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## Apartments growing more rapidly than population, while new office space lags employment growth

*The last 3 years have seen many new apartments in DC, but only limited new office space*

Over the past three years population and jobs in DC have grown steadily and at about the same rate. From the first quarter of 2013.1 to 2016.1. DC’s population grew a little over 34,000 or 5.3%. This percent increase is just a little bit faster than wage and salary employment. DC added almost 33,000 jobs over the period, a 4.4% percentage increase.

People need to live somewhere and they need to work somewhere, so it would be expected that both the number of apartments and the amount of office space would increase as well. The impact is much greater for apartments, however, than for office space. According to CoStar, from 2013.1 to 2016.1 the number of apartment units increased by 12,805 (7.8%), well over the percent gain in population. By contrast, the net increase of 1.22 million square feet of commercial office space represents an increase of only 0.8% over the three years, a percentage change far less than the gain in employment.

What accounts for these different relationships? The short answer is that most of the new population lives in apartments, but the connection between commercial office space and jobs is much looser.

Apartments tracked by CoStar represent about 55% of all housing units in DC. The other units are mostly in single family or other small structures whose numbers have not increased much over the past 3 years, although some have been reconfigured for more units. The housing supply for a growing population is thus mostly in larger multi-family buildings, principally apartments.

### Change in DC population, employment, apartments, and commercial office space: 2013.1 to 2016.1

#### Population and apartments

Percent change in population	5.3
Percent change in apartment units	7.8
Percent change in occupied apartments	6.9

#### Wage and salary employment and commercial office space

Percent change in employment	4.4
Percent change in office space	0.8
Percent change in occupied office space	0.0

Source: BLS (employment), Global Insight (population) and CoStar (apartments and commercial office space)

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

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By contrast, many of the jobs added to the District’s economy do not need office space. For example, retail and food services accounted for more than one-third of all new jobs in DC over the past three years. In addition, other jobs are located in schools, hospitals, government office buildings and other locations that are not commercial offices. The relationship between job gains and commercial office space is further weakened by the well-documented decline in the number of square feet of space needed by many office workers, reflecting factors such as telecommuting, open office layouts, and reduced need for libraries in law firms.

DC population, employment, apartments, and commercial office space: 2013.1 to 2016.1

	Level		3 year change	
	2013.1	2016.1	Amount	%
<b>Population and apartments</b>				
Population	645,990	680,360	34,370	5.3
Apartment inventory	164,823	177,628	12,805	7.8
Occupied apartments	160,203	171,198	10,995	6.9
Vancy rate	2.8	3.6	0.8	
<b>Wage and salary employment and commercial office space</b>				
Wage and salary employment	737,833	770,600	32,767	4.4
Office space inventory	152.12	153.33	1.22	0.8
Occupied space	136.48	136.51	0.03	0.0
Vacancy rate	10.3	11.0	0.7	

Source: BLS (employment), Global Insight (population) and CoStar (apartments and commercial office space)

**Construction dynamics**

Looking back over the past decade, construction trends for apartments and commercial offices reflect the business cycle as well as responses to growth in people and jobs and other market forces. As the Great Recession approached in 2007, construction of apartment units and commercial office space, measured as percent of inventory, was increasing. As shown in the following chart, construction as a percent of inventory was over 3% for apartments and about 5% for offices in early 2008. Construction fell sharply with the recession, reaching about 1% of inventory in 2010 for both apartments and offices.

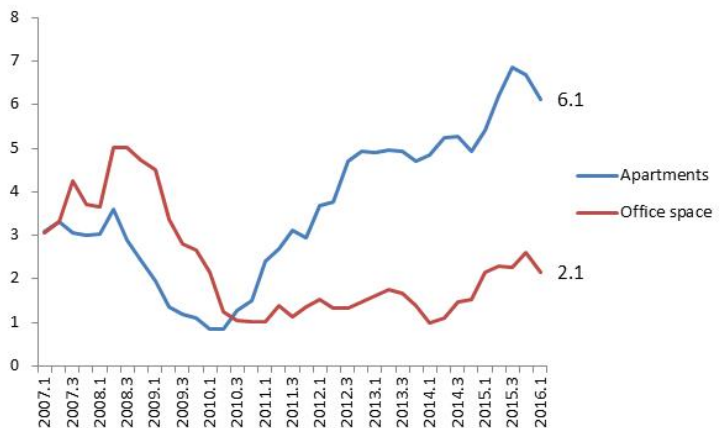
With the recovery, apartment construction ramped up sharply starting in 2011, reaching 6.9% in the third quarter of 2015. Commercial office construction, however, was a very different story. It increased slowly, never getting close to the pre-recession pace. Furthermore, the majority of the office construction did not result in a net increase in office space. The primary effect of the new office construction seems to have been directed to meeting demand for improved amenities or better location. As shown in tables on the next page, over the past three years, more than 92% of the new apartments delivered to the market resulted in a net increase in inventory. For commercial office space, net inventory rose less than one-third of the newly delivered office space.

—Stephen Swaim, Office of Revenue Analysis

Apartment and commercial office construction as percent of inventory: 2007.1 to 2016.1

(1) Number of apartments under construction as % of inventory, and  
(2) square feet of office space under construction as % of inventory

Source: CoStar



**Apartment deliveries and net change in inventory: 2013.1 to 2016.1**

	Buildings	Units
Apartment Deliveries	115	13,863
Net change in Inventory	102	12,805
Net change in inventory as % of deliveries	88.7	92.4

*Source: CoStar, all classes*

**Office deliveries and net change in inventory: 2013.1 to 2016.1**

	Buildings	Square feet
Office Deliveries	23	3,860,626
Net change in Inventory	-18	1,215,320
Net change in inventory as % of deliveries	<i>na</i>	31.5

*Source: CoStar, all classes na = not applicable due to negative number*