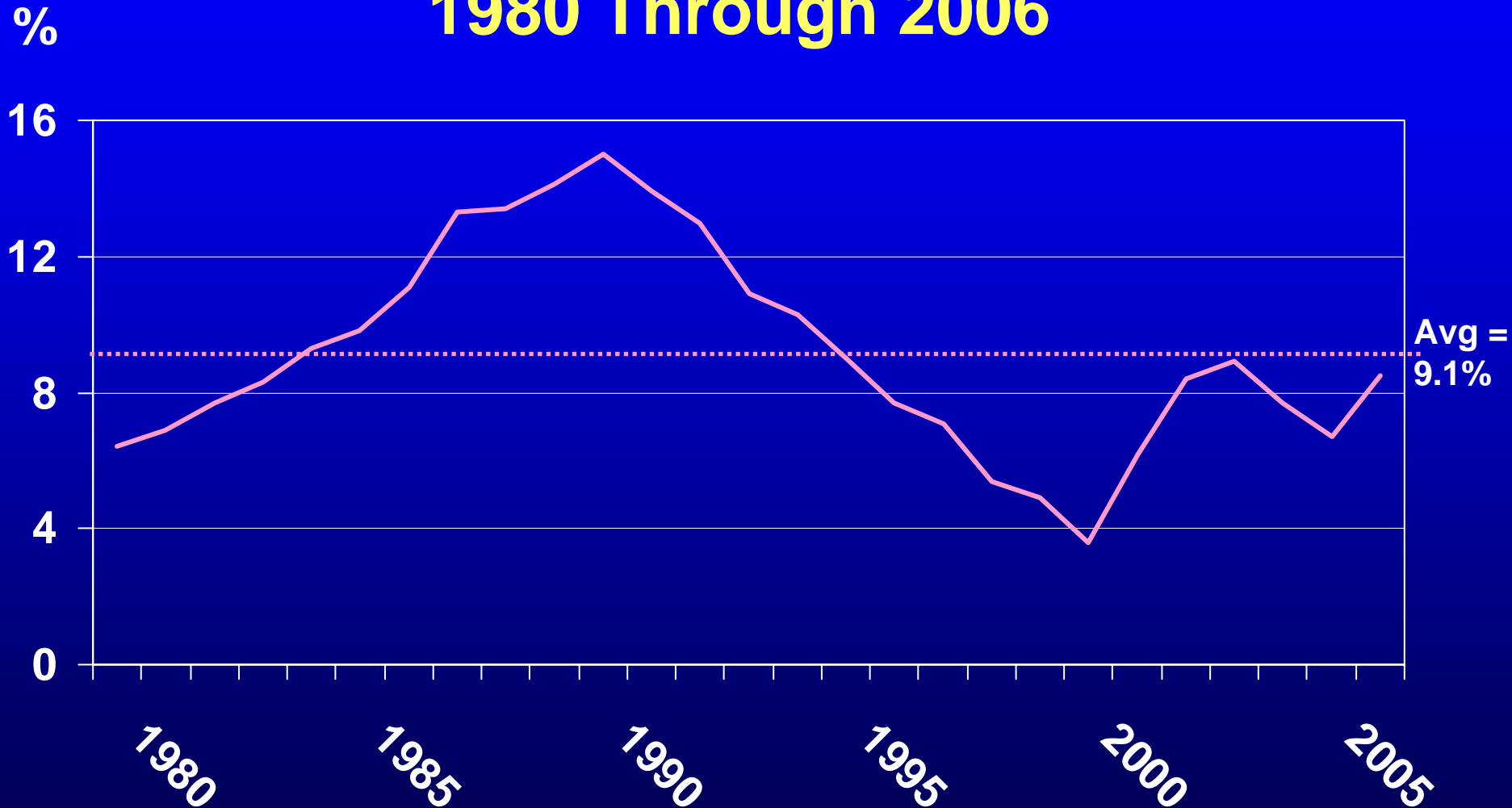
Source: Delta Associates

# Average Class A Office Rents Washington MSA 1980 Through 2006



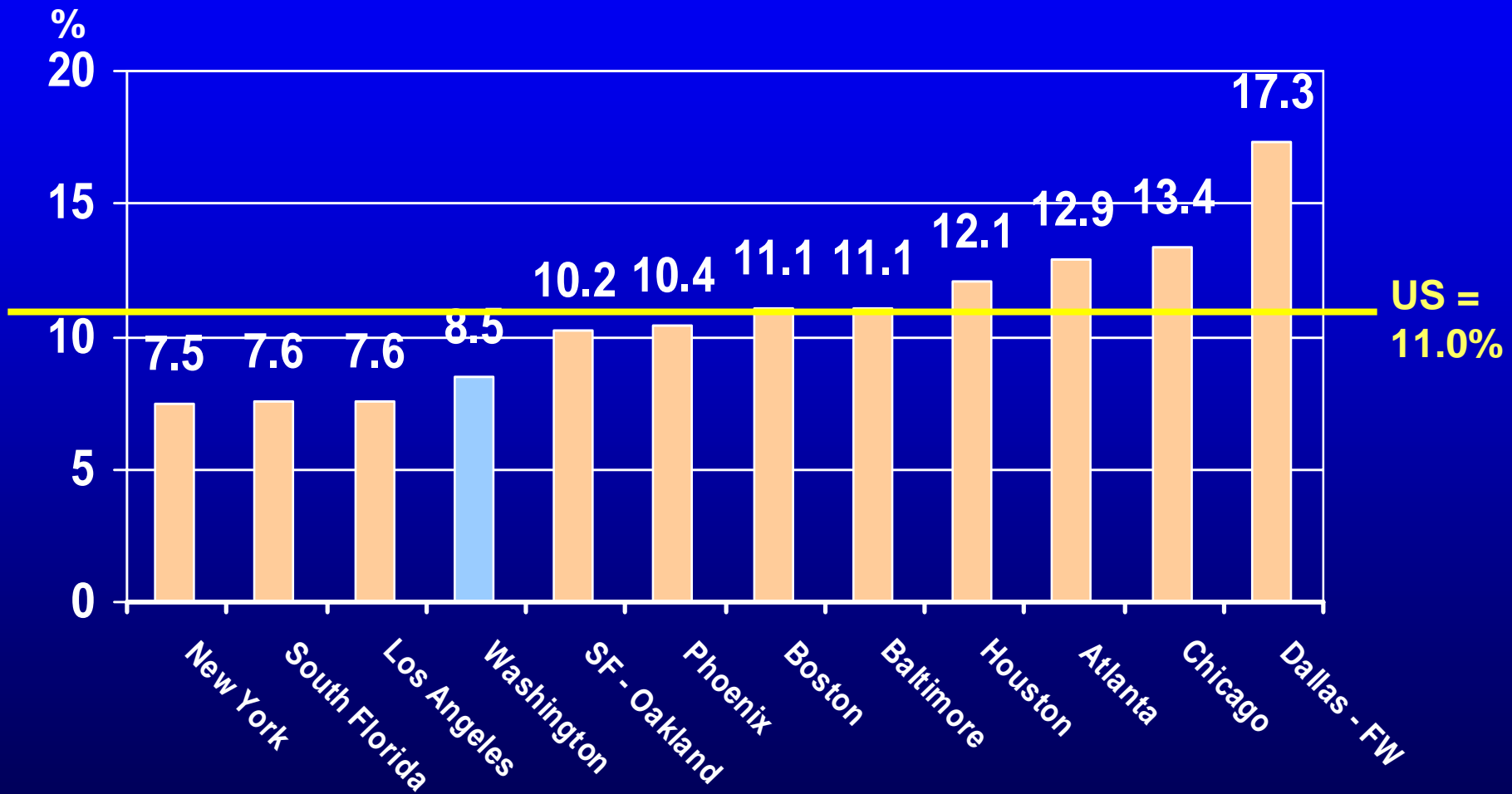
Source: Delta Associates

# Office Vacancy Rate Washington Metro Area 1980 Through 2006



Source: Delta Associates

# Select Metro Areas Office Vacancy Rates 2006



Source: Delta Associated

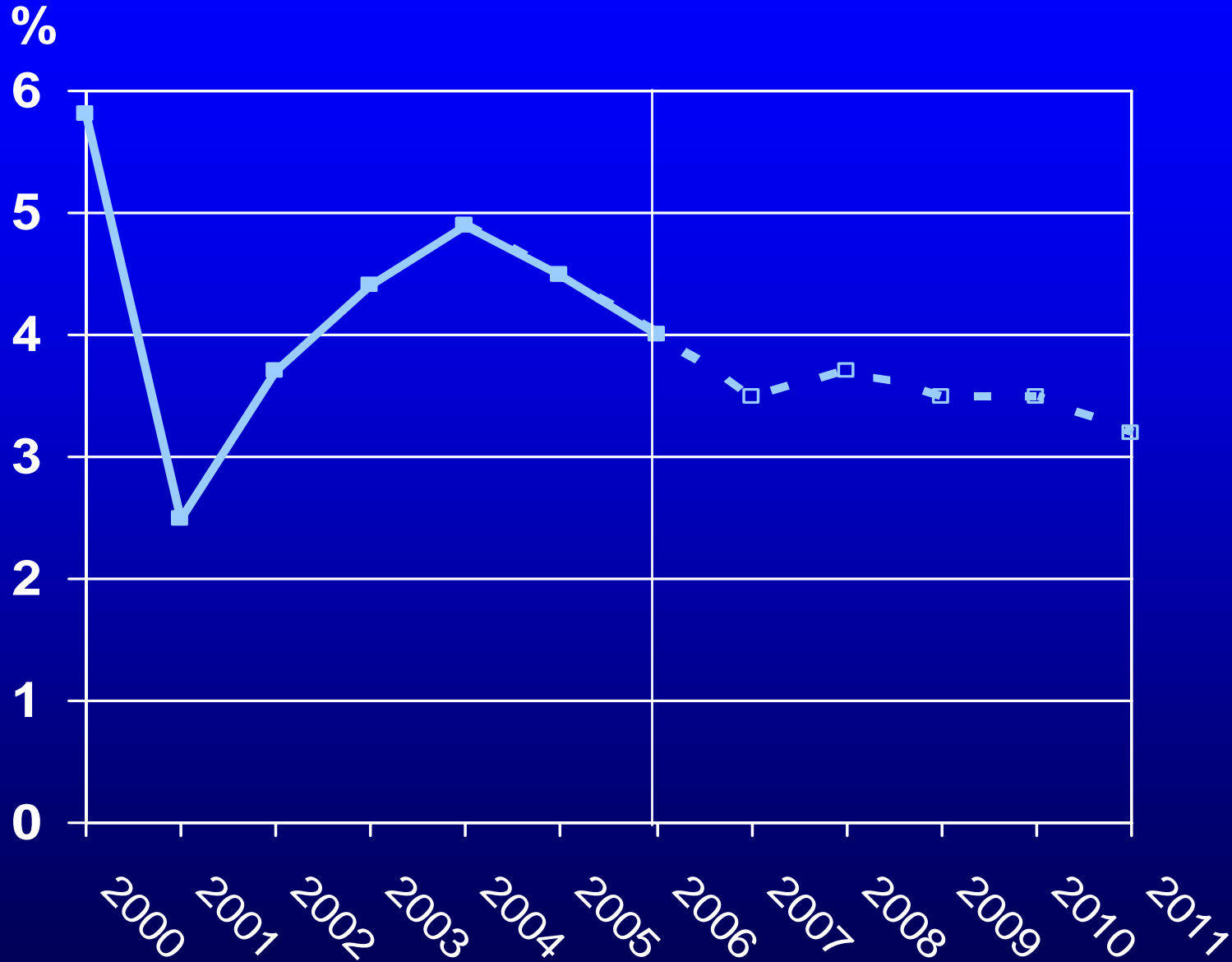
# Five-Year Forecast

# The Regional Economy: Building on Growth

	2000 - 2005		2006 - 2011	
	Gain	%	Gain	%
<b>Population</b>	453,700	9.5	404,700	7.6
<b>Employment</b>	304,560	8.9	498,900	13.0
<b>Earnings/Job*</b>	\$10,488	20.1	\$6,833	11.1
<b>HH Income*</b>	\$8,387	7.7	\$16,310	13.7
<b>GRP*</b>	\$56.98B	21.5	\$62.45B	18.6

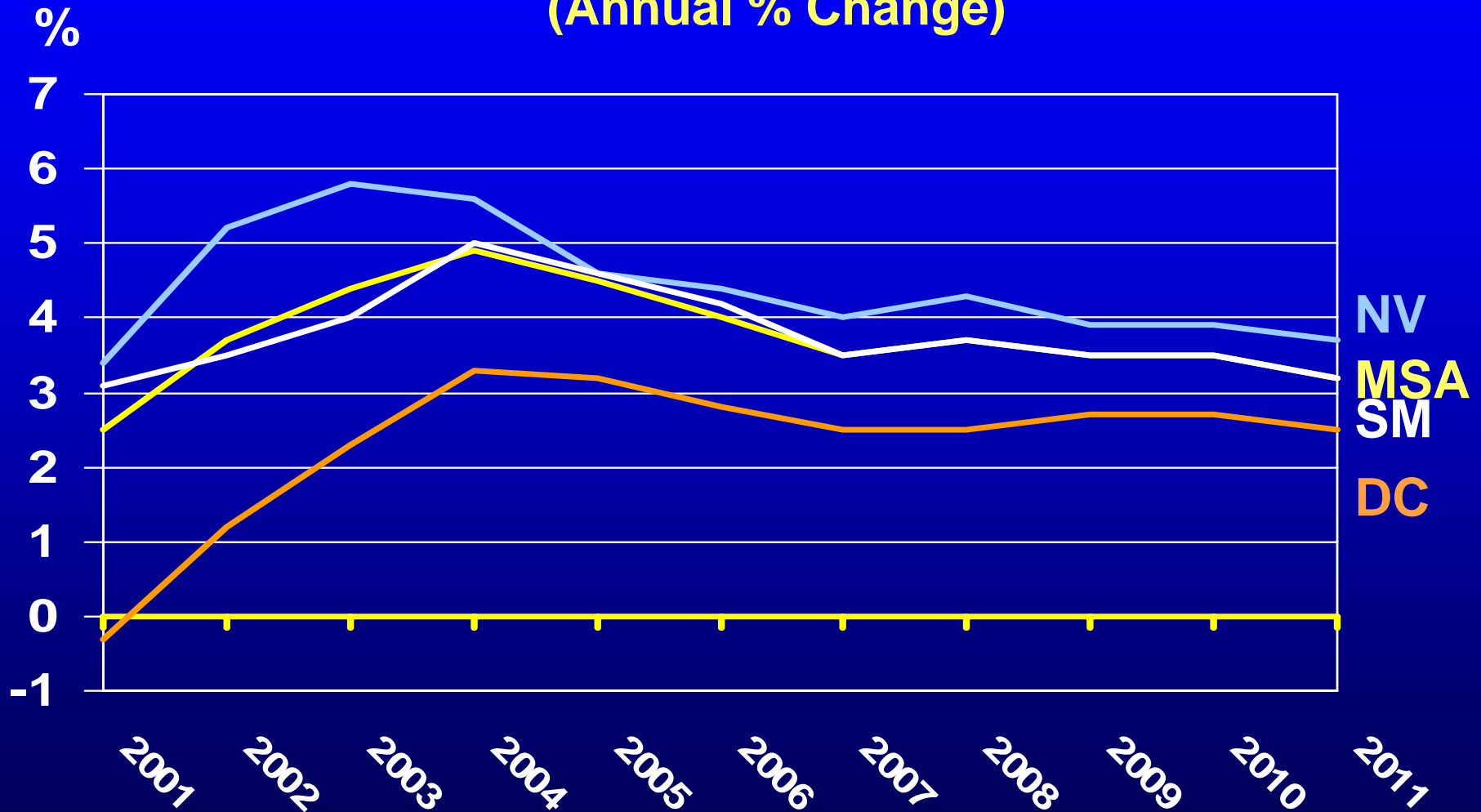
\* Real 2005 \$

# GRP Forecast 2006 - 2011



# Economic Outlook (GRP) – 2011

## Washington Area and Sub-state Portions (Annual % Change)



# Employment Change by Sub-state Region (000s)

	2006	2007	2008	2009	2010	2011
<b>D.C.</b>	<b>7.5</b>	<b>6.5</b>	<b>7</b>	<b>6.5</b>	<b>4.5</b>	<b>3.5</b>
<b>S. MD</b>	<b>20.0</b>	<b>16.6</b>	<b>17.7</b>	<b>15.2</b>	<b>12.8</b>	<b>11.6</b>
<b>No. VA</b>	<b>38.0</b>	<b>33.5</b>	<b>36.0</b>	<b>34.0</b>	<b>30.0</b>	<b>26.5</b>
<b>REGION</b>	<b>65.5</b>	<b>56.6</b>	<b>60.7</b>	<b>55.7</b>	<b>47.3</b>	<b>41.6</b>
	<b>2.2%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.3%</b>

# Risks to Forecast

- **Rapid Oil Price Increase**
- **Further Residential Market Decline**
- **Further Tightening of Labor Market**
- **Rise in Inflation/Interest Rates**
- **Decreased Consumer Spending**
  
- **Commercial Space Over-building**
- **Slower Local Federal Spending**



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