Housing in the Nation's Capital

For more than a decade, the Washington metropolitan area has experienced robust economic health and vigorous population growth. The region weathered the recent national economic downturn remarkably well and is now enjoying more rapid growth in employment and wages than almost any other metropolitan area in the country.

This economic prosperity generates tremendous opportunities — and tremendous challenges. Home prices and rents are rising faster than incomes, creating serious housing hardship for working families. Unbalanced patterns of growth within the region are exacerbating these market pressures: Home prices and rents are highest where job opportunities are most abundant, a combination that fuels sprawl by pushing families into the outermost suburbs in search of affordable homes.

The unintended consequences of our current growth are already raising alarms — about spiraling home prices, traffic congestion, endless commutes, deteriorating air quality, and the loss of farmland, open spaces, and wildlife habitat. But it is not too late to choose a different path, capitalizing on our prosperity and managing growth more strategically.

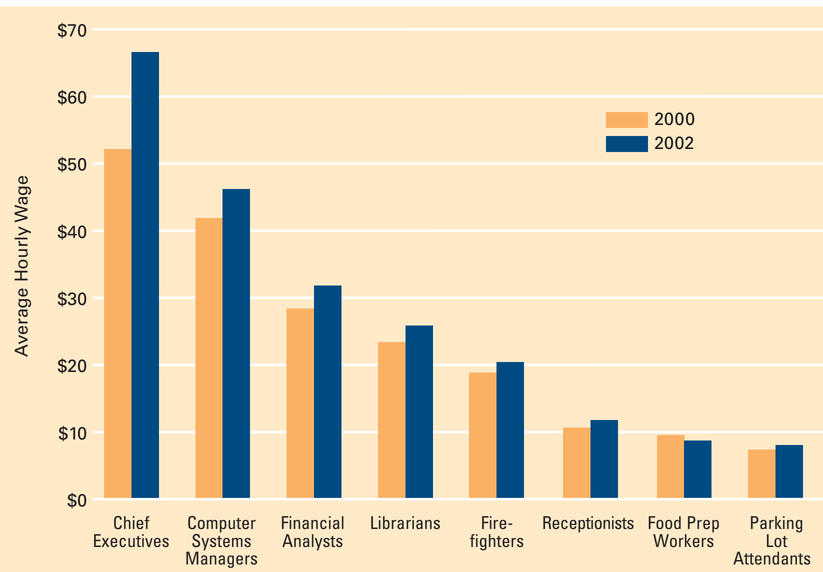
Regional Economy Remains Robust

The Washington region's economy is now outperforming most metropolitan areas nationwide. Unemployment as of 2003 was the lowest of the nation's top 100 regions, and employment growth since 2000 has outpaced all but a few metro areas. Growth in federal contracting for defense and homeland security helped the area economy weather the post-2000 economic downturn better than almost any other region. And the economic assets of the Washington region are now paying off even more dramatically than a year ago. Over the past year, the emerging national recovery has spurred growth in tourism and finance, enterprises in which our region specializes.

All income groups are benefiting from the region's prosperity, with wage rates and wage growth substantially above national averages. But recent gains are much larger for high-wage occupations than for low-wage jobs. For example, the average wage for chief executives in the Washington region grew by 27 percent between 2000 and 2002, while the average pay for parking lot attendants rose only 8 percent. This disparity widened the already substantial gap between the highest and the lowest wage earners (Figure ES.1).

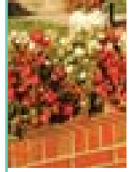
The already substantial gap between the highest and the lowest wage earners is widening.

FIGURE ES.1: Substantial and Increasing Gap in the Region's Wages



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

The District of Columbia has shared in the region's robust economic performance. The number of jobs located in the city has climbed steadily since the late 1990s, and private-sector job growth is now



nearly as strong in the District as in the region as a whole. Trends in the number of employed residents are also encouraging, with only a slight drop since 2000, a period when most of the rest of the country experienced a pronounced economic downturn.

Information on population trends in the District is contradictory: The U.S. Bureau of the Census estimates a decline since 2000; city officials disagree. Evidence based on the number of federal tax filers, however, suggests that the number of households living in the city is on the increase, regardless of population trends.

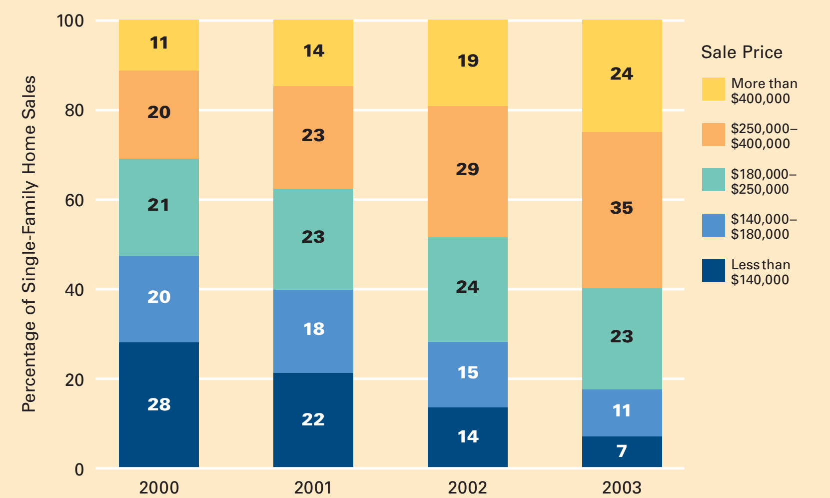
Housing Market Pressures Intensify

The regional economic boom is intensifying housing market pressures. From 1990 to 2000, housing production failed to keep pace with population growth, causing significant declines in both rental and homeowner vacancy rates. A drop in the number of residential building permits issued relative to population growth since 2000 suggests that inadequate production remains a serious concern.

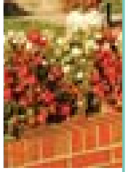
Rapid increases in both home sale prices and rents reflect increasingly tight housing market conditions across the region. For example, in 2000, three of every 10 single-family home sales exceeded $250,000; by 2003, this proportion jumped to six in 10. As shown in Figure ES.2, the share of homes priced above $400,000 more than doubled between 2000 and 2003. During this same period, the share of homes reasonably priced for lower-income families dropped precipitously.

The regional economic boom is intensifying housing market pressures.

FIGURE ES.2: Single-Family Home Prices Skyrocketing in the Region



Source: Metropolitan Regional Information Systems, Inc.



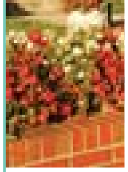
The District's housing market is especially hot. The median price of a single-family home rose 26 percent — reaching $292,000 — just from 2002 to 2003. Condominiums, with a median price of $249,000 in 2003, are also moving out of reach for families with modest incomes. Advertised rents spiked even more, climbing by 60 percent between 2001 and 2003 for a one-bedroom apartment. Families at the low end of the job scale face heightened pressures. The median advertised rent for a one-bedroom apartment now exceeds the reach of a family supported by a full-time receptionist, bookkeeper, or parking lot attendant.

Levels of housing hardship throughout the region are high. In 2000, for example, the majority of low-income families — those supported by a nurse or firefighter, for example — struggled with unaffordable housing costs. This trend is on the rise, stretching (and sometimes breaking) the capacity of low-income workers to make ends meet. Moderate-income families are also beginning to feel the squeeze.

Unbalanced Growth Fuels Sprawl, Burdens Working Families

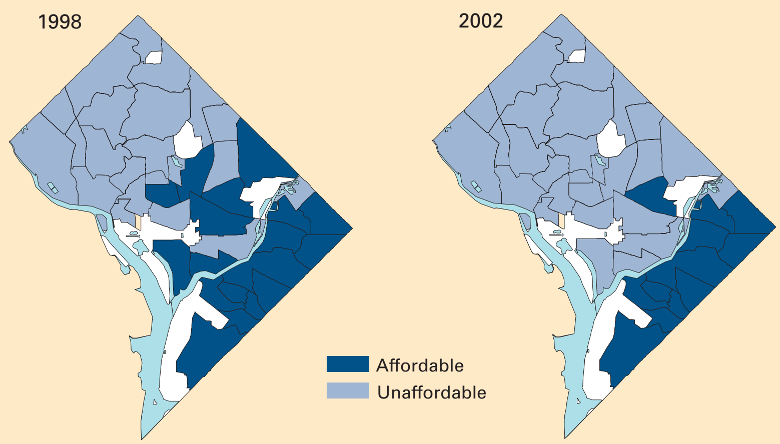
Unbalanced patterns of growth within the region are contributing to the housing challenges that families face. Higher-wage jobs (such as those for lawyers, computer system managers, and chief executives) are concentrated in the District of Columbia and the western suburbs — particularly along the Dulles and I-270 corridors. Housing demand in these areas has sent housing costs soaring.

As a consequence, the region has a geographic mismatch between homes and jobs: Affordable housing is most scarce where well-paying jobs are most abundant. Fairfax County, for example, accounts for 17 percent of the region's jobs paying under $35,000, but only 10 percent of the region's homes that are affordable to families earning under $35,000. In fact, more than four of every 10 housing units in Fairfax require a household income greater than $75,000 to be affordable. The high housing costs in the job-rich western suburbs are helping to fuel sprawl, as families look farther and farther out for affordable housing. Between 2000 and 2003, two-thirds of the region's total population growth occurred in the Outer and Far Suburbs, with Loudoun County becoming the nation's fastest-growing county. (Map 1.1 in the Introduction shows the Outer and Far Suburbs and the other subareas of the Washington region.)



Housing market pressures are not only fueling sprawl and extending commuting times but also generating a pattern of declining affordability within the District of Columbia. The upward spiral of prices has moved once-affordable neighborhoods out of reach for many working families. As shown in Map ES.1, a family supported by a firefighter could afford the median-price home in only 12 neighborhood clusters in 2002, down from 18 in 1998.

MAP ES.1: Working Families Priced Out of More Neighborhoods in the District



Affordability of Median-Price Home for Firefighter by Neighborhood Cluster

Sources: District of Columbia Real Property Assessment Files, 1998 and 2002; U.S. Bureau of Labor Statistics, Occupational Employment and Wage Estimates, 1998 and 2002.
Note: A firefighter could afford a first home costing $111,000 in 1998 and $128,000 in 2002.

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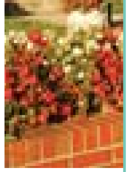
Despite these ominous trends, pockets of affordability remain — and are not limited to the Far Suburbs. In many neighborhoods east of the Anacostia River in the District and throughout Prince George's County, prices and rents are more affordable for low- and moderate-income families. And many of these areas could benefit from higher levels of housing demand, highlighting the importance of investments in public safety, school quality, retail development, and other neighborhood amenities.

Transforming Adversity into Opportunity

What do the coming decades hold for our region if current growth and development patterns continue? Looking to other metropolitan areas around the country, we see the potential consequences of the kind of unbalanced growth we are now experiencing. Will the Washington region become more like the San Francisco Bay area, where housing



costs are completely out of reach for all but the most affluent? Or like Los Angeles, where a typical peak-period commuter endures 93 hours of traffic delays each year? Will our region become more like the Houston area, where sprawling development and traffic congestion have produced the nation's worst air quality? Will highly skilled workers avoid moving to the area because of its high-priced housing and deteriorating quality of life? Will potential new businesses begin to see escalating housing costs and long commuting times as significant liabilities and look elsewhere to invest and grow?

None of these scenarios is inevitable. None need become reality. The Washington region retains the capacity to capitalize on its prosperity, managing growth wisely and transforming adversity into opportunity. Local governments, business leaders, nonprofit organizations, and residents can change course, pursue new opportunities, avert the consequences of unbalanced growth, and use current challenges to forge a consensus that embraces the necessity for regional change. Action on three interrelated imperatives would give the region a promising start:

- Expand housing production in higher-density, mixed-income developments in the District, the Inner Core, and the Inner Suburbs, to accommodate growth without encouraging sprawl.
- Preserve and expand affordable housing choices throughout the region, to enable lower-income families to live closer to their jobs.
- Promote more balanced job growth to ease pressures on the highest-cost suburban communities and expand employment opportunities in areas where housing affordability options are more abundant.

In the early 1990s, these ideas might well have been politically unthinkable. But conditions have changed markedly since then. Congestion is much worse, the costs of unmanaged growth much more evident, and the share of households attracted to higher-density urban living much larger. These new realities open up new opportunities. Our region may be primed for change, more willing than before to think seriously about options that were once off the agenda. Regional success does not demand a deceleration of growth, but an acceleration of strategic growth — not less development, but more thoughtful development. In a region with so rich an endowment of talent and resources, this much should be achievable.