

THE WALL STREET JOURNAL.

Apartment Developers Flock to Washington's Navy Yard Area

November 15, 2016 | By THERSEA AGOVINO



The office market in Washington, D.C., is mired in a nasty slump—but apartments are showing no sign of cooling.

The section known as Navy Yard/Capitol South, once one of the city's grittiest, is undergoing a massive transformation as big developers pile in.

The 500-acre neighborhood is the fifth-busiest submarket in the U.S. for apartment construction, according to RealPage Inc., a maker of property management software. The onetime industrial area has added 2,335 residential units since 2012 and 3,727 more are being built by some of the nation's largest developers, including the Related Cos., Forest City Realty Trust and Toll Brothers Inc.

“It really has seen tremendous transformation,” said Jay Parsons, vice president at MPF, RealPage's research division.

Luxury apartments, restaurants and bars dot the area around the Nationals Park baseball stadium, directly south of the Capitol between the Anacostia and Potomac Rivers. Construction is expected to begin soon on a new soccer stadium and two apartment projects with a combined 869 rentals and condos.

The first condominium project in the Wharf, a 24-acre multiuse project on the Potomac River being developed by Hoffman and Madison Marquette, opened last summer. Next year, the first phase of the project, which includes 1.9 million square feet of condos, office, hotels and retail, is set to open. Related will open a new rental property early next year. The 13-story, 383-unit building, the result of a 2013 joint venture with the Ruben Cos., is the developer's first foray into D.C.

“The neighborhood had been developing in fits and starts but by 2013 we saw that there was a framework,” said Andrew Dance, a senior vice president at Related. “There were the beginnings of a community.”

The activity comes amid a five-year slump for D.C. office properties since government cost-cutting kicked into high gear. Big New York landlord Vornado Realty Trust last month agreed to spin off its Washington, D.C., assets to local developer JBG Cos. in order to focus more attention on the healthier New York market. Its D.C. properties were just 81% full, compared with 96% in New York.

Some observers are concerned that demand for luxury rentals in the neighborhood could begin to wane. Clothing retailers are skittish about plunging in, said Jason Bonnet, vice president of development at developer Forest City Washington.

Others worry there could be too much product coming on line at once, especially if there is a recession. Even though the area is becoming more populated, it still isn't an ingrained favorite.

"People aren't banging down the door to live there like they are in Georgetown," said Shana White, a leasing agent at Nomadic Real Estate. "But you do get a little more space for your money."

The average rent for studios and one- and two-bedroom apartments in Navy Yard/Capitol South is \$2,173 a month, according to real-estate research firm Axiometrics. It is higher than the city's average but lower than popular spots like Foggy Bottom and Logan Circle, where the average rents are \$2,650 and \$2,615, respectively.

Forest City sparked the revitalization in 2004 when it entered a partnership with the U.S. General Services Administration to develop a former Navy Yard annex—a venture the city joined in 2007. About 20% of the six million-square-foot project with apartments, office space and retail have been completed, with the rest expected by 2030.

The area got a boost when the baseball park opened in 2008, but the recession made it nearly impossible to find financing for apartment construction, said Mr. Bonnet. The first building was completed in 2011, another followed in 2014 and a third opened earlier this year. Two buildings with a mix of retail and office space also are up and running.

Related is betting on continued demand for luxury properties in the neighborhood. Its rents start at \$3,500 for a two bedroom and \$2,500 for a one bedroom, slightly higher than average for luxury rentals, according to Mr. Dance. He said tenants will pay more for a brand-new building with a doorman, rooftop pool and Equinox gym.

Related plans to start marketing the building around the end of the year.