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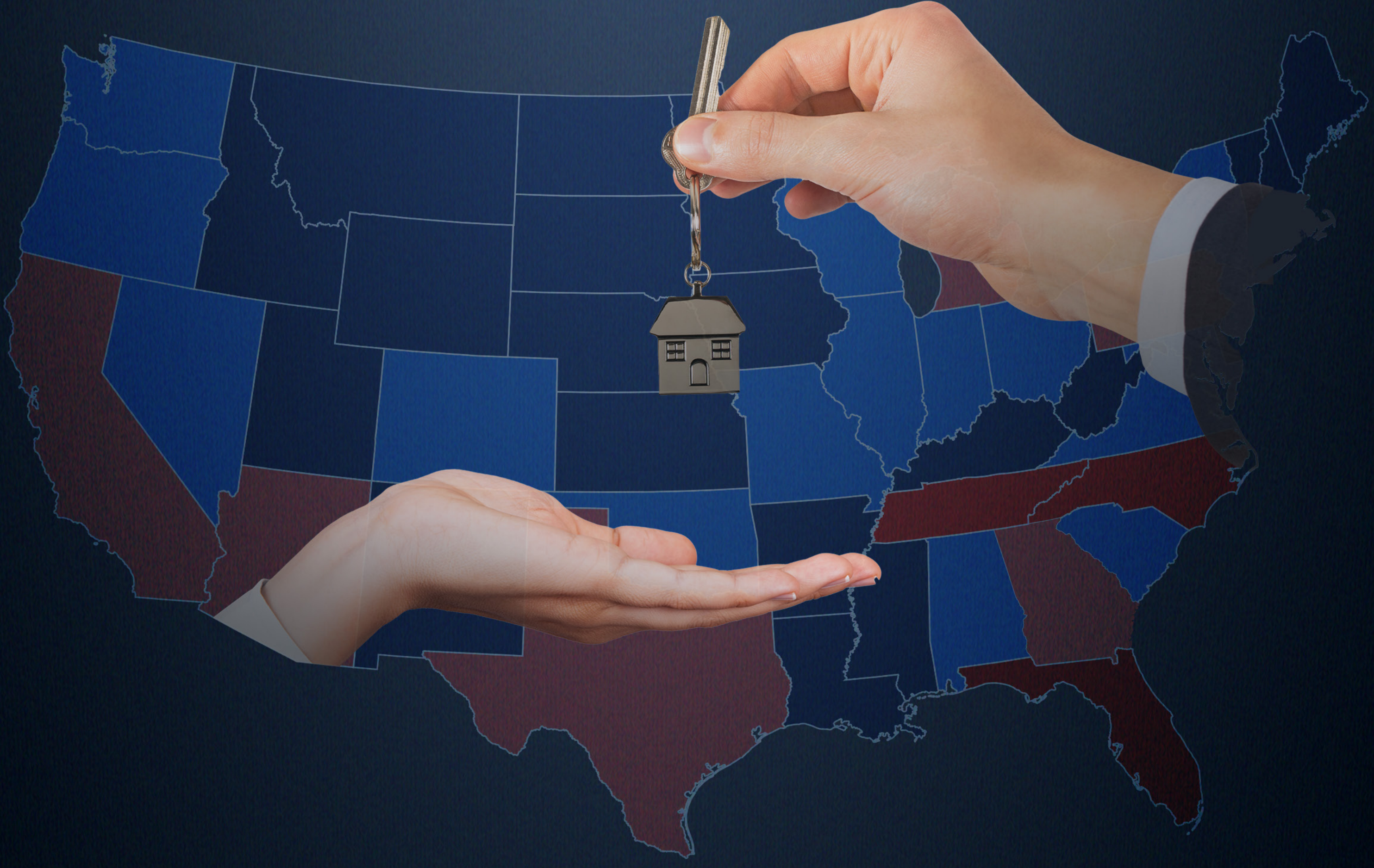
BLUE STATE BUYERS SWING TO RED STATE RENTALS



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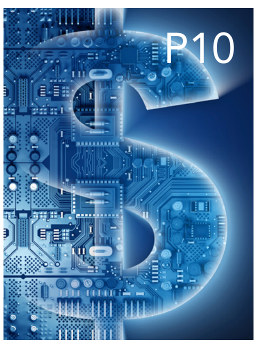

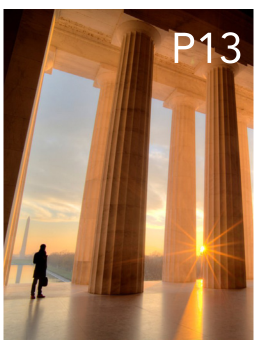

P1 BLUE STATE BUYERS SWING TO RED STATE RENTALS

The maturing single family rental industry helps mom-and-pop investors buy beyond their backyards. Many of those real estate investors live in blue states but are investing in red states

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Today, Washington, D.C. ranks among the nation’s most thriving and vibrant cities. While the rest of the nation got hammered by the Great Recession of 2008 and struggled to recover, a remarkable inversion occurred in Washington, D.C.: as the rest of the country’s real estate markets receded, the District of Columbia blossomed.

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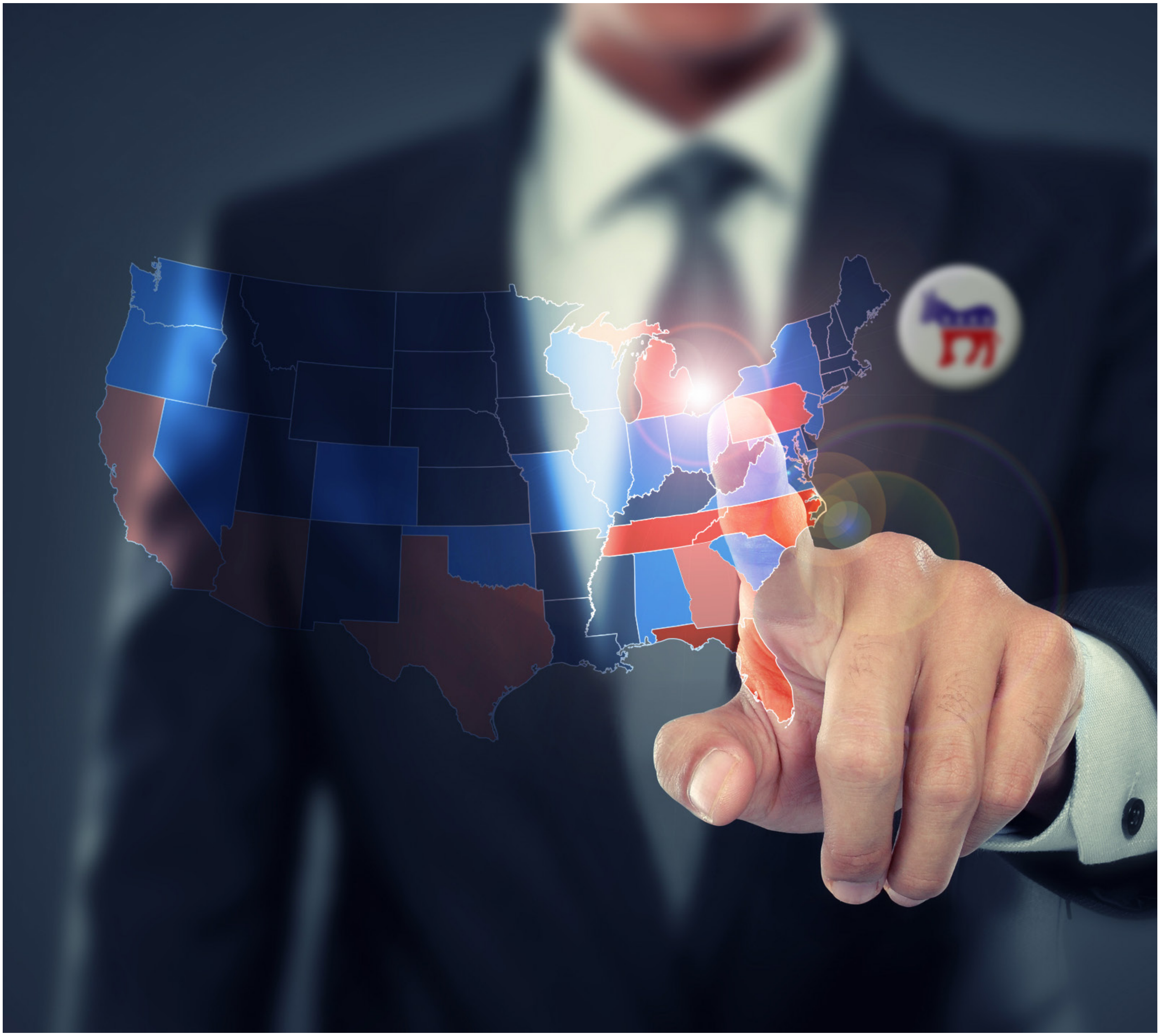


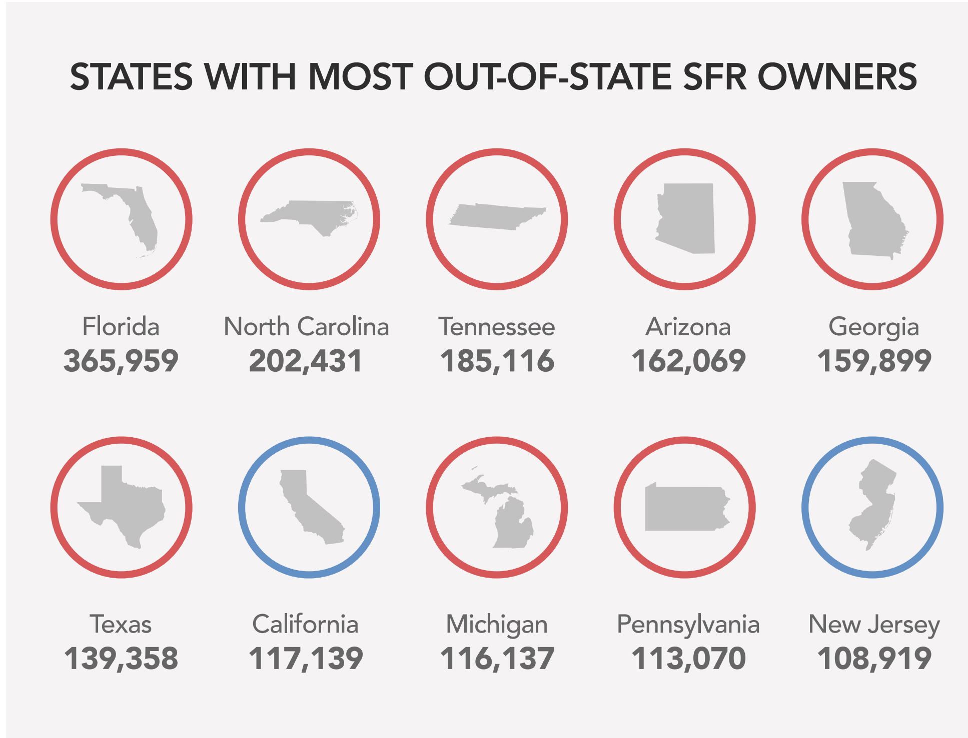
BLUE STATE BUYERS SWING TO RED STATE RENTALS

Maturing single family rental industry helps mom-and-pop investors buy beyond their backyards

BY DAREN BLOMQUIST, EXECUTIVE EDITOR

> *Because of the financing, because of the availability of technology and the information, it allows us to* ***connect to local boots on the ground, evaluate them and their performance, and evaluate markets*** *because of the data."*

Adam Whitmire
Director of Acquisitions and CTO, The Whitmire Group



Third generation real estate developer Adam Whitmire realizes this is not his father's housing market.

"Because of the financing, because of the availability of technology and the information, it allows us to connect to local boots on the ground, evaluate them and their performance, and evaluate markets because of the data," said Whitmire, director of acquisitions and CTO at The Whitmire Group, an Atlanta-based company that aggregates and sells turnkey single family rentals mostly in Alabama to investors from across the country and overseas.

Whitmire said the single family rental industry was transformed by institutional investors in the wake of the Great Recession, and the innovations birthed during that transformation are now trickling down to individual mom-and-pop investors.

One California Rental for 27 in Alabama

"We can sell a package of 10 to 15 homes to an individual investor whose 401(k) didn't do very well during the recession," said Whitmire, providing as an example a California woman who sold the one rental property she owned in California and used the proceeds to purchase 27 rental homes in Alabama through Whitmire's company using a 1031 exchange — which allows an investor to defer taxes on capital gains when trading investment property.

"She's making a very significant cash flow," he said.

Passive investors — think young professionals with well-paying day jobs or baby boomer homeowners flush with home equity wealth — in high-priced markets are looking beyond their backyards for real estate investing opportunities. And they're increasingly finding the data, technology and online platforms enabling them to actually buy outside their local markets, according to Gary Beasley, CEO and founder of Roofstock, an online marketplace for single family rentals.

Many of the buyers are coming from politically blue states and investing in politically red states.

"A lot of demand is people in the Bay Area and New York City looking to buy in the Southeast," said Beasley, former co-CEO at Starwood Waypoint Homes, which earlier this year merged with

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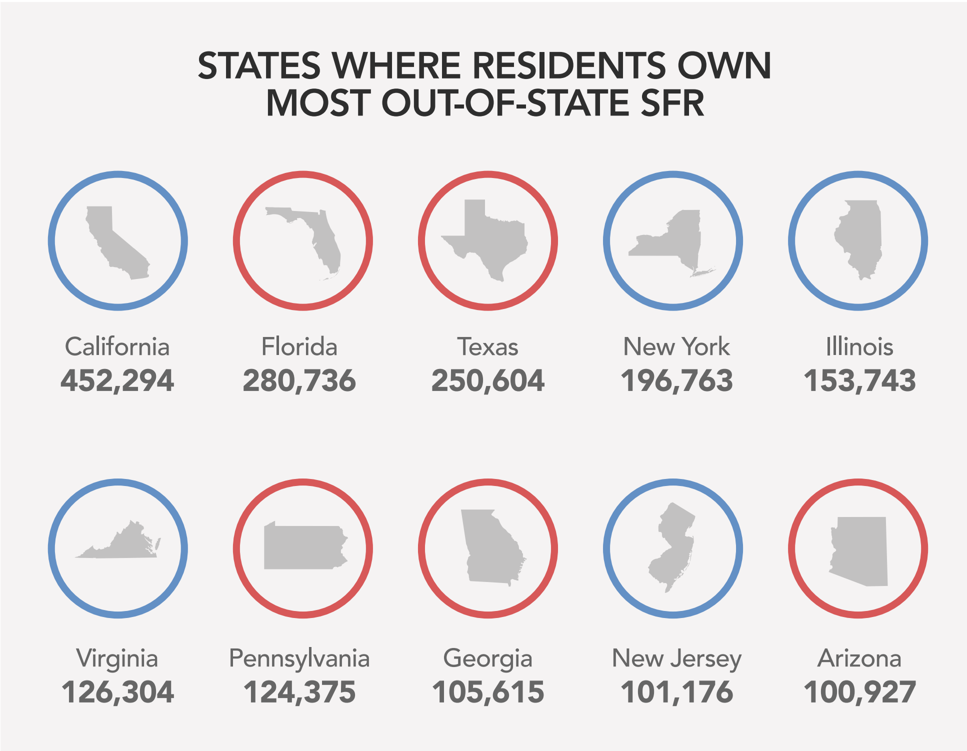

> *A lot of demand is people in the Bay Area and New York City* ***looking to buy in the Southeast.***"

Gary Beasley | CEO and founder of Roofstock

Colony American Homes to become the third largest institutional investor in the single family rental market, according to the Single-Family Rental Primer, published by Keefe, Bruyette & Woods in September.

Bay Area Buyer Looks Southeast

"We have one Google engineer who just bought his sixth house. He said 'this is fantastic, real estate is so expensive here and I don't want to be tied just to Bay Area real estate,'" said Beasley, noting the engineer had purchased investment homes in Florida and Atlanta and was now interested in North Carolina buying opportunities.

According to an analysis by ATTOM Data Solutions, Florida has the most investment single family homes owned by out-of-state owners of any state, followed by North Carolina, Tennessee, Arizona, Georgia and Texas — all red states in the 2016 presidential election. The first blue state on the list is California at No. 7, but that is followed by Michigan and Pennsylvania, both states moving red politically in 2016.

Meanwhile states with the most out-of-state investment homes owned by residents are more heavily tilted blue politically, led by California. Two red states — Florida and Texas are Nos. 2 and 3 on the list — but are followed by three blue states — New York, Illinois and Virginia.

States where Californians own the most investment properties are Arizona, Nevada, Texas, Florida and Oregon, while New Yorkers own the most investment properties in Florida, Pennsylvania, New Jersey, North Carolina and Georgia.

Imitating Institutional Investors

Institutional investors led the way in buying single family rentals beyond their backyards. The institutional buying spree started around 2009 and peaked in 2012, triggered by a perfect storm of market conditions that lured large private equity firms and hedge funds into the space.

Along with Beasley's Waypoint Homes, which began aggregating single family rentals at large scale in 2009, two other early institutional investor entrants were Carrington and Oaktree. The two companies formed a partnership to buy single family homes in bulk quantities in 2010, according to Ryan McBride, who worked for Carrington at the time and helped put together the buying partnership.

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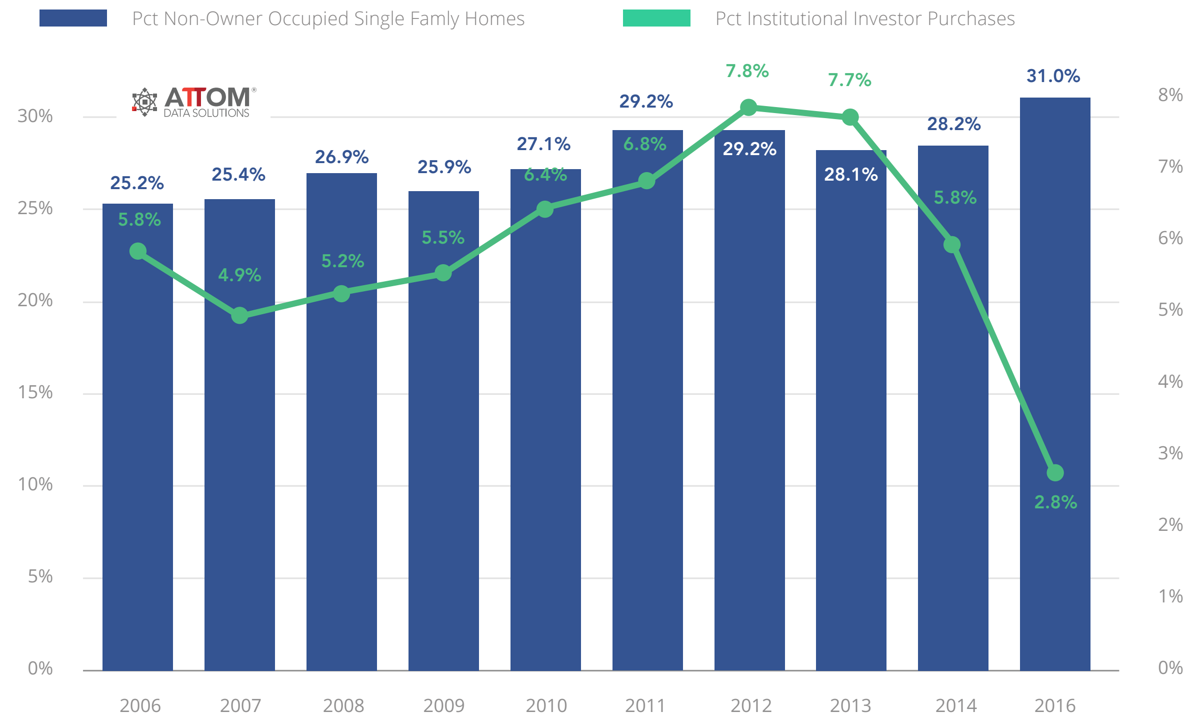
SINGLE FAMILY RENTAL PURCHASE TRENDS



"We see a lot more opportunities from the smaller, mid-sized operators, and so that is where we are focusing our efforts: ***the broad base of the pyramid.****"*

Ryan Mcbride
COO, Colony American Finance

In early 2012, McBride left Carrington to co-found Colony American Homes, funded by private equity firm Colony Capital. Over the next few years, Colony acquired 20,000 homes, starting on the west coast, according to McBride.

"And then we rapidly moved east. It was a lot of fun and it was very, very busy," he said. "I think we acquired about 75 percent of those homes on a one-off basis at the trustee (foreclosure) auctions."

But as the low-hanging fruit of foreclosures dried up and the stabilization of massive portfolios of rentals became a priority over new acquisition for large aggregators like Colony and Starwood Waypoint, both McBride and Beasley found new niches in the maturing single family rental market. Both started new companies that provide services designed to help mid-sized and mom-and-pop investors take advantage of innovations brought to the market by the large aggregators.

Investor Financing For All Folks

In 2014, McBride helped launch Colony American Finance to provide financing specifically to residential real estate investors.

"We realized that there was no scalable financing solution in the space," said McBride, who now serves as the company's COO. "We basically went from 0 to $2 billion in closed loans. We have 1,400 borrowers. So we've come a long way in about two years."

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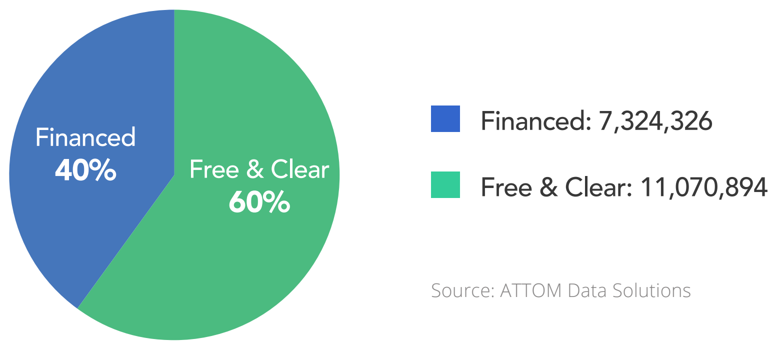
SINGLE FAMILY RENTAL LEVERAGE



Source: ATTOM Data Solutions

McBride said he's noticed a shift in the type of customers Colony is attracting in the past 18 months.

"Early on it was the mid-sized investors all the way up to the large institutions (that) had the most urgent need for capital," he said. "We see a lot more opportunities from the smaller, mid-sized operators, and so that is where we are focusing our efforts: the broad base of the pyramid."

Beasley observed a similar trend in customers coming to Roofstock to acquire single family rentals. He said smaller "retail" buyers make up about 25 percent of demand for homes listed on the website, with the remaining 75 percent split between institutional investors and foreign funds.

Retail Buyers Surprise

"(The retail buyers) surprised us. We were expecting it to be closer to 10 percent," he said, adding that surprise finding has caused the company to adjust its strategy to account for those "15 to 16 million homes that are owned by mom-and-pop investors and being a marketplace for them. ... We actually think we can improve liquidity in this space and increase the number of owners."

Roofstock only lists single family rentals that are already leased and performing, and its properties are not listed with a broker on the multiple listing service (MLS), allowing both buyers and sellers to save on transaction costs as well as on the three to four months of lost rent that would result if the properties were vacated before they were sold, according to Beasley.

"We promote liquidity by squeezing out some of the costs of transactions," he said noting that Roofstock's fee is about 2 to 3 percent of the purchase price. "The seller is saving a lot of costs... And the buyer is buying at a discount to fair market value."

By providing third-party property inspections and incorporating 3-D mapping of the interior of the home, Roofstock's goal is to allow investors to purchase homes far beyond their backyard, "sight unseen," said Beasley.

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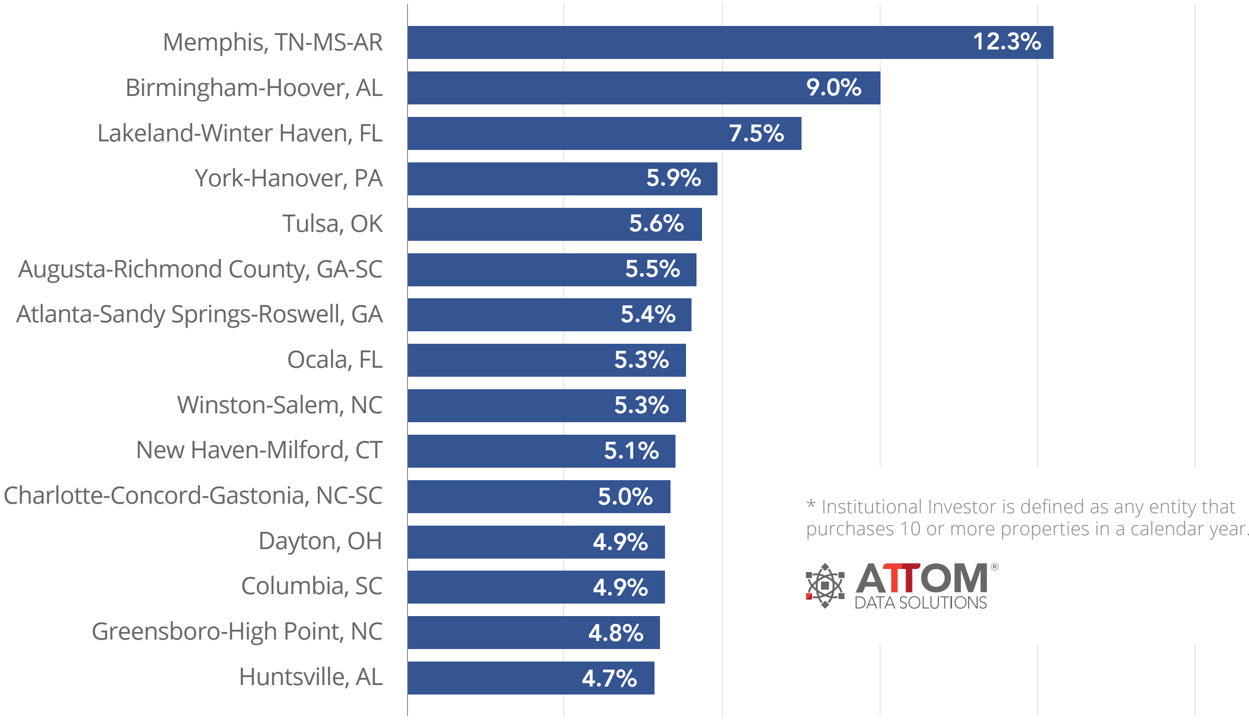
A Sampling of Single Family Rental Loans

Here are three loan types offered by one of several newcomers to the real estate investor financing space, Colony American Finance:

- **Rental portfolio loans**
  - Fixed rate financing for 5 to 10 years on a pool of stabilized rental properties
  - Loan amounts from $500,000 to hundreds of millions of dollars
  - Rates typically run between 5 and 6.5 percent
  - Typically have a prepayment penalty attached
- **Single asset rental loans (just introduced)**
  - One loan for one rental property
  - 30-year fixed rate product similar to a conforming loan from Fannie or Feddie
  - Rates typically run between 6.5 percent up to 8 percent on the high end
- **Credit lines up to $50 million**
  - To purchase rentals or fix-and-flips
  - A 12- to 24-month term
  - A substitute for hard money loans with a lower rate of between 8 and 10 percent

MARKETS WITH MOST INSTITUTIONAL INVESTORS (Q3 2016)



Buyers from Boston to Beijing

"You can be sitting in Boston or Beijing looking at a home just like anyone else," he said. "We're finding there has been this big sort of shadow demand of people wanting to invest in the asset class but haven't been able to do it until they came across our solution. ... People have felt like they have to buy near where they live (and) do a lot of the work themselves."

Beasley said improved financing options such as those offered by Colony and others are helping those same buyers purchase more properties than they originally thought they could.

"A surprising number of these people are not aware that they can finance these assets," he said. "I can buy six or eight houses instead of two with this financing. It's great for us because we can sell more houses to these clients."

Crowdfunding is an emerging innovation that allows smaller, passive investors to invest in real estate with limited exposure to risk, according to Whitmire, the Atlanta-based operator buying mostly in Alabama.

"We just raised a couple million dollars last month with RealtyShares," he said, explaining that an individual investor could put $1,000 into that crowdfunding initiative and spread their risk out over the hundreds or even thousands of properties that are part of the opportunity. "It allowed us to buy more properties and to buy them cheaper."

Grass-Roots Growth in SFR

The shifting focus of Roofstock and Colony American Finance toward smaller retail investors aligns with the shift in the marketplace evident in the ATTOM Data Solutions Q3 2016 Single Family Rental Market Report, which shows 2.7 percent of all single family homes purchased in the first seven months of 2016 went to institutional investors — entities purchasing 10 or more properties in a calendar year. While that was up from 2.1 percent in the first seven months of 2015, it was down from a peak of 8.4 percent in the first seven months of 2013.

Meanwhile, the overall single family rental market is continuing to grow, with 31 percent of all single-family homes purchased in 2015 owned by non-owner

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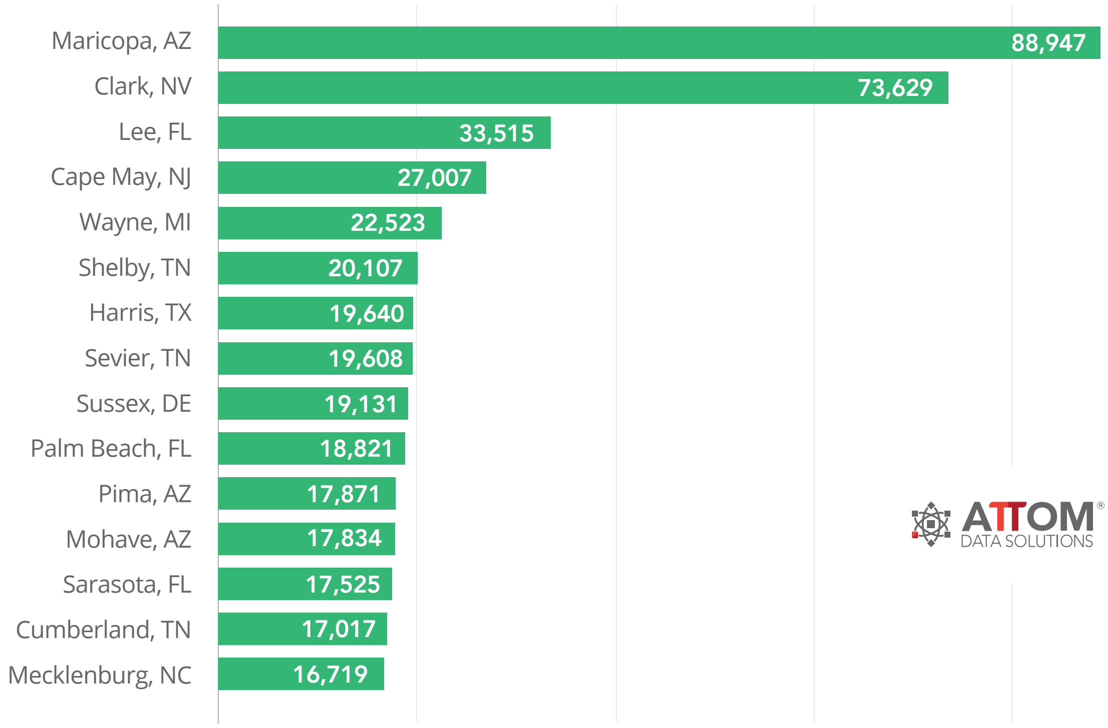
COUNTIES WITH MOST OUT-OF-STATE SFR OWNERS



> *"We're only flipping in LA, Orange County and San Diego counties. In the Inland Empire we're buying rentals. It's not really a distressed play like it was four years ago. It's a* ***value-add play****."*

Jeff Pintar
CEO, Pintar Investment Company in Southern California

occupants, up from 28.2 percent in 2014 to the highest level in the last decade, according to an ATTOM Data Solutions analysis.

That reflects the reality for Whitmire, one of the mid-sized single family aggregators still plugging away, albeit with a shifting strategy that corresponds to market opportunity.

"We do all value-add acquisitions. We do single family and multi-family in secondary and tertiary markets," he said, noting that the opportunity for buying SFR in primary markets like Atlanta has largely dried up. "We can't buy cash flow in Atlanta. We can in Alabama. … The opportunity has changed. So we went back to doing what we did before the recession, which is cash flow.

"A lot of your big guys are still buying in your primary and secondary markets," added Whitmire, who said his company owns about 200 investment homes in Alabama. "A-class assets at a 5 percent cap rate. That's an OK strategy if you have a lot of capital to deploy and you are OK with lower returns … that's not OK with us. We need to get a higher return."

While Whitmire has shifted his SFR aggregation strategy by moving into secondary and tertiary markets beyond his backyard, other mid-sized operators are staying in their backyard but adjusting their acquisition and exit strategies.

Sticking to Southern California

"We're acquiring (but) it's slowed down," said Jeff Pintar, founding partner and

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CEO at Pintar Investment Company, which since 2009 has built up a portfolio of about 350 single family rental homes mostly in Southern California and Las Vegas. "We buy both flips and rentals in our fund. Right now about 65 percent of our capital is toward flips and 35 percent toward rentals. … It's flip-flopped because prices have increased."

Pintar is sticking with Southern California and not expanding to other markets because he likes the long-term prospects for appreciation in the region, but he's deploying different strategies within his local market.

"We're only flipping in LA, Orange County and San Diego counties. In the Inland Empire we're buying rentals," he said, adding that the average age of properties the company buys is 30 to 40 years old. "It's not really a distressed play like it was four years ago. It's a value-add play. … You've got a product that is extremely dated in age. Therefore it needs renovations and is a value-add opportunity."

Shifting to SFR in New York

On the opposite side of the country in the tristate region around New York City, investor Gavin Reilly is also sticking to his backyard — where distressed deals are still readily available.

"Tri State Fine Homes typically buys properties out of foreclosure, improves them and sells them for great returns. Those properties that have nice cash flow are held in our portfolio for the longer term," said Reilly, CEO at Tri State Fine Homes, which he started in 2012. "We try to buy a house every 60 days, and going into 2017 we are going to be trying to buy a house every 30 days."

Reilly said he is starting to shift toward buying more single family rentals.

> *"Pick a market and* ***become an expert in that market*** *and learn all of the pitfalls about investing in real estate before you make your first purchase."*
>
> **Gavin Reilly** | CEO, Tri State Fine Homes in New York

"I'm slowly transitioning over to the rental property area and more so to single family. And actually there is less competition going after the single family homes than the multi-family homes," he said, providing as an example a home he recently purchased for $32,000 in cash and plans to spend about $28,000 to renovate before renting. "I'm hoping to clear 400 to 500 a month on that, and that should put me at a 10 cap there."

Both Reilly and Pintar expressed reservations about buying rentals outside of a familiar market — particularly for new investors.

"Pick a market and become an expert in that market and learn all of the pitfalls about investing in real estate before you make your first purchase," Reilly said. "Most new investors are overtly anxious and make their first purchase, thinking that the opportunity in front of them is the last one that will come along in their lifetime. They need to realize there will always be a bargain in every market for those prepared to uncover them."

Pintar said smaller investors should consider investing in a fund rather than individual properties.

"That type of investor is probably better off putting their money in a fund like ours because we're delivering a lot more diversity of assets," he said, arguing that the rise of professional services within the single family rental industry is raising the bar for tenants, which in turn is boosting returns for investors. "We're at sub-5 percent vacancy, and rental rates are increasing at two times inflation. For us it's a great place to be."

Buying New Homes as Rentals

Alberto Chocron runs the Florida-based Build US Back real estate investment fund that buys homes in Florida and other parts of the Southeast. He said most of the investment comes from wealthy individuals saving for retirement and looking for a better-performing and more stable investment vehicle than they can find elsewhere.

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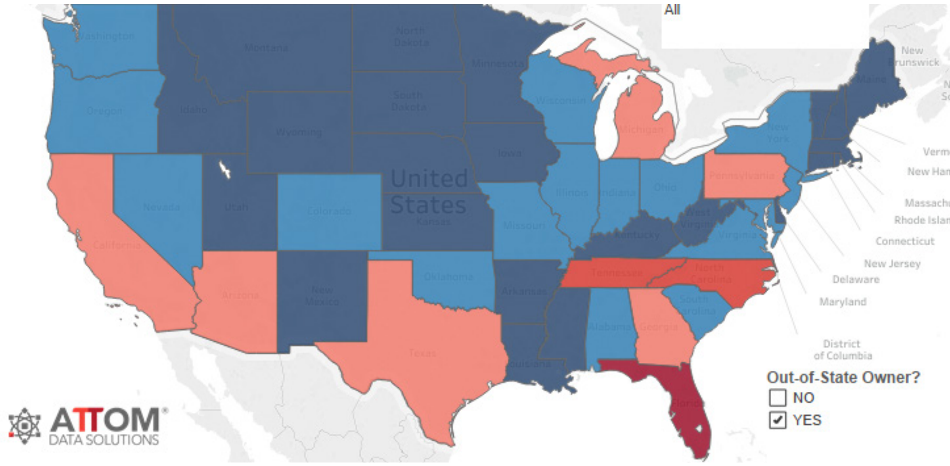
> *People look to invest in our kind of single family, because it allows them to have a **fixed-income bond-like return**, with a significant upside in real estate while being **tax-efficient through depreciation**."*

Alberto Chocron
COO, Transcendent Investment Management in Florida

STATES WITH MOST OUT-OF-STATE SFR OWNERS



▲ Click to view interactive visual showing where each state's owners reside.

"People look to invest in our kind of single family, because it allows them to have a fixed-income bond-like return, with a significant upside in real estate while being tax-efficient through depreciation," said Chocron, COO and partner at Transcendent Investment Management, the private-equity firm behind Build US Back.

Chocron noted that the company's strategy for acquiring single family rentals has evolved dramatically from buying distressed homes to buying new homes.

"The opportunity back in 2010, 2011, even 2012 was more to acquire distressed inventory, fix it and rent it out," he said. "As the market dried up in terms of that opportunity … we started to partner up with some of the country's most prominent home builders and we basically acquire bulk new homes from them."

Build US Back typically holds homes for a relatively short time horizon before selling, according to Chocron.

"We will rent them out, hold on to them for a period of four to five years. And then sell," he said, noting that the Build US Back operating arm handles everything from acquisition to property management to sale. "That is one of the added benefits to our investors. We have a very streamlined operation that allows them to operate very efficiently while producing maximum returns."

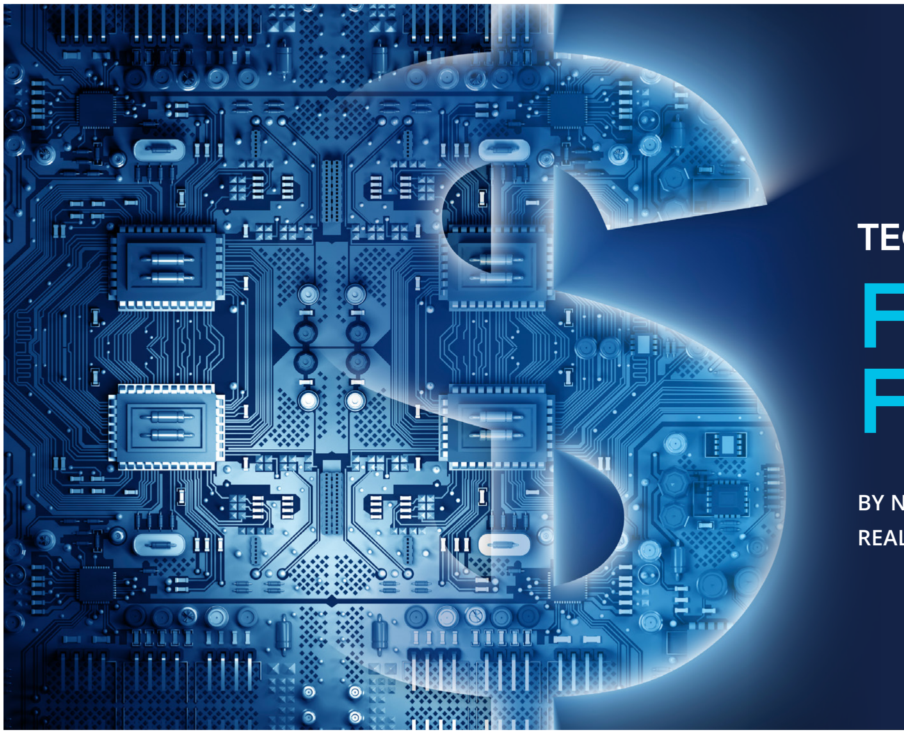
Holding Rental Homes 'Forever'

Back in Southern California, Pintar said his fund plans to hold on to its portfolio indefinitely.

"Our strategy is that we're going to hold these forever and put long-term debt on them," he said, noting that the company is now looking to transition from short-term debt to long-term debt. "We'd like to take that expiration date off the table and not be stuck with a loan expiration that may come at a point in time where the financial markets may be crazy and there is no debt available."

With average rents in his company's portfolio increasing about 7 percent annually and strong price appreciation on top of that, Pintar is bullish on the future of the SFR market — particularly given the efficiencies and innovation brought to bear in the last few years.

"This has been a business that has been around for hundreds of years. It's one of the largest real estate businesses that no one has ever known about … he said. "The only thing that's new about it is in the last few years it has started to become institutionalized. I think that is a good thing for the tenants. I think it's a good thing for investors. It's a good thing for neighborhoods." ■



TECH PUTS A NEW SPIN ON FIX-AND-FLIP FINANCING

BY NAV ATHWAL, FOUNDER & CEO, REALTYSHARES.COM

Nav Athwal

REALTYSHARES

Nav Athwal is the Founder and Chief Executive Officer of RealtyShares. Nav has over a decade of experience in real estate as an attorney, broker, and investor. Nav lectures at UC Berkeley Law School and the Haas School of Business. He is a frequent contributor to Forbes, and is often featured on CNBC, Bloomberg and Fox Business.

Residential real estate investment is going through a period of resurgence. Single family home and condo flips hit a six-year peak in the second quarter of 2016, with 51,434 projects completed. That represents a 14 percent increase over the previous quarter. The number of investors flipping homes reached its highest level since Q2 2007.

There are a lot of factors that have investors making a return to flipping. Low interest rates and a favorable lending environment have allowed developers and operators the opportunity to raise capital affordability, but it has been a rise in new real estate tools and technology that has played a pivotal role in this growing trend.

Old School Fix-and-Flip Financing

A decade ago, the landscape for financing fix-and-flip projects was relatively barren. Investors had a limited number of avenues available for purchasing a rehab property.

Coming to the table with the full amount of cash in hand was one option. In 2006, at the peak of the housing bubble, the average home was selling for just over $230,000. Pulling together that kind of funding may have been challenging for the typical individual investor, even in light of how well the economy was doing prior to the market's collapse.

A conventional mortgage loan would have been an alternative but then, as now, banks are more focused on owner-occupied properties. Even if an investor were to be approved for bank loan, the wheels of conventional financing have a tendency to move slowly, putting them at risk of losing the property to another buyer.

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> *Tech's capabilities are* ***changing the old school rules of borrowing*** *on a broad scale, with investors reaping the benefits."*

Hard money lenders represented a third alternative. Investors could buy properties and complete flips using short-term loans, without having to worry that another investor would swoop in and close the deal first. Compared to bank financing, the advantage of hard money lending for fix-and-flip deals was, and continues to be, the fact that it's largely asset-based. There's less emphasis on an investor's credit and a more concentrated focus on the property's anticipated profitability. The tradeoff, however, is typically a much higher interest rate than what a bank would charge.

If you fast forward to where we are now with fix-and-flip financing, an entirely new path is being forged. Tech's capabilities are changing the old school rules of borrowing on a broad scale, with investors reaping the benefits.

Tech Provides What Fix-and-Flip Investors Value Most

Over the past several years, technology has been on a mission to reinvent the real estate industry. Venture capital firms funneled an estimated $1.5 billion into real estate tech startups in 2015 alone, according to research from CB Insights. They see a massive industry that is still conducting business with pen and paper in some cases, and salivate at the chance to back the innovative startups that could redefine the space.

So far, the disruption of real estate by technology has strongly influenced the way investors connect with financing for fix-and-flip projects. The impact is most noticeable with regard to two specific aspects: speed and convenience.

Rehabbing is a sector of the real estate investment market that requires a certain degree of agility. Investors need to be able to move quickly on deals. There's simply no time to sit around wondering whether you're going to be able to secure the financing you need. Technology has eliminated the waiting game. Automation and online collaboration are significant contributors, giving online lenders the ability to deliver funding in less time so that investors aren't at risk of missing out on an opportunity.

While technology has accelerated the fix-and-flip financing process, it hasn't forced lenders to compromise their underwriting standards. If anything, tech is making it easier for lenders to evaluate and approve borrowers to ensure that deals are credible. At RealtyShares, for instance, we have an expert team in place that carefully vets each opportunity presented to our platform. We require a thorough background and credit check to verify that a sponsor has the means to repay the loan.

Our sponsors appreciate that attention to detail, as well as the time frame in which we're able to close deals. We're able to get funds to borrowers in as little as five to seven days, allowing them to move forward with flip projects without fear of being sidelined by their competitors.

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> *Using tech, we can look at the market conditions of a major metropolitan area and* ***pinpoint submarkets that may be successful****, even if the general outlook of the market is distressed."*

Location No Longer Holds Investors Back

Another aspect of tech that makes it a boon for investors is its ability to transcend geographic limitations. With hard money loans, the lender may prefer to focus on a specific region or property type. They may want to concentrate on funding deals locally, for instance, or lend exclusively to certain types of borrowers.

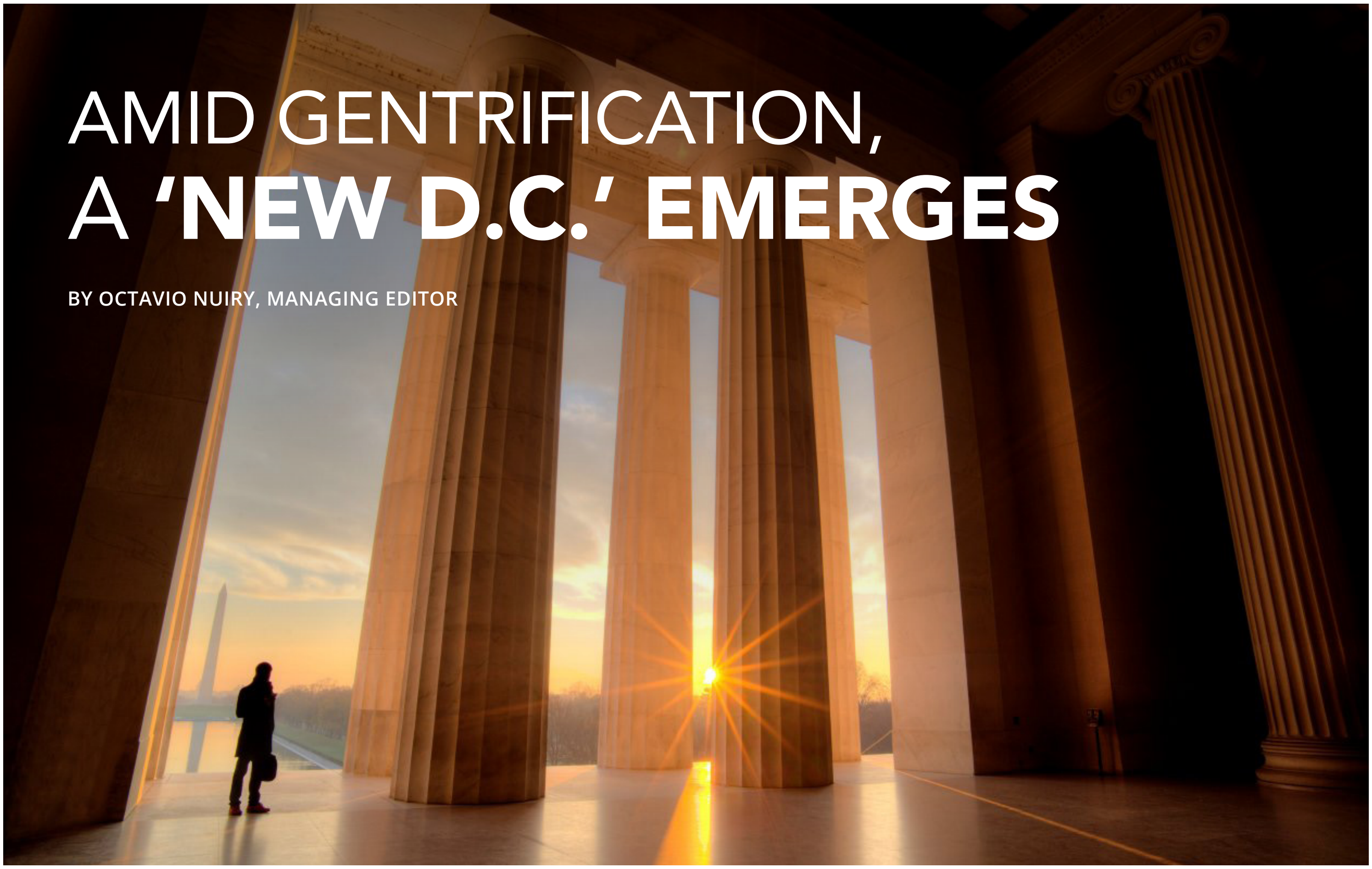
Those barriers are reduced and in some cases, eliminated altogether for investors who are interested in expanding past the reaches of their local market. With online lenders, it's possible to fund flips in different cities within a particular region or delve into markets that may have previously been inaccessible because of their location. Platforms are identifying and analyzing submarkets in larger cities where opportunities for investors may be going undiscovered. Using tech, we can look at the market conditions of a major metropolitan area and pinpoint submarkets that may be successful, even if the general outlook of the market is distressed.

Aside from eliminating geographic obstacles, tech is enabling investors to borrow more towards their flip projects. With private hard money lenders, the loan-to-value ratios are often conservative, meaning investors may only be able to borrow a small fraction of the property's value.

With online lenders such as RealtyShares, borrowers may be able to obtain a loan for up to 80 percent of the value of an improved commercial or residential property or up to 100 percent of renovation costs. Every property is different, but compared to the terms a bank or a hard money lender may offer, online lenders have a distinct edge.

Tech's Impact Is Here to Stay

It's indisputable that technology has made a definite impression on the real estate industry. Online marketplaces are utilizing tech to streamline financing for fix-and-flip deals in ways that haven't been done before. Looking ahead, I foresee tech continuing to mold the lending space for flippers. In terms of the bigger picture, the push toward innovation can only have a positive impact on real estate as a whole. ■



AMID GENTRIFICATION, A 'NEW D.C.' EMERGES

BY OCTAVIO NUIRY, MANAGING EDITOR

Today, Washington, D.C. ranks among the nation's most thriving and vibrant cities.

While the rest of the nation got hammered by the Great Recession of 2008 and struggled to recover eight years later, a remarkable inversion occurred in Washington, D.C.: as the rest of the country's real estate markets receded, the District of Columbia blossomed. Flush with trillions of taxpayer dollars, largely the result of two foreign wars and a massive government stimulus, the D.C. economy flourished. By some measure, the nation's capital has become the richest region in the country. Three of the highest-income counties in the United States are located in suburban D.C., and six of the 10 wealthiest counties are in the D.C. metro area, according to the U.S. Census Bureau.

Indeed, life is splendid in the Washington region. Falls Church, Virginia, led the nation with a median household income at $121,250 a year. In Loudoun County, Virginia, the median income is $118,934. And in Northwest Washington, where much of the city's elites live, the median household income is $109,909. By comparison, the national median household income was $56,516 in 2015 — half of what the median District worker earns annually, the Census reports.

Not only are household incomes high in the nation's capital, but the D.C. metro housing market is thriving too, fueled by high prices, expanding transit options, new developments and an influx of upwardly mobile millennials, both inside and outside the Beltway, experts claim. While home prices in the District of Columbia haven't hit Manhattan and San Francisco levels, it is among the nation's most expensive, outpacing cities in California like Los Angeles and San Diego.

Silvana Dias, a broker at Long & Foster in Spring Valley, in Northwest Washington, D.C., said D.C.'s prosperity and growth

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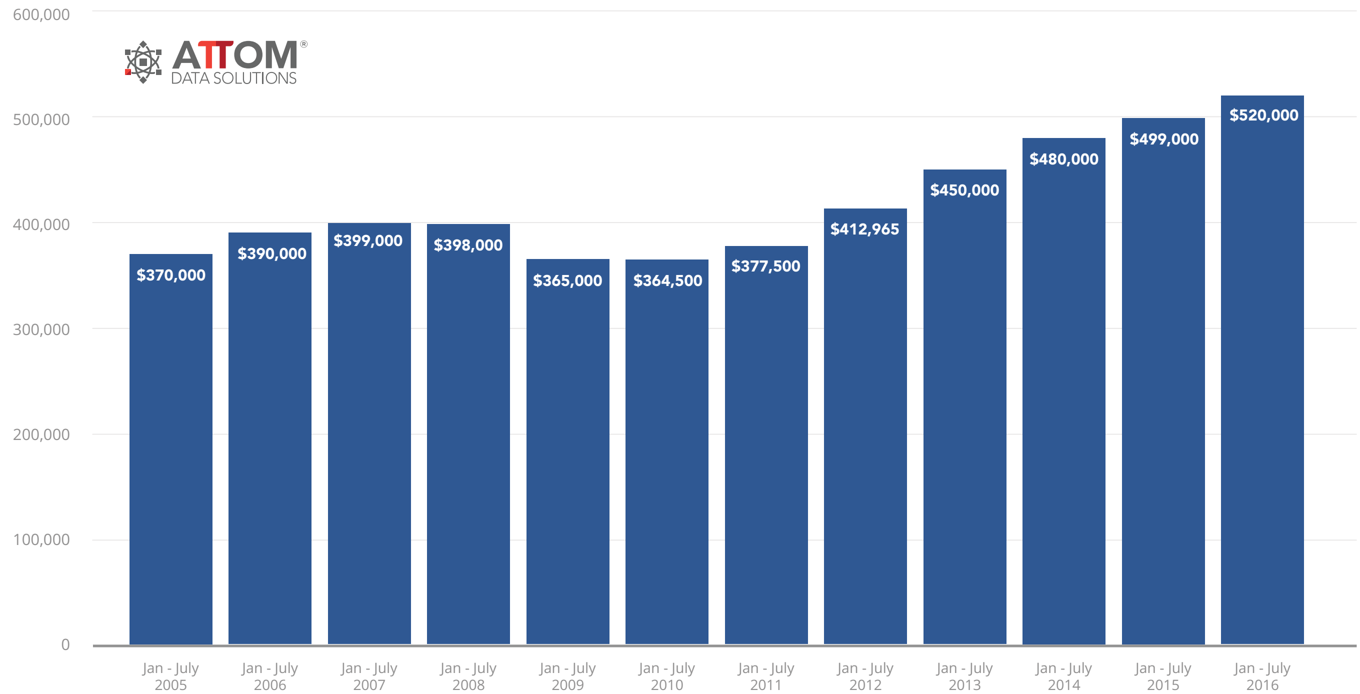
WASHINGTON D.C. METRO MEDIAN SALES PRICE



> ***The market is hot.*** *I have tons of buyers, but there's no inventory. Properties fly off the market, with multiple offers."*
>
> **Silvana Dias** | Broker at Long & Foster, Spring Valley

are best seen inside the Beltway, where some of the trendiest neighborhoods are blossoming, including the District's new "it" communities like U Street, H Street, Shaw, Bloomingdale, Trinidad and Ledroite Park. Dias said young professionals, often childless, are a sizable part of the buyer base. She also sees a steady influx of older empty-nesters, who are looking to downsize their suburban homes to take advantage of the District's cultural amenities.

"The market is hot," said Dias. "I have tons of buyers, but there's no inventory. Properties fly off the market, with multiple offers."

Dias, who closed 58 transactions last year, said proximity to the Metro, Washington's public subway system, and walkability, are important issues for buyers. She said gentrification in many communities was driving home sales.

Gentrification: The 'Great Inversion'

Gentrification is on steroids in the District of Columbia. In Washington, according to a study by *Governing* magazine, 52 percent of census tracts that were poor in 2000 have since gentrified — more than any other city bar Portland, Oregon. Young, mostly white well-educated millennials, have crowed into a district once built largely for families.

Meanwhile, housing has become vastly more expensive in gentrified District neighborhoods. As *The Washington Post* reported in April, the hottest zip code for D.C. real estate is the mostly black Trinidad neighborhood in the once-shunned northeast quadrant. Homes in zip code 20002 in Washington, D.C., were worth $570,531 on average in 2015, about 91 percent more than in 2004, reports *The Post*. Young millennial gentrifiers love the 19th century Victorian

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14th street by the U Street, DC

row houses, and real estate investors see abundant opportunities in which to flip them, said Dias.

Demographic Transformation

Simultaneously, a demographic transformation is taking place in the District. Washington's black population is shrinking, while the white population is ballooning. Washington, once 71 percent black in 1970, is only 48 percent black as of July 2015, while the white share has grown from 28 percent in 1970 to 44 percent in July 2015, according to Census Bureau data. Latinos and Asians were 10.6 and 4.2 percent respectively. Also, the region has one of the country's largest black middle classes and has lower rates of unemployment across all racial categories than is seen nationally.

"D.C.'s a young city," said Dias, who works with her husband, Alex. "Buyers want nightlife and walkability. And the Metro is a must for 90 percent of my clients. But walkability is super important to them."

Population Grows

For the first time in nearly 50 years, D.C.'s population began growing again in 2010. At 672,228, D.C.'s population added 70,000 residents between 2010 and 2015, according to Census data. And it added nearly 30,000 new residents between 2000 and 2010. Still, the population is down overall from a peak of 802,000 in 1950.

The New U

Dias said the U Street Corridor in Northwest Washington has become a dining, entertainment and sought-after residential area. The historic U Street Corridor extends from 16th Street NW on the west side to Seventh Street NW on the east and from Florida Avenue NW on the north to S Street NW on the south.

The U Street area was once the epicenter of the city's black community, vibrating with music, culture and entertainment. Hailed as the "Black Broadway" during most of the 20th century, great jazz performers like local-born Edward "Duke" Ellington, Billie Holliday, Count Basie, Cab Calloway, Ella Fitzgerald and Shirley Horn performed at local U Street clubs like the Crystal Caverns and at the landmark Lincoln Theater.

But after the assassination of Martin Luther King Jr. in 1968, much of U Street homes and businesses were burned by rioters. Black middle class and working class families began leaving the city for the suburbs. Areas in Columbia Heights and on U Street in Northwest D.C., and along H Street, Northeast, were badly damaged and weren't rebuilt. For decades, the neighborhoods disintegrated into crime, homelessness, drug use and urban blight.

Slowly, things started to change a decade ago. A Metro stop (the Green Line) opened in 1991, and artists and professionals started to move in, lured to the area by old fixer-up three-story brick row houses, new townhouses, condos and low home prices.

Now, U Street is new and hip again, Dias said. The construction of the Green Line Metro station and the rise of real estate prices brought renewed interest in the U Street area, and new condominiums and townhouses have sprung up, replacing vacant lots and low-slung buildings.

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A whole different scene has emerged in the newly re-energized corridor, with white millennials seeking walkable, urban lifestyles close to Metros and downtown D.C., said Dias.

"There's a lot of new construction in the U Street Corridor," said Dias, pointing to new central city housing.

Dias said the fast-changing Trinidad neighborhood is another popular area among buyers. Trinidad is filled with Victorian row houses undergoing renovations, she said. It's a five-minute walk from the restaurants and bars along Northeast's H Street corridor, and a 10-minute stroll to Union Market. Along its western edge is Gallaudet University.

Designed 200 years ago by French architect and civil engineer Pierre Charles L'Enfant, the Parisian-style city of Washington, D.C. is divided into four quadrants. The north-south axis is formed by North and South Capitol Streets. The east-west axis is formed by the National Mall in the west and East Capitol Street in the east.

Urban Is In

Kent Fowler, an agent with Keller Williams Capital Properties in Dupont Circle, said the District is a collection of neighborhoods that are constantly changing and being reinvented.

"When I moved to D.C. in 1993, Dupont Circle was edgy," said Fowler, referring to the now gentrified yuppie northwest neighborhood near downtown where Fowler lives and works. "In the mid-90s, Logan Circle transitioned into a sought-after community. Then, U Street and Columbia Heights took off. By 2008, Bloomingdale made the gentrification leap. Now, I would say Brookland is starting to pop. You can get good values in Brookland."

Fowler said neighborhoods once off the radar like Brookland are blossoming. The serene Brookland neighborhood in northeast Washington is located near the Catholic University of America. It is a residential area with modest Victorian, red-brick row houses and bungalows and leafy, tree-lined streets that has reinvented itself as an arts and entertainment destination, he said.

"The D.C. real estate market really came back in 2009," said Fowler. "The last four springs have been very strong, with multiple offers on most properties. But it slowed down a little this summer. The market has normalized a bit. The feeling I'm getting is that with the election coming up buyers were uncertain about the future. I think there could be some pent-up demand because of the election. I saw this four years ago. After the election, the market becomes more stable."

S.W. Waterfront: A Diamond in the Rough

In addition to trendy Northwest neighborhoods like Dupont Circle, Shaw, Logan Circle and the U Street

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"The D.C. real estate market really came back in 2009."

Kent Fowler
Real estate agent at Keller Williams Capital Properties

Rendering of The Wharf

VIO Condo Washington D.C. Waterfront

corridor, Fowler said some of the hottest communities are now along the shores of the Potomac River in the city's southwest quadrant and along the Anacostia River near the Navy Yard.

Fowler said the arrival of the new Washington Nationals baseball stadium in 2008 on the Anacostia waterfront near the Navy Yard was a transformative moment, spurring the development of new condo towers, apartment buildings, townhouses, hotels and retail along the long-neglected waterfront neighborhoods of Navy Yard, Buzzard Point and the nearby Southwest Waterfront. The $670 million taxpayer-funded ballpark, about two miles southwest of Capital Hill, has fueled a torrent of new development in the waterfront neighborhood within walking distance to the National Mall, the green space between the Capitol and the Lincoln Memorial. Fowler said before the stadium was built, it was a seedy industrial neighborhood.

Now, however, with Nationals Park the anchor for renewal, the Navy Yard area has morphed into a trendy riverfront showpiece for Washingtonians, with new housing, restaurants, hotels and apartment buildings popping up in the rejuvenated area.

"There is a lot of new condo developments and a fair amount of retail near Nationals Park," said Fowler, pointing to new developments along both the Anacostia and Potomac Rivers.

A typical new condo tower populating Southwest Washington is 535 Water Street. Completed in October of this year, the five-story structure — housing 107

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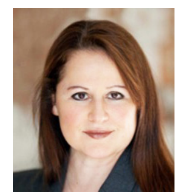
WASHINGTON D.C. NEW HOME BUILDING PERMITS BY YEAR

Source: U.S. Census Bureau

> *Because there are so many plans in place for Anacostia, I've had quite a few clients wanting to look for their home there because so* ***much new development is slated to come****."*



Melissa Terzis
Real estate agent at City Chic Real Estate

condominium units — sits on the eastern end of a new community known as The Wharf. Condominium units are priced from $349,900 for a studio to $1.4 million for a three-bedroom home.

The Wharf: D.C.'s Big Dig
Located along the banks of the Washington Channel, The Wharf is a massive $2 billion, 3.2 million-square-foot

Wmixed-use project. The mile-long project, developed jointly by Madison Marquette and PN Hoffman, is one of the largest in the nation. Bookended by two Metro lines, the 27 acres of waterfront development features apartments, condos, offices, hotels, a movie theater, restaurants and a 6,000-capacity concert hall.

A second Wharf condominium complex, called VIO, spans 12 stories and houses 112 units. Condo units sell for $400,000 for a 530-square-foot studio to $1.5 million for a 1,540-square-foot, three-bedroom unit. The tower will be completed in 2017.

Anacostia: The Next Hot Spot
Further east, the Anacostia River divides the District both geographically and socially. While Northwest Washington neighborhoods remain hot, demand is growing in several east-of-the river communities, according to Melissa Terzis, an agent with City Chic Real Estate in Washington, D.C.

"There has not been a lot of change in the popular and trendy neighborhoods," said Terzis. "The H Street area, NoMa, (North of Massachusetts), Bloomingdale and Shaw continue to be popular.

"The one new thing I've noticed this fall is that a lot more buyers are looking to move east of the river, meaning, Anacostia."

The historic Anacostia district in Southeast Washington has witnessed its share of ups and downs through the years, but it is in its early stages of a rebirth, with a number of ambitious projects in the works, including a variety of large-scale condominium, townhouse and commercial real estate projects transforming the landscape, according to Terzis.

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"Prior to this fall, the neighborhoods east of the river had been discussed for years by the powers that be as the place where a lot of development would come," said Terzis. "It's been so many years in the making that it seemed like it may never happen. But, a lot of residential and retail projects became more than just promises on paper; people actually started believing that change was coming to these often-overlooked areas of D.C. Because there are so many plans in place for Anacostia, I've had quite a few clients wanting to look for their home there because so much new development is slated to come."

11th Street Bridge Park planned development

Terzis said in the next few years, Anacostia could look quite different as new housing and retail comes to the neighborhood. Prices are rising as an increasing number of people try to get in early on what many see as a coming boom in Anacostia and neighboring Congress Heights.

A broad range of ambitious redevelopment and gentrification projects has slowly taken place during the last few years, including the Sheridan Station townhouses and condominiums, Henson Ridge townhouses, the forthcoming conversion of the 11th Street Bridge Park into an innovative pedestrian area linking Anacostia with Capitol Hill comparable to Manhattan's extremely popular High Line, and the six-block Reunion Square project, a new 9.5 acre mixed-use development located on Martin Luther King Jr. Avenue, where 904,000 square feet of office space, 413 residential units and 179,600 square feet of retail space are being built, according to Four Points Development and Curtis Investment Group.

"I actually created this map a couple months back to track the location and type of developments," said Terzis, highlighting 20 new developments east of the river that she believes could spur transformation in Southeast Washington. "The change would be what I covered above regarding Anacostia. A year ago, I had clients interested in expanding their search east of the Anacostia River, but until the development looked like it was actually going to happen, many people were hesitant to make the move. That all changed in the summer of 2016."

Another major Anacostia redevelopment is the once-sprawling and now vacant St. Elizabeths psychiatric hospital near the Congress Heights Metro station. At one point, the federally operated hospital housed 8,000 patients. Soon, however, it will house Southeast D.C.'s next business and housing boom, a massive 183-acre project developed in several phases. This year, the first phase of the redevelopment of the hospital's east campus — St. Elizabeths East — will eventually house a $55 million, 5,000-seat Washington Wizards basketball practice facility and arena, as well as 1,300 residential units, 206,000 square feet of retail space and 1.8 million square feet of office space. Two hotels are also planned. The development will also be the new home of the Department of Homeland Security.

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"There is most definitely an inventory shortage, but it seems that we may have hit a little softening of the market," said Terzis. "It's almost as if all the buyers who were going to buy have done so, and most of the buyers left are not as motivated to purchase. Some may be waiting out the election, but there have been quite a few listings this fall that we would have expected to sell in the first weekend which did not. Some of those went on to sell a week or two later, some lingered on the market and even had a price drop. Sellers aren't able to price their homes 5 percent over last year and get a fast contract anymore. The market feels like it is stabilizing — which is actually a welcome change."

On the east side of the Anacostia River, the Anacostia neighborhood is a largely poor, black community and home to the late former mayor Marion S. Barry Jr. It is also home to the Frederick Douglass National Historic Site, maintained by the National Park Service, which preserves the Cedar Hill estate in Anacostia where the fiery abolitionist Frederick Douglass once lived. Anacostia is part of the city's Ward 8, a hilly community lined with row houses and turn-of-the-century Victorian two-story homes.

H Street Corridor

Jennifer Myers, a broker with Dwell Residential Brokerage, said the H Street corridor is one of the most popular neighborhoods in D.C.

"It's a great neighborhood where you can get a lot more space for the price than other neighborhoods in Northeast D.C., yet still accessible to easy public transportation and neighborhood amenities like the new REI flagship, a new Whole Foods, the city's newest restaurants and bars," said Myers, referring to H Street NE, a retail corridor that in recent years has revitalization occurred and gentrification taken hold. It's been 48 years since the assassination of Martin Luther King Jr. in 1968, and few areas were hit harder from the riots that ripped through Washington than the H Street Northeast corridor. The H Street corridor, which is a predominantly a black neighborhood, runs from the iconic Union Station on its western edge on 2nd Street NE to 13th Street NE on the east. Just north of Capital Hill, the arrival of newcomers and new housing to H Street has attracted artists, musicians and those looking for a strong local vibe.

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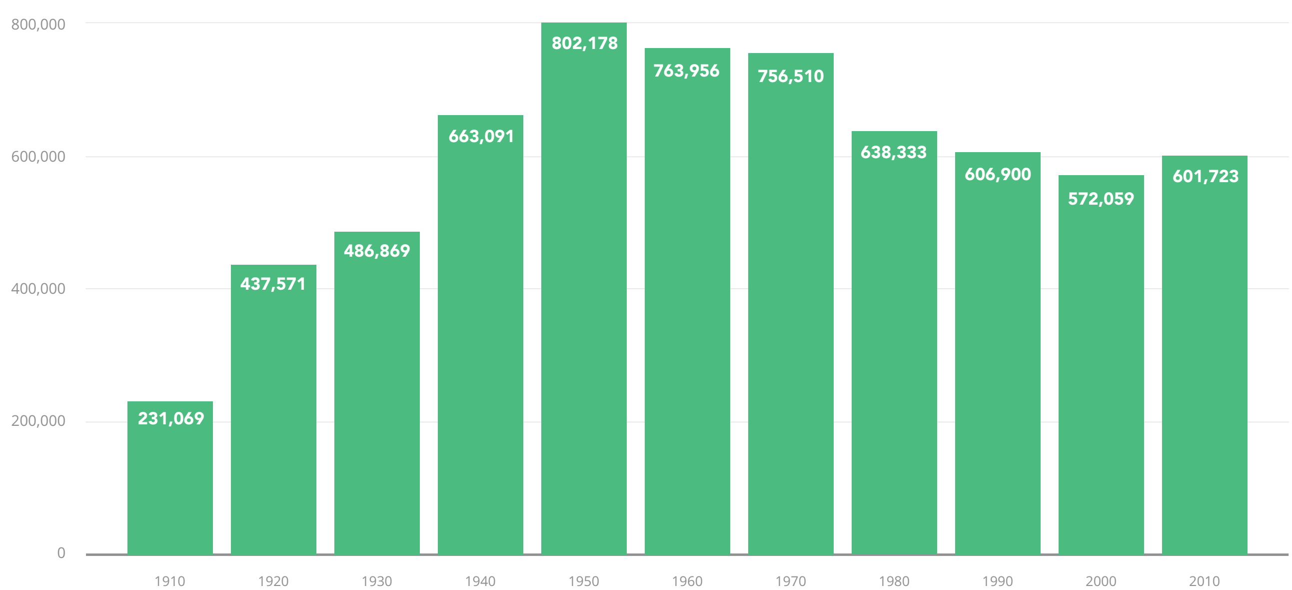
WASHINGTON D.C. POPULATION, 1910-2010



Source: U.S. Census Bureau

> ***The commuting options are changing so drastically for the better*** *that areas that were previously hard to get to and from because of lack of Metro are now much easier."*

Jennifer Myers
Broker at
Dwell Residential Brokerage

800 block of H Street in the Near Northeast neighborhood

The Atlas Performing Arts Center, a movie house that closed after the riots, re-opened in 2006 and anchors the eastern end of the H Street corridor, while the Landmark Lofts at Senate Square bookmarks the west end of H Street NE.

Myers said real estate prices along the 13 block stretch of H Street are going up fast, especially after the 2.4 mile H Street streetcar line opened in February. She said buyers are searching for areas that have various transportation options besides the Metro.

"Trends that I'm seeing this year that weren't happening last year — definitely different commutes," said Myers. "Previously, Metro ruled all, but given the Metro is undergoing improvements in the area and is not running as frequently, people are looking towards all the alternative options to get around town and to and from work, including Capital Bike Share, the trolley, buses, biking and Uber. The commuting options are changing so drastically for the better that areas that were previously hard to get to and from because of lack of Metro are now much easier."

Myers said increased completion and multiple offers still plague the market.

"The challenge continues to be competition," she said. "Homes, when priced correctly, tend to get several offers and it really scares buyers away. They just need to be patient and know that their dream home is within their reach, it will happen, there are tools your agent can show you to make sure you get what you want — even if you get beat out once or twice."

Building Boom

During the Great Recession, new housing construction stalled while D.C. population continued to grow. Washington's federal government presence shielded the District from the damage that battered most of the country. The D.C. economy grew faster than the nation as a whole from 2008 to 2010, as federal procurement and hiring levels increased.

Meanwhile, developers pulled more than 36,000 new building permits in 2005, according to the Census Bureau. By 2009, new home permits had shrunk to just over 12,300.

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That pattern reversed in 2010. New building permits started inching upward again in 2010, when the pace of new construction started to rebound. Across the metropolitan area, the District has experienced a building boom and waves of gentrification started changing the face of the nation's capital. Young, well-educated white professionals are moving into once minority neighborhoods, where new condo and rental apartment construction is surging, according to Urban Turf, which lists some 460 new apartment and condo projects.

In the Beltway, new home building permits have surged in the last seven years, nearly doubling from 12,329 permits in 2009 to 23,007 in 2015. There was a slight decline in 2015 for the first time in six years, when developers pulled 23,007 new home permits, according to the Census Bureau. As of August 2016, D.C. developers had pulled 16,755 new home building permits.

Sales Up, Inventory Low

When there is not enough housing supply to meet demand, prices go up. Since 2010, median home prices in the District have been steadily rising, increasing from $365,000 in 2010 to $525,000 so far in 2016, according to ATTOM Data Solutions.

But the District's population started to decline in 2012, according to D.C.'s Chief Financial Officer. The city's population growth, so important to continuing its economic revival, appears to be returning to the sluggish numbers of the pre-2009 era. It appears that fewer Americans are moving to D.C. (or more residents are leaving). Federal employment boomed during the recession years, as the stimulus and other initiatives bulked up the D.C. area workforce; since then, it has slowed. And in-migration to D.C. has declined sharply, the CFO report claims.

Unemployment Rate

On nearly every measure, the capital is exceptional. At 4 percent, the District's unemployment rate is easily among the lowest among America's largest metropolitan areas. By comparison, New York's unemployment rate was 5.2 percent and Los Angeles clocked in at 6.1 percent in August, while the national rate was 4.9 percent, according to the Bureau of Labor Statistics. Incomes are high and rising, and the combination of jobs and income growth has buoyed the real estate market.

To many Americans, the capital's boom mainly reflects the relentless growth of big government. The federal government jobs accounts for nearly 2 percent of all jobs nationally, but for nearly 27.4 percent of those in the Washington area, according to *Governing* magazine. Over 200,000 D.C. workers are employed by Uncle Sam. ■

• QUINCY PARK CONDO

WHAT: 1-bedroom condo
HOW MUCH: $600,000

Located in the historic Mount Vernon neighborhood, this one bedroom, 8th floor condominium, has an open floor plan, hardwood floors and granite counter tops in the kitchen. The Quincy Park Condos are located one block from Marriott Marquis, Logan Circle and CenterCityDC. The unit is freshly painted and has a private balcony. It has underground parking and is two blocks from the Metro (Green and Yellow Lines). Agent: Kent Fowler, Keller Williams Capital, (202) 288-9111, http://www.kw.com/kw/agent/kent-fowler

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Consumer Watchdog Rebuffed

A Washington, D.C. Court of Appeals handed PHH Corporation a partial victory over the federal government on Oct. 11, ruling that the Consumer Financial Protection Bureau — governed by a single director appointed by the president — was unconstitutional, and vacating a $109 million fine against PHH.

A three-judge panel of the U.S. Court of Appeals for the D.C. Circuit agreed with an argument put forward by PHH, reversing an enforcement ruling by CFPB director Richard Cordray, claiming that PHH violated anti-kickback provisions in Section 8(a) of the Real Estate Settlement Procedures Act (RESPA). PHH had asked the judges to declare the entire agency unconstitutional and halt its operation. Instead, the court chose a narrower remedy: eliminate the CFPB director's independence by making him a subordinate to the president.

"Other than the President, the Director of the CFPB is the single most powerful official in the entire United States Government, at least in terms of unilateral power," wrote vv for the 2-1 majority. "That is not an overstatement."

As a result of the decision, the court took away power from its director and tossed out a $109 million penalty against PHH. The CFPB now will operate as an executive agency, reporting to the President of the United States, who now has the power to supervise and direct the Director of the CFPB, and may remove the Director at will at any time.

The case, *PHH Corp. v. Consumer Financial Protection Bureau*, is the first time a company has fought back against the bureau — and won.

SOURCE: *PHH Corp. v. Consumer Financial Protection Bureau*

Fannie and Freddie Shareholders Want Billions

Three shareholders have sued the Federal Housing Finance Agency and the Department of the Treasury, arguing that the federal government's "net worth sweep" of $195 million profits from Fannie Mae and Freddie Mac in 2012 were illegally siphoned to the U.S. Treasury rather than shareholders.

Lead plaintiff J. Patrick Collins, a Freddie Mac shareholder, filed the suit on Oct. 20 in federal court in Houston, Texas.

"Plaintiffs bring this action to put a stop to the federal government's naked, unauthorized, and ongoing expropriation of private property rights," the complaint states. "Despite the companies' relative financial health, the Department of the Treasury implemented a deliberate strategy to seize the companies and operate them for the exclusive benefit of the federal government."

Collins seeks declaratory judgment that the net worth sweep violates the Administrative Procedure Act's prohibition against federal agencies taking action that exceeds their statutory authority.

The case is *J. Patrick Collins v. Federal Housing Finance Agency.* Collins is represented by Chad Flores with Beck Redden in Houston.

SOURCE: *J. Patrick Collins v. Federal Housing Finance Agency*

Airbnb Faces Survival Fight in NYC

Home-sharing website Airbnb faces a fight for its life in Manhattan as New York governor Andrew Cuomo prepares to sign a bill that would in effect end the company's business in the Big Apple.

Governor Cuomo must decide whether to sign the bill. If it becomes law, it would impose fines of up to $7,500 on any host who advertised short-term accommodations through Airbnb.

The online home-sharing website, which connects owners of homes with short-term renters in cities around the world, has often clashed with regulators which accuse the company of operating an illegal hotel business and reducing affordable housing stock.

Like other Silicon Valley start-ups that have disrupted traditional business models, Airbnb remains one of Silicon Valley's most successful start-ups, with a valuation of $30 billion.

San Francisco-based Airbnb is also locked in a bitter lawsuit in its home town of San Francisco, which wants to fine Airbnb hosts who do not register with city authorities.

SOURCE: *Financial Times*

RE/MAX Enters Mortgage Business

Real estate brokerage RE/MAX Holdings Inc., based in Denver, Colorado, announced it is launching Motto Mortgage, a mortgage brokerage that the company plans to roll out nationwide.

"RE/MAX disrupted the real estate industry when it was created more than four decades ago," said Dave Liniger, RE/MAX CEO, chairman and co-founder in a statement. "Today we are extending our core competency of franchising into the mortgage origination market by introducing Motto Mortgage."

Ward Morrison, RE/MAX's vice president of regional operations and business opportunities, has been named president of the new loan brokerage. Each Motto Mortgage franchise will be independently owned and operated, with the opportunity to be paired with existing RE/MAX real estate brokerages.

SOURCE: *RE/MAX*

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