Washington's Changing Economy

Fortunes Made in Area Real Estate 'Without Even Mowing the Weeds'

By Philip S. Brown

INFLATION, like love, can be "a grand and glorious thing."

Those who bought a farm in nearby Maryland or Virginia in the late 1930s—or even a few run-down properties in Georgetown — and have retained their holdings know the feeling.

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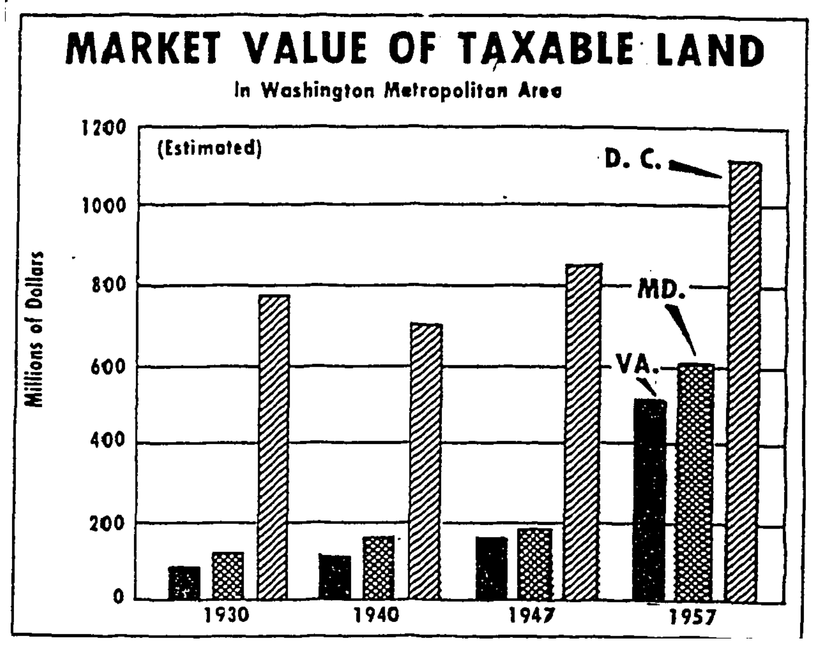
Even a short affair can be pretty exciting. For example, those who bought a 23-acre tract at the intersection of Shirley highway and Seminary road, in Alexandria, in 1953 for $175,000 and sold it in 1956 for $350,000, without so much as mowing the weeds, must find it hard to think harshly of inflation.

Inflation has many secret admirers, but few champions, even though it is responsible for many fortunes made by Washington residents in recent years. Some beneficiaries who have sold out and put their money in bonds and mortgages are now virtuously wedded to "the sound dollar" and think the time has come to stop this thievery of people's hard-earned savings. But others who have bought them out must lust for inflation — or euphemistically, "a healthy appreciation in property values."



Since World War II, the market value of land alone in the metropolitan area of Washington has doubled and buildings too have risen in value, despite physical depreciation and obsolescence.

The Mayflower Hotel, bought by Hilton in 1947, was sold in 1956 for $12.6 million, at a profit of $5.8 million. The nearby Stoneleigh Court building, also on Connecticut ave., built by John Hay in 1902, sold for a little over $2 million in 1953 and again last month for about $3 million.

To be sure, not all the rise in property values is attributable to inflation. The population of the metropolitan area has risen 40 per cent since World War II, and doubled since 1940. Also, the incomes of many families have risen more than consumer prices in this period and this too has created an additional demand for land.

Billion Dollar Gain

The triple impact of inflation, rise in population and increase in "real incomes" has caused a 10-fold increase in some suburban land that was just beyond the perimeter of development in the late 1930's. Real estate people can instance many tracts that sold for $500 to $1000 an acre and are now worth $5000 to $10,000. This appreciation isn't typical; neither is it very unusual.

Land in Montgomery, Prince George, Arlington and Fairfax Counties and in Alexandria and Falls Church was valued, in the aggregate, at about $335 million just after World War II. Today, this same land, apart from buildings, is worth nearly $1200 million. Compared with the late 1930's, the increase is about 5-fold.

This appreciation of about $1 billion in suburban land values since the late 1930's has made a lot of people wealthy. In some cases, the beneficiaries have been old inhabitants: some already wealthy, some not. In Maryland, one family that operated a 400-acre dairy farm in District Heights, along the Marlboro Pike, recently sold out for over $1 million. In Virginia, one hears of persons who never earned more than a couple thousand dollars a year and are now worth several hundred thousand dollars.

Perhaps, a larger fraction of the gain has gone to real estate developers. The buyer of the Heurich estate, for example, recently sold 51 acres to the Hecht Co. for over $1 million—nearly as much as he paid in 1951 for the entire 376-acre tract.

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In the District, the price of land in Georgetown and along lower Connecticut ave., where land now sells for $80 to $90 per square foot, has also risen very sharply in recent years. But the price of land along 7th st. (nw.) and other areas "in transition" has appreciated very little. All in all, the value of land in the District, apart from buildings, has gone up only 30-35 per cent since World War II. A year from now, when the results of the District's comprehensive reassessment of some 160,000 parcels of real estate are known, we will have a better indication of the changes that have occurred, section by section.

Postwar Leap

Land accounts for about $2.3 billion of real estate values in the Washington area; buildings for about $6½ billion. Most of the $3.9 billion increase in the value of buildings since World War II is attributable to new construction, much of it residential construction. About 240,000 dwelling units have been built in this period. But, the virtual doubling in building costs has caused the value of old buildings to rise—more than offsetting the loss in value due to depreciation and obsolescence.

Consequently, many home-owners have lived virtually free of rent and owners of commercial properties have been able to charge off depreciation, without incurring a reduction in the dollar value of their investment. Commercial properties when wholly depreciated have been sold, in many cases, for more than their initial cost.

A few years ago, the aggregate value of buildings in the suburban areas passed that of the District. More recently, in the past year or so, the value of the enormous land area of the adjoining counties appears to have risen above that of land (apart from buildings) in the District. In 1930, all the land in the adjoining counties was valued at less than a quarter of that in the District.

All together, there is about $8½ billion of taxable real estate in the metropolitan area of Washington. In addition, there are several billions of Government and private tax-exempt property. In the District, 43 per cent of the area is owned by the Federal Government and the value of this land and the buildings on it is nearly $2 billion. In Fairfax County, the Federal Government owns 18,000 acres and in Prince George County, it owns more land than there is in all the District of Columbia.

What of the Future?

Expectations about the future growth of Washington have changed in recent years. Before World War II and even in 1946-47, when Federal employment was being sharply reduced, there was not as much optimism about the area's growth as there is now. Also, people did not expect the general price level to rise year after year—an expectation that has become increasingly general. Present real estate values reflect these changed expectations, as well as the growth in population and the inflationary price rises that have actually occurred.

Whether enough jobs will be created by 1980 to support an area population of nearly 3½ million, which Dr. Picard of the Board of Trade and others now predict, and whether construction costs and prices generally will continue to rise, with only short-term pauses, are questionable. Business developments and the stock market, in recent months, have done much to create doubts about future prices.

If inflation is checked and if population growth in this area does slacken a bit, some losses can be expected. If then, prospective homeowners think that buying a house involves a real risk, this could change the housing market quite a lot. In recent years, decisions to buy have been swayed by the expectation of capital gains—or, at least, the conviction that rising prices generally would prevent a loss greater than what one would otherwise have to spend for rent.

But local real estate prices are still high. "Asking prices continue to move up." "Most speculative holdings are in strong hands." "Office space and apartments are in strong demand." These are the current comments of knowledgeable real estate people.

Washington's Faith

The oft-repeated advice that one can't go very wrong in buying property in Washington, the Nation's Capital, is worth a backward glance.

In 1794, while Washington was President, a young friend Thomas Peter, sought to borrow 2000 pounds from him to buy a tract of land, presumably in what is now the District of Columbia. Washington who was "land poor" at the time, was unable to lend so large a sum, but took occasion to say in his letter of reply: "... it would be to be regretted if you should miss it, as there can be no doubt under the rapid increase of land (particularly that which approximate to the Seat of Government); but that one half would pay for the whole a few years hence . . . "

This particular land, if purchased by Thomas Peter and held by his descendants, may have proved a good investment. But the City of Washington grew more slowly than many other cities. That part of the District, across the Potomac, though near the "Seat of Government," failed to grow and was retroceded to Virginia.

In fact, the area across the Potomac declined in importance during most of the 19th century. Alexandria, where ships from all over the world docked in the years following the Revolution and whose custom receipts exceeded those of Boston and Baltimore, lost out when the B. & O. Railroad to Baltimore was completed. Land was abandoned, as the soil was exhausted, and farmers emigrated to fertile western lands.

Not until World War I did this area grow because it was near the "Seat of Government." In fact, it was not until after the Memorial Bridge was completed in 1932, that it began to experience any very rapid development.

Fairfax County, including Falls Church and half the present area of Alexandria, could have been bought for $80 million in 1930—that is to say, this was the approximate market value of all the taxable land and buildings of this large county. Today, without Falls Church and the area annexed by Alexandria, its real estate has a value of nearly $1 billion.

Most of the future expansion across the Potomac, encouraged by new bridges, express highways, another airport, the huge CIA office building and other federal establishments, will be in Fairfax County, Falls Church, Arlington County and most of Alexandria no longer have much undeveloped land.

Growth and Decay

Growth brings satisfaction to some; unhappiness to others. Encroachment isn't welcomed by those persons who moved to Maryland and Virginia years ago to get privacy, quiet and space around them. Moreover, every encroachment brings higher assessments and more traffic congestion for those who commute to downtown Washington.

The business community wants, and usually gets, residential land rezoned to permit the extension of shopping centers, the erection of motels, apartments and thickly-packed single-family houses. In many cases, these shopping centers and housing developments are badly planned and create disproportionate demands for sewers, roads, schools and other outlays that tend to boost taxes on residential real estate.

But this is just the first series of tax boosts. The second will come when badly planned housing projects become low-grade, if not slum, areas. When this time comes, the District, which now bears most of the burden of public assistance (not assumed by the Federal Government) may export some of its welfare load to the suburbs.

Then too, suburban residents are taxed to support a disproportionate share of State expenditures. In Virginia, one is reminded of the cleavage that developed in the 18th century between the "northern neck" and the older areas of the State. The recent fiscal survey made by Mr. Ecker-Racz and his committee pointed out that this small four-government area, which is only a hundredth part of the State, accounts for one-sixth of the State's tax revenues but receives only one-sixteenth of that revenue returned to local governments. Moreover, the State maintains a tight reign over schools, libraries, public health, the courts and the road system of this area; it supervises most municipal activities by means of its system of financial aid and services and, as a final control, it pays the salaries of many local officials.

Possibly as Walter Tobriner envisages, the time is not far off when many high-income families will return to the District, attracted by superior schools, the imaginative redevelopment of the Southwest, by tax advantages, and by easier access to the big stores and theaters of downtown Washington.