It’s A Wrap – Capitol Hill Residential Real Estate 2022

Another great year for residential real estate on the Hill!

The big news in 2022 was the rise in 30 year home mortgage rates from 3% to 6.5%-7%. A secondary but important trend was the “work from home” phenomena that began early in 2020 but is still with us..and will be for the foreseeable future! Many people are going into the office for 1 -3 days per week but not so many fulltime. Huge impact on our offices buildings and small retailers! And, a mixed impact on our residential inventory!

This time last year, we were looking back at 2021. We began 2021 very strong but the market slowed significantly during the second half of the year. Interest rates were not the problem then. Market fatigue and lack of inventory was our issue. While all of us knew that 3% 30 year fixed mortgages could not last forever, but we lived on them while we could get them. As we began 2022, we had no idea whether the market would perk back up or was the second half of 2021 going to be the new norm. As it turned out, the first 5 months of 2022 resumed the frenetic pace of the Spring of the year before. Then, in May, the Fed started talking seriously about rate hikes and in June we began to watch home mortgage rates move up dramatically. The market didn’t die during the second half of 2022 but it was back in the same doldrums that we had seen in the second half of 2021(but for different reasons). During the second half of 2022, many buyers who had been in the market place chose to sit on the sidelines until they could get a fix on where these rates were going and what that meant for prices. Very strange phenomena: a buyer, in March, willing to compete with 14 others offers and escalate above a $1M list price to $1.2M with no inspections and no financing contingency and a free 60 day rent back for the seller. 4 months later, same list price and no competing offers you can negotiate down $25,000 and have an inspection, a little closing help and a free toaster at closing! And many who could afford to work with the market chose to sit it out. Go figure.

An interesting phenomena, both good and bad, of more people working from home is that many of us have out grown our comfortable homes. I currently have a 3800 square foot home for sale at 648 Mass Ave, NE. 3 floor main house and a separate legal unit. I have been very surprised that most of the interest has come from people working from home. Typical is two parents each working from home, 2 school age children and an in-law moving to town. All of these prospective buyers are looking to take over the unit and make it their living/office space. Where they are now is just too small. The downside to this for our neighborhood, is that some of these neighbors are taking this opportunity to sell and move to the suburbs.

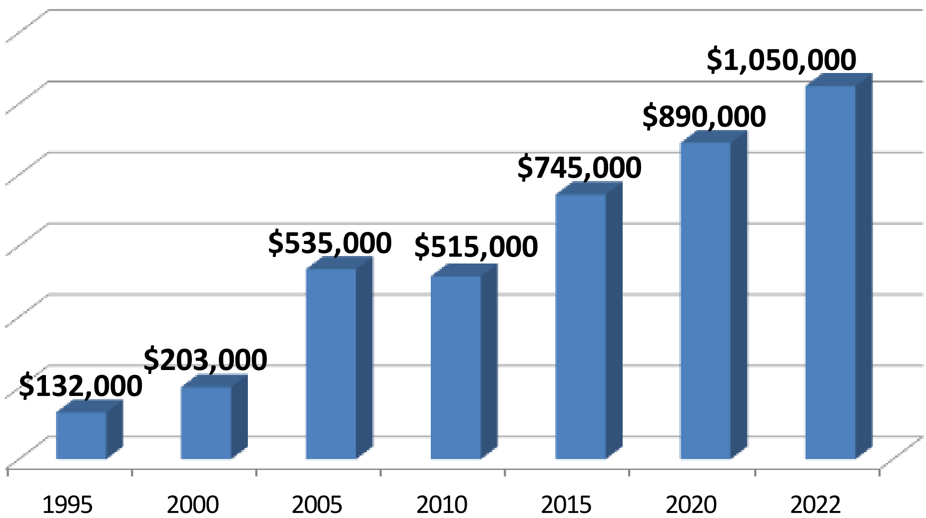
The area that we discussed last year as the “golden crescent” which goes from NOMA through Florida Avenue Market area to Reservation 13/Hill East to the Riverfront(Nats Park et al) and to the Wharf (to include the emerging Buzzard Point area), continued to fill in with the completion of thousands of new residential dwellings(condos, multiunit rentals and substantial residential renovations) and many thousand square feet of office and retail space.

Employers are struggling with employee resistance to a return to the “40 hour work week.” At this point, the biggest impact has been on commercial office and retail space. You don’t have to be an economist to see the impact on commercial space all over the city. If you are a retailer or a food establishment, and suddenly you don’t have all of that pre 5pm traffic, you are in big trouble. One huge plus for Washington DC is the result of the determined movement to create a “living downtown.” As bleak as the picture is for retail in the core of our city, can you imagine if we were back in 1983 before all of these hundreds of condos and multiunit buildings came online? They didn’t happen by accident but were the direct result of business and government working together to get what we see today.

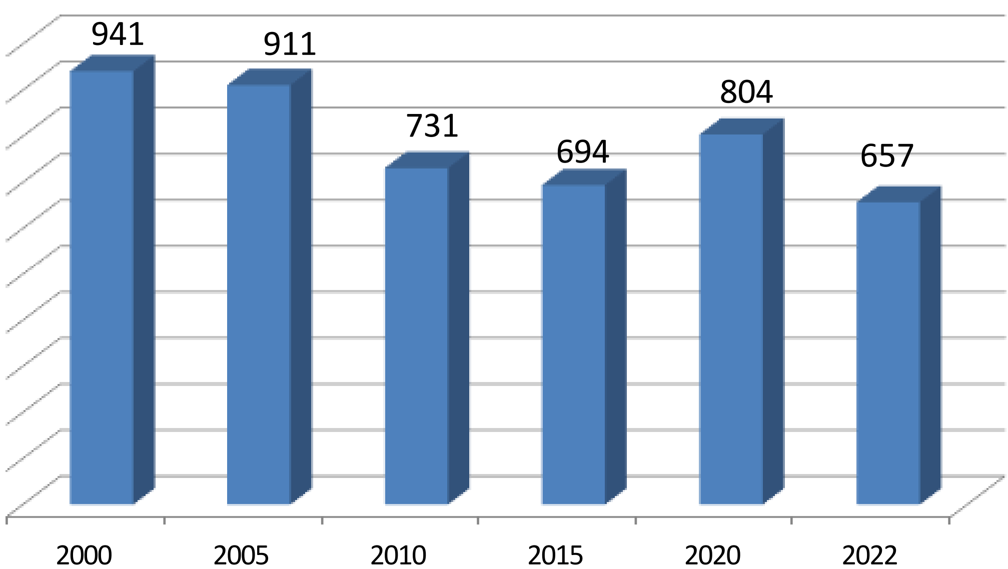
As to our neighborhood, our retailers and restaurants have struggled and adapted(whatever that meant for each). A number of our restaurants have turned over. But, considering the impact of COVID, the work from home phenomena and the significantly increased competition from the emerging neighborhoods all around us, we have done pretty well. Our neighbors have continued to support all of our businesses.

What Do The Numbers Show

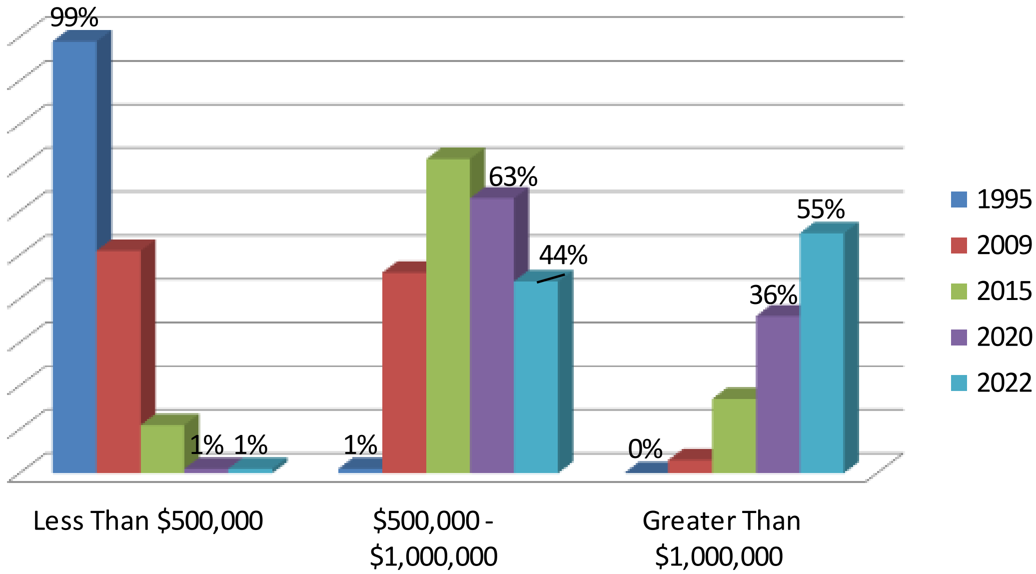
Capitol Hill Median Sold Price



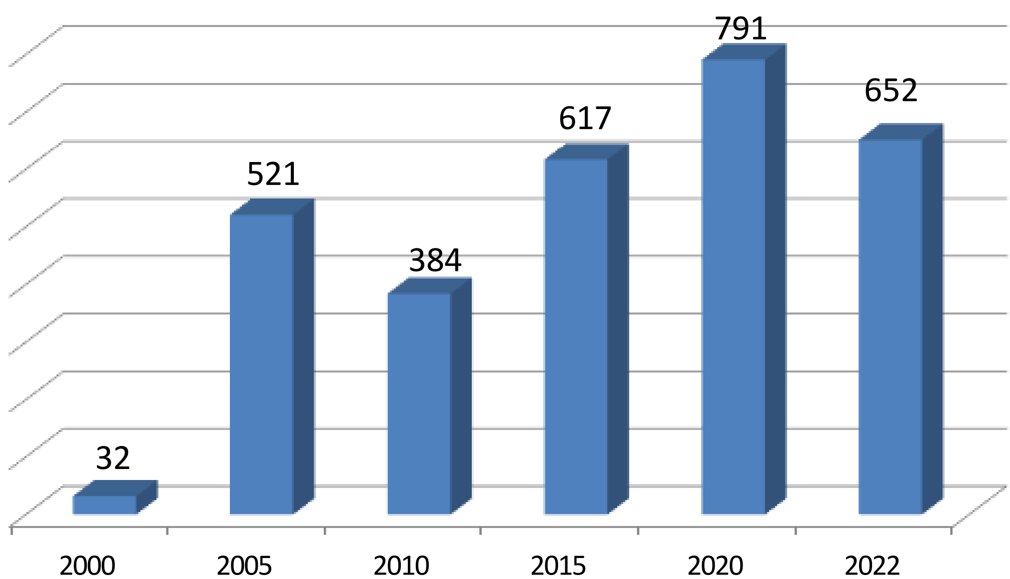
Capitol Hill Settlements



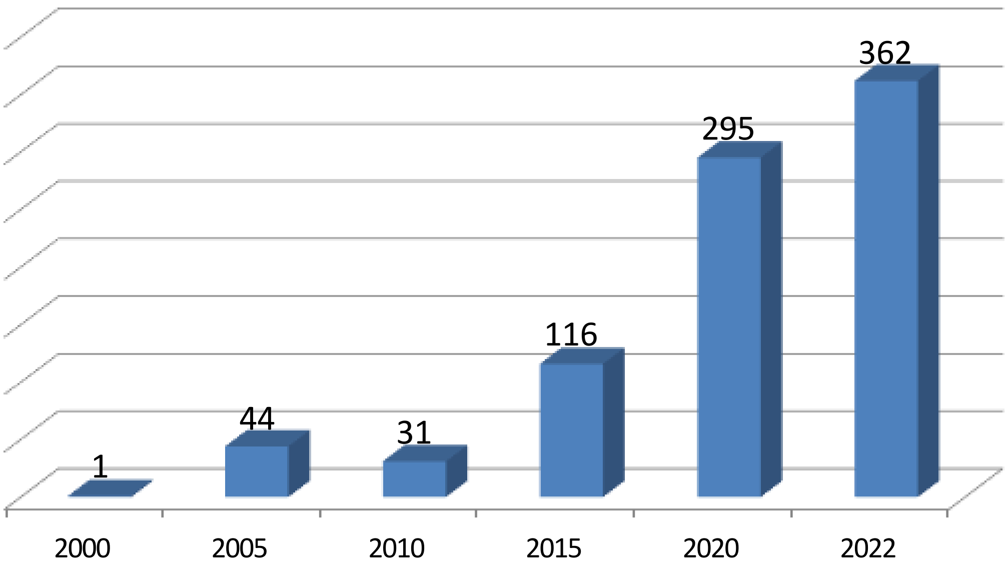
Capitol Hill Market Share By Price Range



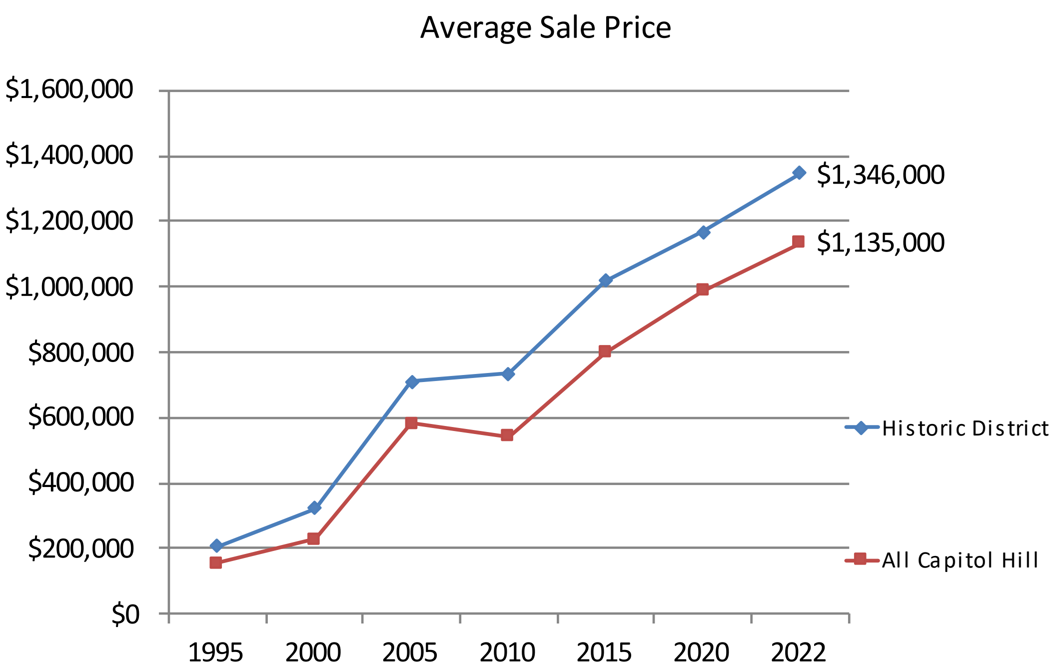
Capitol Hill Sales Over $500,000



Capitol Hill Sales Over $1,000,000



Capitol Hill Sub-Neighborhoods



How about the first 3 months of 2023?

Too early for any real data analysis but here is what I see at this point:

One thing for sure, we will continue to struggle with a lack of inventory in all price ranges. Many of us have lived on the Hill for 30 years or more, raised our kids here and watched several generations of neighborhood kids grow, go away to college and come back to the Hill to raise their families. Most of my generation have no desire to move anywhere else. Consequently, the phenomena of retiring and moving to Florida, is of minor impact here. Strangely enough, what we do lose to "retirement moves" we make up for with grandparents moving in to be near children and grandchildren. Did not see much of that prior to 2000 but it is a noticeable part of our market now.

I think we will see a further decline in number of sales(all due to lack of inventory). Maybe as much as 15%-20% this year. However, if you are waiting to see these prices drop, you are likely to be disappointed. Maybe a few percentage points here and there but not much more. As the financial markets adjust to these higher rates, that will draw more people into the market where the inventory is tight. For those who were around in 1980-1981 and watched 30 year rates spiral to 16%, you will remember that no one was buying who needed a mortgage. There were no adjustable mortgages in the beginning. As we worked through that period, adjustable mortgages emerged. After a period of fits and starts(remember negative amortization) things smoothed out and many of us used adjustable rate mortgages to get into a home and refied several times over the years.

Look for the opportunity. If a seller has been trying to sell for a while, try to negotiate a two/one rate buydown. As a buyer said the other day - date the rate. Buy some time to possibly refi. The hottest part of the market is $800,000 to $1,2M. A couple of years ago, a seller would not consider a contingent contract. In this market, a seller of say a $2Million house might seriously consider a contingent offer of a well priced $1Million house on the Hill.

The following is a repeat and worth reading: 1. The only thing for certain is that if you are making retirement plans that include cashing out of your home, do it now and put the money somewhere safe. Let your home of 30 years pay you a little back and rent for a few years if necessary. The only thing for certain is that we know what the market is today and we know that that could turn on a dime. Over the long run, 5 to 15 years, I believe our neighborhood will continue to be a great place to live and a solid investment. You are living within a 15 minute walk of the Capitol of the United States and with a few small exceptions, they aren't building any more homes here. Check out the prices in the other world capitols and compare our prices and you will see how far we have to run! 2. Don't do anything foolish and encumber your ability to sell or encumber the ability of your heirs to sell your property. Of course I am talking about renting any part of your property. The DC TOPA (Tenant Opportunity To Purchase Act)laws as they pertain to single family properties were moderated in 2018. However, if your tenant decides to be a problem, then you have a problem. If you have a two unit and the tenant gives you their notice that they are moving, give them a big hug and wish them well. Do not rerent if you are within a couple of years of selling. I am pretty knowledgeable about TOPA and would love a call from you if you are in a tenant situation and don't know which way to jump.

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