R&E-FY14-Outlook [4/02/2013]

Economic Situation / Outlook for the County

Major advantage:
Location Location

Close to Washington DC, center of the highest-income metropolitan area in the U.S.

[>see: "Employment" graphic, esp. commuting patterns]

Large numbers commute from outlying residential areas to Arlington (and DC)

[>see: R&E-FY14-Chart-1 "Population & Employment]

Number working here (about 229,000) is greater than resident population (about 213,000)

-- and projected to remain that way

Since 2000, County population has been growing at about 2,000 – 1% – per year

One result of the central location:

Arlington residents who work in County are outnumbered by:

Arlington residents who work in DC

and by

Fairfax residents who work in Arlington

In general, real estate values in the County are greater than comparable properties further out. The Arlington “premium” is supported by proximity to jobs in the central parts of the Metro area, and resulting avoided commuting costs.

[>see: “Demographics”]

Population characteristics:

Total households (2011): 92,436

Nonfamily households (55%) outnumber family households (45%)

About 20% of households have own children under 18

Est. median annual 2013 household income: $104,500

High proportion of residents has college and graduate or professional degrees

… which has been claimed to make for easier reemployment in a downturn

Recent situation

[>see: GMU, CRA, "Federal Procurement in the Washington Metro Area, 1980-2011"

The region is ending a decade dominated by the federal spending boom that followed the 9/11/2001 attack. This has increased defense spending – for two foreign wars – and led to the creation of the Department of Homeland Security.

Lowest unemployment rate in Virginia (one of the states most heavily dependent upon federal money.)

Prof. Fuller of the Center for Regional Analysis at GMU estimates that:

-- "… four of every 10 dollars in the regional economy flow directly from the federal government in the form of salaries, contracting … or transfer payments such as Medicare or Social Security. …" Given the indirect support that this provides for other sectors of the local economy (food, entertainment, etc.) the impact is larger. [Washington Post, March 8, 2013]

As a result, the region is very heavily dependent on a single source of income – which is a potentially risky situation.

With this as background, there has been an ongoing rapid buildup of office and residential real estate, esp. Arlington's Metro corridors.

[>see: Office Construction ;also New Residential Construction, 2 pages from <u>Arlington Virginia Profile 2013]</u>

<u>**Very current situation**</u>:

[>see two pages on "economic indicators" from AED]

A picture of prosperity, but with mixed signals

Reasons to believe that our boomtown atmosphere is unlikely to remain at its current level include:

Prof. Fuller (CRA/GMU) indicates that federal **contracting** shrank by 8% from 2010 to 2012 and will fall an additional 5% this year and next because of sequestration. He has projected that the DC, MD, and VA could eventually lose about 450,000 as a direct and indirect result of the cutbacks – although reportedly he has recently reduced the depth of the expected decline.

Likely continuation of last two years' federal spending cutbacks, esp. as impacts of sequestration become clearer.

County real estate assessments tended to level off in 2012. The County's total assessed value is up about one percent from a year earlier.

For the immediate future, the County budget projects flat business activity

In the near term, continued effects of BRAC and "sequestration" – which started on March 1 -- is likely to slow the local economy as furloughs, contract cancellations, and layoffs "bite." Required lead times for notices have doubtless slowed this. However, the outlook continuously changes, e.g., the recent reduction in the number of expected furlough days for Defense Department civilian employees.

In the fourth quarter of 2012, the office vacancy rate in the County was 16.3% , up from 11.5% last year. It was highest in Crystal City: 22.9%, up from 13% last year.

Contrary signals

-- Reports that there is a pickup in sales prices for homes in the region -- while fewer homes are offered for sale at the beginning of the usual spring buying season.

-- a year over year increase in hotel occupancy suggests an increase in tourism in the County

Additional concerns:

Multiple sources of likely <u>increased competition</u> for housing and development in Arlington include:

General development in the Metro region,
-- including the influx of young professionals into new/old neighborhoods in the District.

The opening of Metro's Silver Line next year and the large residential and office expansion planned for Tyson's Corner.

Softened demand for office space?
Increased working from home and more intensive use of office space, esp. assigning desk space to employees only for days when they are actually at the office.

So, at the moment, we – the Metro area –are well off, esp. compared to the rest of the country. But growth is likely to be slowed – or worse -- by the reduction in federal spending. Perhaps we should have some sympathy with current residents who could be facing a higher cost of living -- including federal, state, and local taxes -- at a time when there are reasons to expect stagnating or falling incomes for many of us.