

**Housing Market Study**

September 1995



**FRIENDSHIP HEIGHTS  
SECTOR PLAN AREA**

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# The Friendship Heights Housing Market

## I. Introduction

Friendship Heights is probably the strongest multi-family housing market in Montgomery County, and one of the strongest in the region. Housing in the Sector Plan Area includes rental apartments with some of the lowest vacancy rates and highest rents in the County as well as a number of condominium buildings, including one of the County's most elegant condominium complexes. Although prices are generally high, the area also contains a number of moderately priced condos.

The key to the appeal of Friendship Heights appears to be its desirable location on the edge of the northwest section of Washington, D.C., its many urban amenities, and its attractive image. Metrorail is one of its primary amenities. Friendship Heights' combination of local and regional retail is another attraction, as is its aura of safety. This area is one of the few places in Montgomery County where it is possible to live comfortably without a car. Most of the housing is within easy walking distance or a convenient Metro ride to a wide variety of daily destinations, including jobs, shopping, restaurants, parks, and most of the cultural and entertainment opportunities of Washington, D.C.

Much of the commercial area commonly considered Friendship Heights is in Washington, D.C. However, all of the multi-family housing in the community is currently in Montgomery County. According to the Washington Metropolitan Area Council of Governments, nearby neighborhoods in Washington, D.C. included just over 1,500 households in 1990, most of them in single-family detached houses. This study concentrates on multi-family housing because Montgomery County policies for Metro station areas, land prices, and land availability discourage any significant single-family development in the Sector Plan Area. However, townhouse development may be appropriate in some areas.

## II. Findings

Friendship Heights is a very strong multi-family housing market:

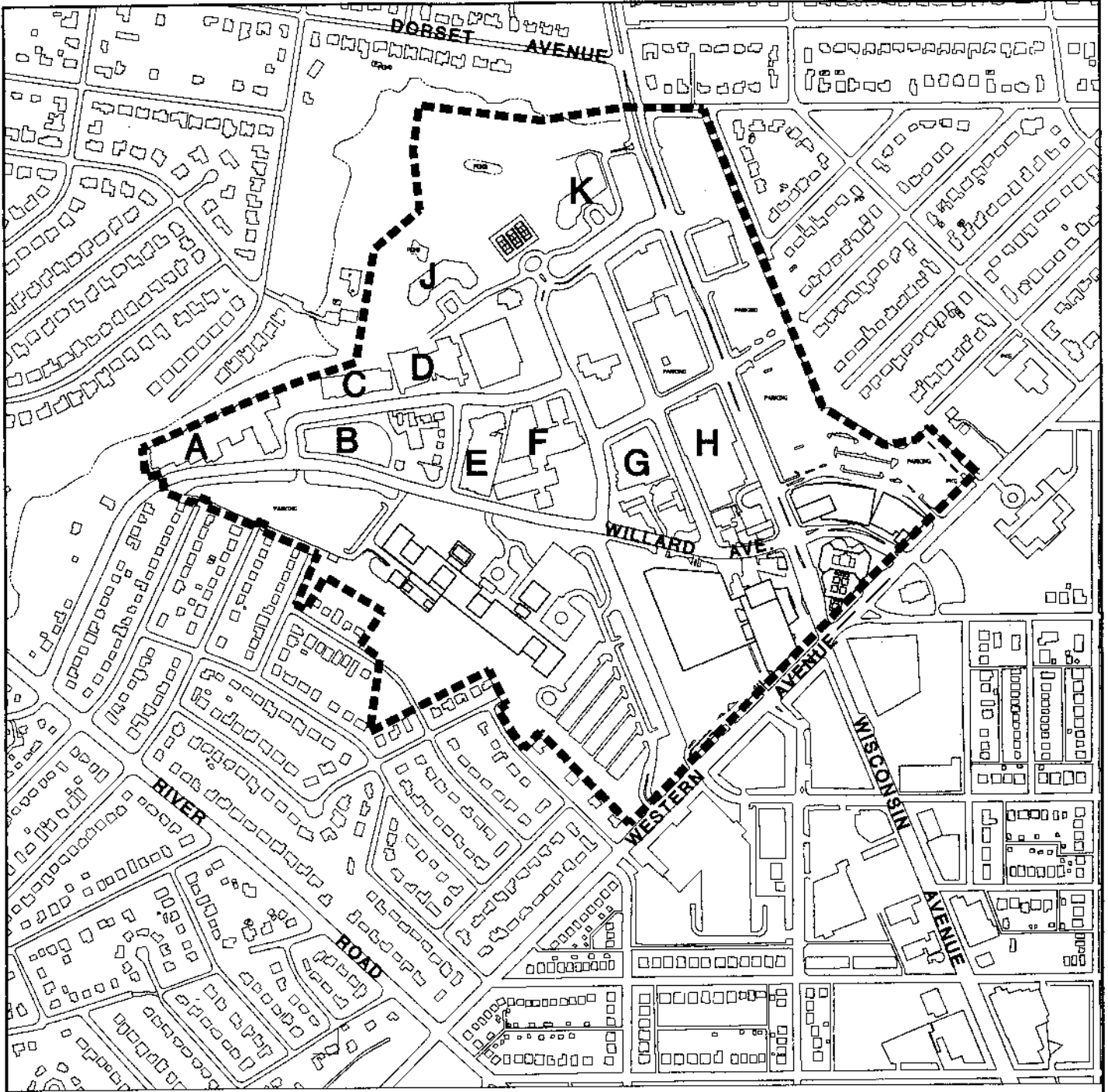
- Turnover rents are higher than County-wide high-rise rents for each unit size. Friendship Heights' rents average \$259 more per unit per month.
- Vacancy rates are even lower than the County's already low rates. Friendship Heights' rates of 3.3 percent in 1993 and 2.8 percent in 1994 are a signal that the market could support additional housing.
- Condominium prices are varied and sales are strong. Prices ranged from just under \$40,000 for a unit in an older building to \$740,000 for a unit in Somerset House II in 1994.

There is demand for 800 to 1,100 new housing units in Friendship Heights in the next 15 to 20 years:

- More than 90 multi-family units are needed to alleviate the current tight market, evidenced by very low vacancy rates.
- Expected employment growth will require about 620 multi-family units to maintain the same share of workers by 2010. If additional job capacity, and subsequently more jobs, are added

# Friendship Heights Multi-Family Housing

Figure X



## LEGEND

- |       |                        |   |                     |
|-------|------------------------|---|---------------------|
| ----- | SECTOR PLAN BOUNDARY   |   |                     |
| A     | THE IRENE              | F | THE WILLOUGHBY      |
| B     | 4620 NORTH PARK AVENUE | G | HIGHLAND HOUSE WEST |
| C     | NORTH PARK AVENUE      | H | HIGHLAND HOUSE      |
| D     | THE ELIZABETH          | J | SOMERSET HOUSE #2   |
| E     | THE CARLTON            | K | SOMERSET HOUSE #1   |



North

SCALE:  
1" = 600'

in Friendship Heights, as the result of this Sector Plan or other actions, the need for housing will increase.

- The area should support between 100 and 300 townhouses. This number would create a townhouse share of the housing stock in Friendship Heights that is less than half the County average.

Some of this demand can be met by the maximum of 273 units in Somerset House that are currently approved. Another 132 rooms have been approved in the Marriott Brighton Gardens project, but these will not be full living units and are designed for the frail elderly. Consequently, they will not serve the demand identified in this study.

### III. Housing Supply

Housing in the Friendship Heights Sector Plan Area is comprised primarily of high-rise apartments, both condominium and rental. There is also one mid-rise condominium building and one remaining single-family detached house that appears to be occupied. Overall, Friendship Heights contains 1,518 rental apartments and 1,917 condos for a total of 3,436 units, including the single-family house.<sup>1</sup>

There is no government assisted housing in the Sector Plan Area; all of the units are privately owned. Most were built before Montgomery County's Moderately Priced Dwelling Unit (MPDU) law took effect in 1974. Consequently, very few MPDUs have been built in this area. In fact, only one complex, the Carleton, has included MPDUs. The Carleton had 22 MPDUs when it was constructed in 1982. Because price controls on multi-family MPDUs lasted only five years at that time,<sup>2</sup> the price controls on these units expired in 1987 and 1988. At the time that the Somerset House complex was approved, the property was part of the Town of Somerset and, as such, was not required to provide MPDUs.

#### Rental Apartments

Friendship Heights rental multi-family housing is located in four complexes. These are:

- **Highland House** on the southwest corner of Wisconsin Avenue and South Park Avenue, facing Wisconsin Avenue. This complex contains 391 apartments as well as first-floor retail and some professional offices. It was built in 1964 and is 15 stories in height.

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<sup>1</sup>Unit counts vary from source to source. Counts for rental buildings may or may not include staff units. Multi-family units may be combined or broken into several units. Units may also change to commercial uses, such as doctor's offices, or back to residential use. The totals above reflect the Montgomery County Office of Landlord-Tenant Affairs 1994 Survey for the rental component and a Planning Department telephone survey for the condos.

<sup>2</sup>The MPDU control period for multi-family housing has since been extended to 10 years.

- **Highland House West**, located on South Park Avenue between The Hills Plaza and Friendship Boulevard. It contains 308 apartments in a 19-story building and was constructed in 1973.
- **The Irene**, at the northwest corner of the intersection of Willard Avenue and North Park Avenue, contains 507 units. It was built in 1966 and is 16 stories in height.
- **North Park Avenue Apartments**, on the north side of North Park Avenue, contains 310 units. This building was completed in 1972.

### Unit Sizes

One-bedroom apartments are the most prevalent unit size in Friendship Heights, accounting for 47 percent of the units. This is typical of high-rise rental housing where smaller units predominate. Another 16 percent of the units are efficiencies, 32 percent have two bedrooms, and 5 percent have three bedrooms. The three-bedroom units are all located in the Irene, which has the third largest number of high-rise three-bedroom units in the County. As a result, the Irene is a valuable resource for households that want large units in a high-rise rental setting. The following table presents the details of apartment sizes in Friendship Heights.

Distribution of Rental Apartments  
By Unit Size in Friendship Heights  
1994

Name	Total Units	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom
Highland House	391	196	182	13	0
Highland House West	308	0	196	112	0
The Irene	509	42	131	261	75
North Park Avenue	310	0	210	100	0
<b>Total</b>	<b>1,518</b>	<b>238</b>	<b>719</b>	<b>486</b>	<b>75</b>

Source: Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, August 1995.

The following table illustrates the unit size distribution of all rental apartments County-wide compared to high-rise apartments. It shows that high-rise apartments are generally smaller than those in other building types. One-bedroom units are the most prevalent high-rise unit size and efficiencies are more available in high-rises than in other apartment building types. Efficiencies are relatively rare in garden apartment buildings. The small units are one reason why high-rise households tend to be smaller than households in other unit types, as our Census Update Survey data shows, and why very few children live in high-rises, especially in market rate units. (See the demographic section to follow.)

The table also shows that unit sizes in Friendship Heights' rental stock are consistent with the County-wide high-rise pattern. Friendship Heights is representative of high-rises in general, although one-bedroom units are even more frequent here than they are in other parts of the County.

Percentage Distribution in 1994 of  
Montgomery County and Friendship Heights Rental Apartments\*  
By Numbers of Bedrooms

Number of Bedrooms	All Montgomery County Apts.	Montgomery County High-Rise	Friendship Heights
Efficiency	4.9%	16.8%	15.7%
One Bedroom	38.6%	44.8%	47.4%
Two Bedroom	47.1%	32.0%	32.0%
Three Bedroom	9.2%	6.3%	4.9%
Four Bedroom	0.3%	0.1%	0.0%

\* Includes unsubsidized units only.

Source: Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, August 1995.

### Turnover Rents

Friendship Heights' average turnover rents, the rents charged to new tenants, are a clear indication of the strength of the Friendship Heights housing market. Turnover rents in the Sector Plan Area are higher than County-wide high-rise rents for each unit size. The difference is particularly striking for larger units, but it is present for each type of unit as the following table illustrates. The average difference is \$259 per unit per month.

Comparison of Mean Turnover High-Rise Apartment Rents  
Friendship Heights and Montgomery County  
1994

Unit Size	Montgomery County (A)	Friendship Heights (B)	Difference (A - B)
Efficiency	\$599	\$741	\$142
One-Bedroom	\$782	\$950	\$168
Two-Bedroom	\$979	\$1,340	\$361
Three-Bedroom	\$1,100	\$2,000	\$900
All Units	\$835	\$1,094	\$259

Source: Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, August 1995.

The high average rents are particularly remarkable in this market where all of the rental apartments are more than 20 years old. One reason, in addition to the strong market and choice location, may be that rents include all utilities in all of the Friendship Heights buildings, while only some of the County's other apartment complexes include these costs. However, a comparison of similar buildings in similar locations does not reveal a clear pattern of higher rents when utilities are included than when they are not. (The Office of Landlord-Tenant Affairs does not distinguish between different arrangements for utilities in reporting rents.) Another reason for the high rents may be that Friendship Heights rental apartments offer a larger than usual array of amenities such as swimming pools and courtesy buses. All provide underground parking for a separate fee.

## Vacancy Rates

Montgomery County tends to enjoy low vacancy rates for rental housing, compared to national patterns. Vacancy rates for non-subsidized units in buildings of 12 or more units ranged from 2.8 percent to 5.2 percent between 1984 and 1990 and had an unweighted average of 4 percent. During the same time period, national vacancy rates in buildings of 5 or more units ranged from 7.5 percent to 11.4 percent, with an unweighted average of 9.9 percent. The recession caused local vacancy rates to rise to 6.5 percent in 1991 and 6.1 percent in 1992, while national rates were 10.5 percent and 10.1 percent in the same years. County rates have since improved to 5.3 percent in 1993 and 4.2 percent in 1994, while national rates have remained in the 10 percent range.

Lenders and apartment developers generally consider a rental apartment building fully occupied when the vacancy rate is 5 percent or less and, in some cases, 6 percent or less. In a given market area, rates below 5 percent are regarded as an indication that there is market demand for additional apartments. A 5 percent vacancy rate permits prospective tenants a choice of apartments. It also encourages landlords to refurbish apartments between tenants.

As might be expected, the lower the vacancy rate, the higher the estimated demand. Vacancy rates are not the only factor to consider when evaluating market demand, however. Turnover rent rates, which have been increasing very slowly in Montgomery County, by 2 percent or less per year between 1990 and 1993, and area demographics, particularly household formations, are also major ingredients. Nonetheless, Montgomery County's low vacancy rates indicate a healthy market.

**Rental Apartment Vacancy Rates**  
**Montgomery County and the United States**  
 1984 - 1994

Year	Montgomery County (12 or more units) Non-subsidized	United States (5 or more units)
1984	2.8%	7.5%
1985	3.3%	8.8%
1986	3.7%	10.4%
1987	4.3%	11.2%
1988	4.7%	11.4%
1989	4.1%	10.6%
1990	5.2%	9.6%
1991	6.5%	10.4%
1992	6.1%	10.1%
1993	5.3%	10.3%
1994	4.3%	9.8%*

\* New Series - the federal government has made slight changes in methodology.

Source: U.S. Census; Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, March 1995.

The following table shows that Friendship Heights' vacancy rates are even lower than the County's already low rates. There are no clear patterns of vacancies by unit sizes. The industry could be expected to interpret these rates of 3.3 percent in 1993 and 2.8 percent in 1994 as signals that the market could support additional housing in this area.

**Comparison of Vacancy Rates  
Friendship Heights and Montgomery County  
Non-subsidized Units**

Year	Montgomery County	Friendship Heights
1993	5.3%	3.3%
1994	4.3%	2.8%

Source: Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, March 1995.

In recent years, Montgomery County's mid- and high-rise buildings have had lower vacancy rates than its garden apartment complexes. Again, Friendship Heights' vacancy rates are lower than County-wide high-rise rates and similar to County-wide mid-rise rates. (Mid-rise rates are the lowest County-wide probably because there are fewer of these units than other apartment types and because most of the County's mid-rises are old enough to permit moderate rents.<sup>3</sup>)

**Rental Apartment Vacancy Rates in Montgomery County  
1993 and 1994**

Housing Type	1993 Vacancy Rate	1994 Vacancy Rate
All garden Unsubsidized only	5.0% N.A.	4.5% N.A.
All mid-rise Unsubsidized only	3.9% 4.8%	2.5% 3.2%
All high-rise Unsubsidized only	4.7% 6.7%	3.5% 3.8%
All rental apartments Unsubsidized only	4.9% 5.3%	4.0% 4.3%

Source: Montgomery County Office of Landlord-Tenant Affairs; Montgomery County Planning Department, March 1995.

**Condominiums**

The Friendship Heights Sector Plan Area contains five condominium complexes. These are:

- **4620 North Park Avenue**, bounded on the north and west by North Park Avenue and on the south by Willard Avenue. This complex contains 293 units and was built in 1973.

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<sup>3</sup>Older buildings tend to command lower rents partly because the market will pay a premium for new construction and partly because these buildings usually do not need to support high debt service costs.



- **The Carleton**, located between Willard Avenue and North Park Avenue east of Shoemaker Farm Lane, contains 149 units. The Carleton is the newest building in the CBD, the only mid-rise, and the only building to have had MPDUs.
- **The Elizabeth** is located on the north side of North Park Avenue, across from the end of Shoemaker Farm Lane. It was built in 1974 and contains 353 units as well as approximately 9,500 square feet of retail space.
- **Somerset House I and Somerset House II** are located on the northwest side of Somerset Terrace and Friendship Boulevard, west of Wisconsin Avenue. These buildings are two of a planned three-building complex. Somerset House I contains 158 units and was completed in 1988. Somerset House II contains 149 units and was completed in 1990. These are arguably the most luxurious multi-family buildings in Montgomery County.
- **The Willoughby** spans its block from Willard Avenue on the south to North Park Avenue on the north and Friendship Boulevard on the east. At 815 units, it is the largest complex in Friendship Heights. It is also one of the oldest and was built in 1967. It was converted from a rental building to a condominium in 1982.

### **Sales Prices**

Friendship Heights is a very desirable place to live and Somerset House offers the most expensive multi-family housing in Montgomery County. Without Somerset House, however, many of Friendship Heights condominiums are relatively affordable, compared to high-rise condos County-wide. Two factors appear to influence the comparatively moderate prices. First, the largest condominium, the Willoughby, was originally built as rental housing. Converted rental apartments tend to be smaller, less expensive units than units built as condos. The Willoughby also has a very high number of efficiencies, approximately 240. Since efficiencies are, not surprisingly, the least expensive unit type, a lower average price is logical.

Second, most of Friendship Heights' condos are among the oldest high-rise condos in the County. While there are significant exceptions, older apartments are generally less expensive than newer ones. The Carleton, which has the highest prices other than Somerset House, was built as a condominium in 1982, almost a decade after construction of the newest of the other complexes. Its sales prices averaged \$228,000 between 1992 and 1994, compared to averages between \$102,300 and \$157,000 for the other buildings during that period.

The following table shows 1993 Friendship Heights and County-wide high-rise condominium prices with and without Somerset House.

1993 High-rise Condominium Prices<sup>4</sup>  
Friendship Heights and Montgomery County

	Average Price	Median Price
Friendship Heights	\$247,425	\$152,500
Friendship Heights excluding Somerset House	\$134,800	\$114,000
County-wide	\$169,900	\$130,000
County-wide excluding Somerset House	\$149,800	\$127,300

Source: Montgomery County Planning Department, Rufus S. Lusk & Son, Inc., August 1995.

The difference between the mean and median prices for Friendship Heights condos indicates the wide variation of prices in the area. Prices range from just under \$40,000 for a unit in an older building in 1994 to \$740,000 for a unit in Somerset House II in 1994. There were 68 sales at prices below \$100,000 during the 3-year period, but these were only 25 percent of the total 273 sales.

### Turnover and Absorption

From 1992 through 1994, there were 273 condo sales in Friendship Heights. Fifty-five of these were units in Somerset House II. Of these, the majority appear to be first time sales as the building reached full occupancy. Absorption was relatively slow for Somerset House II, probably because the building was completed in 1990, at the beginning of the recession, and most of the sales occurred during this difficult economic period. Another 99 sales, more than one-third of the area total, were of units in the Willoughby. As the largest complex in Friendship Heights, this degree of turnover is expected, and in fact, the Willoughby's average annual turnover rate of 4.0 percent is slightly lower than the area average of 4.3 percent (excluding Somerset House).

### Approved Development

There are two approved residential projects in the Sector Plan Area that would provide additional housing. These are:

- **Somerset House III** - Planning Department records show capacity for an additional 273 units in this condominium complex. The current site plan shows one more building, the third on the site. There is some indication that this building may be similar to the existing buildings with 140 to 160 units.
- **Brighton Gardens** - Marriott Senior Living has subdivision approval for an assisted living complex of 132 units. These units would not be complete dwelling units according to the Zoning Ordinance definition, but would provide housing for frail elderly residents. The site is located between The Hills Plaza and Friendship Boulevard, just north of North Park Avenue.

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<sup>4</sup>Includes the mid-rise Carleton.

There is also a project under consideration in Washington, D.C.

- **Washington, D.C.** - This project proposes 100 to 150 condominiums on the east side of Wisconsin Avenue next to Chevy Chase Pavilion, on the vacant Xerox parcel. The status of the project is unclear at this time.

#### **IV. Demographic Profile by Housing Type**

An important aspect of the housing market is the number of people who want and can afford a particular housing type and location. The demographic characteristics of current residents are often a good indicator of the nature of the market.

The following pages present some basic demographic facts about Friendship Heights' residents. The data profile residents of high-rise buildings in the Sector Plan Area, including those in the mid-rise Carleton. For the purposes of comparison, information is included about residents of single-family houses in the immediate vicinity (Traffic Zones 1, 2, 19, and 29) and about high-rise dwellers County-wide. The data were generated by the Montgomery County Planning Board's 1994 Census Update Survey, conducted during the summer of 1994.

The data show that Friendship Heights' high-rise residents differ from the typical high-rise dweller County-wide in a number of ways. For example, the Friendship Heights residents are older, more affluent, have smaller households and fewer children, are better educated, and move less. They even have more college degrees than residents of nearby single-family houses but fewer graduate degrees.

Although high-rise household median income is very high, it is not as high as area median household income for residents of single-family houses. This pattern is typical. It stems from the much higher number of retired people in high-rises, almost 30 percent compared to 17 percent in nearby single-family housing, and from the very small households, an average of 1.53 persons per household, compared to 2.48 persons per household in nearby single-family houses. Small households are less likely to have multiple incomes and retirement income is lower than working age income. A related fact is that 57 percent of Friendship Heights' high-rise households are composed of only one person, compared to less than 18 percent of local single-family households.

Households in apartments typically move more often than single-family households. Although this is true of Friendship Heights households, they still move much less than most multi-family households. The median length of residence for high-rise households County-wide is three years compared to five years in Friendship Heights. Households in the neighboring single-family houses also have unusual longevity. The median length of residence for these households is 19 years.

**Friendship Heights Area Demographic Data  
By Structure Type, Compared to County-Wide High-Rise  
1994 Census Update Survey Data**

**Hispanics Are the Only Sizable Minority Group  
In the Friendship Heights Area, And Only in High-Rise**

Race/ Ethnicity	High- Rise	Single- Family	County-Wide High-Rise
White, Non-Hispanic	81.0%	93.1%	59.7%
Black, Non-Hispanic	3.9%	1.9%	27.3%
Asian, Non-Hispanic	5.3%	3.2%	5.8%
Other	1.0%	0.0%	1.1%
Hispanic*	8.8%	1.8%	6.1%

\*Hispanic may be of any race.

**Women Outnumber Men in the Friendship Heights Area,  
Especially in High-Rise Apartments**

Sex	High- Rise	Single- Family	County-Wide High-Rise
Female	59.4%	51.6%	59.9%
Male	40.6%	48.4%	40.1%

**High-Rise Residents Are Older Than Residents of Single-Family  
Houses in the Friendship Heights Area**

Housing Type	Median Age
Single-Family	48.3 years
High-Rise	53.7 years
County-Wide High-Rise	45.1 years

**One-Person Households Are Most Prevalent in Apartments;  
Married Couple Households in Single-Family Housing  
in the Friendship Heights Area**

Household Type	High-Rise	Single-Family	County-Wide High-Rise
Married	33.0%	64.4%	31.5%
Female Single-Parent	1.9%	1.4%	4.3%
Male Single-Parent	0.7%	6.2%	0.5%
Single Female	38.7%	14.4%	40.8%
Single Male	18.3%	3.2%	15.7%
Other	7.4%	10.4%	7.2%

**Fewer Apartment Residents Are Employed Full or Part-time\*  
Than Single-Family Housing Residents  
in the Friendship Heights Area**

Employment Status	High-Rise	Single-Family	County-Wide High-Rise
Work Full-Time	47.0%	51.7%	49.0%
Work Part-Time	7.6%	11.6%	7.3%
Retired	28.6%	16.8%	27.3%
Other	16.8%	19.9%	16.4%

\*Status of persons aged 16 and older.

**Almost Equal Numbers of Children And Senior Adults Live in  
Single-Family Houses, While Apartments Contain Very Few Children  
in the Friendship Heights Area**

Age Group	High-Rise	Single-Family	County-Wide High-Rise
Under 20	5.0%	20.6%	11.2%
65 +	35.3%	19.1%	31.2%

**Over Half of Friendship Heights Area Single-Family Housing Residents Aged 25+ Have Graduate Degrees. High-Rise Residents Are Also Very Well Educated**

<b>Educational Level (Highest Degree)</b>	<b>High-Rise</b>	<b>Single-Family</b>	<b>County-Wide High-Rise</b>
<b>Less than High School</b>			
Diploma	4.9%	2.7%	9.9%
<b>High School Graduate</b>	26.7%	20.6%	38.7%
<b>Bachelor's Degree</b>	28.2%	26.1%	25.7%
<b>Graduate Degree</b>	40.1%	50.5%	25.6%

**As Expected, Most Single-Family Households Own Their Houses, While More Than Half of Households in Apartments Are Renters in the Friendship Heights Area**

<b>Housing Type</b>	<b>High-Rise</b>	<b>Single-Family</b>	<b>County-Wide High-Rise</b>
<b>Owner</b>	40.5%	91.0%	27.4%
<b>Renter</b>	59.5%	9.0%	72.6%

**Households in Single-Family Houses Are Larger Than Those in Apartments in the Friendship Heights Area**

<b>Household Size</b>	<b>High-Rise</b>	<b>Single-Family</b>	<b>County-Wide High-Rise</b>
1	57.4%	18.8%	57.3%
2	33.4%	41.8%	29.2%
3	7.7%	22.8%	8.3%
4	1.5%	7.4%	3.2%
5		7.7%	1.1%
6		1.5%	0.6%
<b>Average Persons Per Household</b>	1.53	2.48	1.64

**Friendship Heights Area Households, Especially Single-Family Households, Are Very Affluent**

Housing Type	1993 Median Income
High-Rise	\$53,700
Single-Family	\$112,600
County-Wide High-Rise	\$37,685

**Most Friendship Heights Area Single-Family Households Have Not Moved During The Past 5 Years, Nor Have Almost Half of the Households in Apartments**

Residence in 1989	High-Rise	Single-Family	County-Wide High-Rise
Same residence	48.5%	79.9%	40.3%
Elsewhere in the County	14.9%	1.8%	21.9%
Elsewhere in Maryland	1.6%	1.6%	6.6%
Washington, D.C.	7.8%	8.9%	6.1%
Northern Virginia	2.9%	1.3%	2.8%
Other	24.2%	6.4%	22.4%

**The Typical Friendship Heights Area Household, Especially the Single-Family Household, Has Lived in Their Current Residence for Many Years. County-Wide High-Rise Dwellers Are More Mobile**

Housing Type	Median Length of Residence
High-Rise	5 years
Single-Family	19 years
County-Wide High-Rise	3 years

Source: Montgomery County Planning Department, Research Division, 1994 Census Update Survey, July 1995.



## **V. Housing Demand**

### **Number of Units**

There is no simple formula for determining demand for housing. In a discrete geographic area, the combination of job growth, household formations,<sup>5</sup> mortality, and mobility yields a reasonable approximation of the number of housing units needed. In a specific subdivision or apartment complex, the degree of competition, market preferences, turnover rates, and nearby employment growth indicate demand for a specific product. Demand for a specific type of new housing without overall growth in demand may mean the loss of residents in existing housing, however, and may not contribute to good planning.

In a large metropolitan area, such as Washington, D.C., mobility within the region negates the effects of household formation and mortality on housing demand in a specific place. Instead, two main indicators of local area demand are forecast employment growth in areas where residents can be expected to work and signs of an already tight housing market, such as low vacancy rates and high rents. Both of these indicators point to a market for additional housing in the Friendship Heights Sector Plan Area.

### **Tight Market**

As the housing supply analysis indicated, the housing market is tight in Friendship Heights, especially the market for rental housing. Vacancy rates for 1993 and 1994 of 3.3 and 2.8 percent respectively are well below the County-wide average of 5.3 and 4.3 percent in those years. These rates are also well below industry financial expectations of an average 5 percent vacancy rate. In addition, the low vacancy rates have not been achieved at the expense of adequate rents. In 1994, in fact, Friendship Heights rents were an average of \$259 per month higher than County-wide average rents for high-rise apartments.

In a tight market, development to a level that would yield a 5 percent vacancy rate is indicated. The 1994 vacancy rate means that a minimum of 35 units must be added to achieve a 5 percent vacancy rate. Another 56 condos would be needed to maintain the current balance of condos and rental apartments, a balance that appears to suit the current market, which has emphasized condos since the early 1980s. Adding only 91 units is very conservative. It means that one vacancy would be created somewhere in the Friendship Heights Sector Plan Area for each additional unit. It seems unlikely that the equivalent of all the new units would be vacant, especially in the case of new rental product in a popular area that has not had any new rental construction in over 20 years.

### **Employment Growth**

Capacity to adjust for the vacancy rate responds to an immediate type of demand. In a Metro station area, future employment growth is a reasonable indicator of future needs. The primary employment location for Friendship Heights high-rise residents is Washington, D.C. Over 1,200 residents, 57.5 percent of all who work, are employed in the District. No other work location approaches this number.

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<sup>5</sup>"Household formation" refers to the creation of new households when children grow up and live on their own or when divorce or other life changes generate new households.

The Montgomery County Planning Department cooperates with other Washington, D.C. area jurisdictions through the Council of Governments (COG) to forecast growth in jobs, households, and population within the region. The forecasts distribute future demand for housing and jobs on the basis of zoning capacity, approved development, planned development, historic trends, and other factors.

To maintain its current share of Washington, D.C. jobs, Friendship Heights would need almost 620 new housing units. This number results from applying the current percentage of jobs held by Friendship Heights residents in Washington, D.C. to the 2010 forecast of Washington jobs and applying the percentage increase in jobs to the number of housing units. It assumes that the share of residents working in the District will remain fairly steady and that the number of workers per household will also remain essentially unchanged. It might be that if more housing were available, more workers would choose to live in Friendship Heights to take advantage of the excellent transportation available and the area's many other amenities and facilities.

This analysis accommodates growth in the sizable population of residents over 65 years of age by calculating the increase on the basis of workers per household and by assuming that the non-working population will retain the same share of the total population. (According to the 1994 Census Update Survey, there were only 0.71 workers per household in Friendship Heights.) Actually, the growth in the elderly population will be fairly slow between 1995 and 2015 as the relatively small depression and World War II population groups dominate the population of persons over 65. The increase in the elderly population in the Bethesda-Chevy Chase Planning Area over the period is expected to be only about 3.2 percent. During this period, new construction in Friendship Heights may attract more young and middle-aged professionals who prefer more up-to-date housing. This is a temporary situation, however, because by 2011 the baby boomers will begin to reach 65 and will swell the numbers substantially.

In the Friendship Heights area, the slowest growth in the elderly population may be in the nearby single-family detached houses rather than in the apartments in the Sector Plan Area. Many area residents bought their houses in the decade after World War II and may become unable to care for them in the fairly near future. In such cases, a frequent choice is to sell the house and rent or buy a nearby apartment. This could contribute to the demand for units in the Sector Plan Area. When older owners sell, younger families are most likely to buy their houses.

The demand calculations are also unlikely to be affected by the coming of age of the small baby bust population. This group is in its teens and twenties, age groups that are typically small in Friendship Heights. The relatively high housing costs have already priced them out of this market. Twenty to 30 year-olds represent only 14.6 percent of the high-rise residents in Friendship Heights, compared to 20 percent of high-rise residents County-wide.

The major unknown at the current time is whether and to what degree the federal government will "downsize." A major reduction in federal spending in the Washington, D.C. area will, undoubtedly, dampen the local economy. It could easily delay, or in the worst case, severely reduce area growth. The Friendship Heights market is so well located and so strong that a delay seems more probable than an end to foreseeable growth. Past experience with the federal government indicates that spending reductions are usually more moderate than expected beforehand. However, the current political atmosphere appears to be different from previous periods and is difficult to predict.

## Housing Types

**Single-family detached.** Montgomery County policies favoring comparatively intensive land use at Metro stations, high land values in Friendship Heights, and limited land availability mean that **single-family detached housing is probably not feasible in the Sector Plan Area.**

**Townhouses.** Townhouse development would add a housing choice that is not currently available in Friendship Heights. Townhouses also tend to serve as a good transition between higher density land uses and adjacent single-family neighborhoods. Finally, townhouses would provide the three- and four-bedroom units that are quite scarce in the CBD. Because this unit type tends to attract younger and larger households, they could increase the age diversity in the Sector Plan Area. The average size of households that live in townhouses was 2.76 according to the 1994 Census Update Survey, compared to 1.64 for high-rises.

Since there are no townhouses in Friendship Heights and a very limited number in the Bethesda-Chevy Chase Planning Area, there are not enough comparable sales to predict possible prices. The high rents in the area and the high price of single-family detached housing, a median of \$549,900 for new units in the Planning Area in 1993, imply a market for townhouses with the higher prices that might be necessary to justify the land costs.

Townhouses would add a missing element to the area market and would appeal to a different demographic group: younger, larger households. Thus, demand for them would be in addition to the demand for apartments and condos calculated on the basis of the current market and its demographic profile. Slightly more than 17 percent of the County's total housing supply consists of townhouses. The majority of these are in suburban locations. Due to high land costs and limited land availability, Friendship Heights may not have the potential for that high a percentage. **However, demand for up to half the County average, or 100 to 300 units, is reasonable.**

**Multi-family housing.** The same factors that discourage single-family detached development in Friendship Heights encourage multi-family construction. Apartments are suitably high intensity. They are also an efficient use of limited, expensive land.

**Garden Apartments.** Similar to townhouses, garden apartments are not currently available in the Sector Plan Area and are in limited supply in the Bethesda-Chevy Chase Planning Area. Most, if not all, of the existing units in the planning area are many decades old. As such, their current turnover rents are not indicative of the rent levels the market would support in new construction. Although there is no rental history for them, **these units could be an attractive addition to the local housing supply. Their typically larger units and low-rise configuration would accommodate families with children and other households who want more space.**

**High- and Mid-rise Apartments** This type of housing has a proven track record in Friendship Heights, as the discussion of rents, sales, and vacancies shows, and no indications of market resistance. These are housing types that work well in a Central Business District (CBD). They use land efficiently, while offering residents security and proximity to the amenities and facilities of the CBD. **The demand calculations in the preceding section are based on anticipated demand for mid- and high-rise apartments.**

Multi-story apartments are the most expensive multi-family units to build. High-rise construction has a median cost of \$67.80 a square foot compared to \$46.60 a square foot for garden

apartments, according to the 1993 *Means Building Construction Cost Data*. Mid-rise construction is in the middle, at \$58.35 per square foot. Local builders report costs around \$70 a square foot for high-rise construction.

The building community reports that it is almost impossible to build a typical high-rise unit for less than \$100,000 and almost impossible to achieve average rents below \$900+ per month. Average rents for buildings completed in the last 10 years range from \$904 to \$1,300 per month. The lower prices of older housing stock moderate the overall average high-rise rent County-wide to \$823. The weighted average rent for apartments in six rental high-rise buildings constructed during the last 10 years was \$1,022. These rents are comparatively high County-wide but well within the current price range for Friendship Heights. In spite of its much older housing stock, the 1994 average rent for an average apartment was \$1,094 per month in Friendship Heights.

The one source of concern if high-rise zoning is selected is that Montgomery County currently has zoned capacity for an additional 24,500 high-rise units at Metro stations and in Rock Spring Park. The County has absorbed an average of about 460 such units per year during the last 9 years. This means that there is more than a 50 year supply of appropriately zoned land. On the other hand, this housing type is particularly appropriate and successful in Friendship Heights. **If there is to be more high-rise housing in the County, County policies and economics clearly support Friendship Heights as an appropriate location.**

**Mid-rise construction may also be appropriate in the Sector Plan Area.** These buildings of four to eight or nine stories served by elevators appear popular with their residents. Mid-rise vacancy rates are lower than either high-rise or garden apartment rates. Prices for the Carleton, the one mid-rise in Friendship Heights, are higher than any building other than Somerset House. Granted the Carleton is newer than all but Somerset House, but it is still over 12 years old. Mid-rises generally offer the security and amenities of high-rise buildings, but are a little less expensive to build and a little less imposing to live in or near.

### Summary of Demand

This analysis indicates that the Sector Plan Area needs a minimum of 90 additional units to alleviate the current tight rental market. During the period of the Sector Plan, another 620 units, or more will be required to maintain the area's share of Washington, D.C. employment at the current number of workers per household. Finally, construction of 100 to 300 townhouses would round out the area's housing supply. This is a conservative estimate of demand, producing only 50 percent or less of the average townhouse share of the housing supply County-wide. Combined, there appears to be market support for between 800 and 1,100 new units during the period of the Sector Plan.

Somerset House III is already in the pipeline of approved development and could account for between 140 and 273 of the total units demanded by the market. Brighton Gardens will provide 132 rooms for frail elderly residents. Most of these people are no longer able to live alone. Consequently, they are not part of the market for standard dwelling units. The 100 to 150 condos proposed for the southeast quadrant of Wisconsin and Western Avenues in the District will most likely be competitive with housing in the Montgomery County section of Friendship Heights. However, this analysis is based solely on Montgomery County residents' employment patterns and the Montgomery County rental and condo market conditions. Washington, D.C. demand factors should create most of the market for this housing. Thus, only a small number of the units will count against the Sector Plan Area demand.

## VI. Other Issues

**Ownership** The Friendship Heights Sector Plan will not determine whether new multi-family housing is rental or condo. However, the market appears suitable for both types of ownership. Both are currently successful in Friendship Heights.

**Affordable Housing**. Affordable housing would be very appropriate in Friendship Heights. The proximity to public facilities, especially transit, is especially desirable for lower income households. While the Sector Plan Area contains a number of fairly reasonably priced units, this area is generally very affluent. The difficulty in providing affordable housing lies in the area's success and its relatively small size. The limited amount of land being employed in very lucrative uses means very high land values. Land assessments for existing rental buildings, for example, are in the range of several million dollars per acre.

As a result, affordable housing in the area will most likely be achieved through the Moderately Priced Dwelling Unit (MPDU) law. Every new development of 50 or more units is required to include 12.5 to 15 percent units affordable to moderate income households. Alternatives to this requirement, such as contributions to the County's Housing Initiative Fund, should be avoided if at all possible in Friendship Heights. The major difficulty for providing MPDUs in expensive housing tends to be the condo fees, which are often beyond the reach of moderate income households. Developers and County officials need to be creative in finding ways to solve this problem while providing the moderately priced units. At least a partial solution would be to "unbundle" the condo fees as much as possible so that MPDU residents pay only for services they need, not for facilities and amenities they do not need or cannot afford. An endowment fund to subsidize MPDU condo fees as part of the development amenity package might be another option.

The high land costs mean that any other type of affordable housing will require fortuitous circumstances to achieve. Strong support should be given to any such possibilities.

**Appearance**. The older residential buildings in Friendship Heights are nicely landscaped and well kept. Their facades, however, are quite utilitarian in appearance. Upgrades to the facades during the next 15 or 20 years would help maintain the attractiveness of the area.

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