



D.C. Office of Revenue Analysis Briefing Document Number: 2012-4 Date: June 2012

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Assessed real property values relative to the size of DC's economy have fallen in the last two years

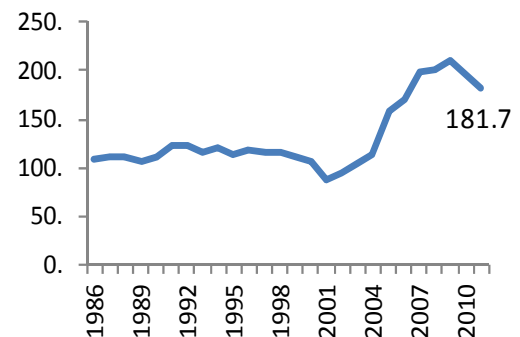
The assessed value of taxable real property in the District of Columbia peaked in FY 2009 at \$153.04 billion, and declined over the next two years to \$139.29 billion in FY 2011, a 9.0% drop. The decline in value that occurred in FY 2010 and FY 2011 reflected the impact of the US recession that began in December 2007 (which is in the first quarter of FY 2008). By law, District taxable property is assessed at estimated fair market value, but the impact on DC finances was delayed because it takes about two years for changes in market values to be reflected in the assessments used as the basis for real property tax bills.

Taxable real property in the District falls into two general categories: residential and commercial. Residential (including condominiums and apartments), the larger category, was valued at \$80.06 billion in 2011, accounting for 57.5% of all assessments. Commercial property, which includes commercial office buildings, hotels, retail, and industrial properties, was valued at \$59.22 billion in FY, 42.5% of all assessments.

The assessed values of both property classes fell from FY 2009 to FY 2011. In both cases this represented something of an unwinding of the rapid growth in real property values which had occurred in the years before the recession. In these two years, residential and commercial property not only declined in value, but also in relation to broad measures of the size of the District's economy.

For residential property the rise in value relative to DC Personal Income that occurred in the years prior to the 2007 recession was particularly striking. From FY 2004 to FY 2009 the assessed value of residential property increased by 158.5%.

Assessed value of DC residential property as % of DC Personal Income: FY 1986 to FY 2011



For 18 years, from 1986 to 2004, the relationship of assessed value to Personal Income was fairly stable, averaging about 111%. Then in the next five years the percentage almost doubled to 210% as fair market values were heavily influenced by what is now recognized as the bubble in housing prices. The bursting of the housing price bubble was one of the principal causes of the recession. From FY 2009 to FY 2011 assessed values of DC residential property fell by 5.3%, and the relationship of those values to Personal Income fell to 181.7%. The ratio in FY 2011 was still, however, considerably above the 25 year average of 131.9%.

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This briefing document was prepared by Stephen Swaim, DC Office of Revenue Analysis.

This brief first appeared in the June 2012 *DC Economic and Revenue Trends*. District of Columbia briefing documents are prepared by the Office of Revenue Analysis, which is part of the Office of the Chief Financial Officer of the District of Columbia government. The purpose of these documents is to make information available that is not of a policy nature. See also *District of Columbia Economic and Revenue Trends* and *Economic Indicators* issued monthly by the D.C. Office of the Chief Financial Officer (www.cfo.dc.gov/EconomyandRevenue).

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DC real property assessed values, continued from p.1

In the 5 year period from FY 2004 to FY 2009 the assessed value of commercial property increased 103.0%. Although substantial, the increase was less than the 158.5% in the residential sector. From FY 2009 to FY 2011, however, the fall in the commercial sector—13.5%—was more than twice that of residential property.

In relation to the private sector portion of the District's Gross State Product, commercial assessments fell from 105.3% in FY 2009 to 85.2% in FY 2011. The percentage in FY 2011 was still somewhat above the 25 year average of 78.2%.

Looking back over the past 25 years, the relationship of the assessed value of commercial property to the private sector portion of the District's Gross Domestic Product has been a cyclical one. From FY 1986 to FY 2011 the percentage has been as high as 112% and as low as 52%. The percentage rose in the late 1980's, fell from FY 1992 to FY 2000, then rose again until the most recent recession. The reasons for this cyclical pattern include not only the state of the District's economy but also national factors, including the general level of economic activity, inflation, interest rates, returns on stocks and other investments that compete with real property, the value of the dollar, and investment strategies of international investors.

—Stephen Swaim, DC Office of Revenue Analysis

Assessed values of DC Residential and Commercial real property compared to DC's Personal Income and Private Sector State Gross Domestic Product: FY 1986 to FY 2011

FY	Assessed value (\$B)			DC Personal Income (\$B)	DC private sector GDP (\$B)	Residential as % of Pers. Inc.	Commercial as % of private sector GDP
	Total	Residential	Commercial				
1986	25.01	13.05	11.96	11.98	17.60	108.9	67.9
1987	28.13	14.00	14.13	12.60	18.86	111.1	74.9
1988	31.68	15.26	16.42	13.75	20.98	111.0	78.3
1989	35.32	15.83	19.49	14.83	22.63	106.7	86.1
1990	39.01	17.21	21.79	15.58	23.92	110.5	91.1
1991	45.14	19.88	25.26	16.26	24.35	122.3	103.7
1992	48.73	20.83	27.90	16.98	24.92	122.7	112.0
1993	44.99	20.51	24.48	17.66	26.04	116.1	94.0
1994	44.40	21.95	22.45	18.04	27.31	121.7	82.2
1995	42.17	20.48	21.69	18.22	27.85	112.4	77.9
1996	42.70	22.04	20.66	18.65	28.77	118.2	71.8
1997	42.26	22.89	19.37	19.61	30.09	116.7	64.4
1998	43.19	23.46	19.73	20.30	32.43	115.6	60.8
1999	42.45	23.71	18.74	21.13	34.87	112.2	53.7
2000	43.27	23.91	19.36	22.56	37.34	106.0	51.8
2001	44.23	22.27	21.96	25.37	40.79	87.8	53.8
2002	52.52	24.90	27.62	26.43	43.24	94.2	63.9
2003	58.06	28.38	29.68	27.21	46.38	104.3	64.0
2004	66.45	32.70	33.75	29.08	50.32	112.4	67.1
2005	86.89	49.98	36.91	31.48	53.73	158.7	68.7
2006	98.49	58.09	40.40	34.07	56.92	170.5	71.0
2007	124.88	73.13	51.75	36.82	60.87	198.6	85.0
2008	142.96	81.40	61.56	40.35	64.69	201.7	95.2
2009	153.04	84.54	68.50	40.32	65.05	209.7	105.3
2010	150.12	81.86	68.26	41.60	66.26	196.8	103.0
2011	139.29	80.06	59.22	44.06	69.55	181.7	85.2
Average percent from 1986 to 2011						131.9	78.2

Source: (1) CAFR 2011 and earlier years (for assessed values). (2) BEA and Global Insight.

Percent change in the assessed value of DC residential and commercial property before and after the recent recession's impact

FY	Residential	Commercial
2004 to 2009	158.5	103.0
2009 to 2011	-5.3	-13.5

Source: see accompanying table

Assessed value of DC commercial property as % of private sector DC Gross State Product: FY 1986 to FY 2011

