MARKET REPORT

MULTIFAMILY

Washington, D.C., Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

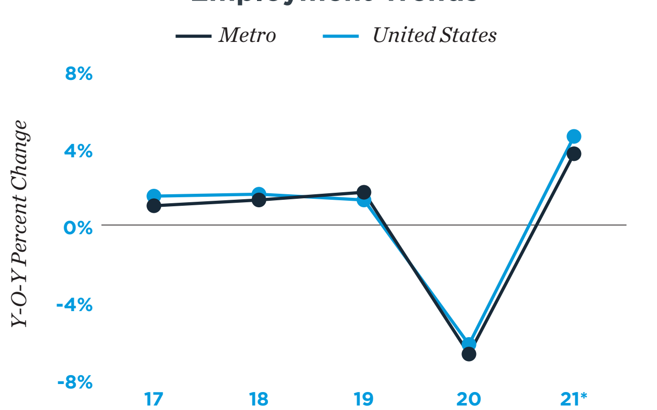
3Q/21

Suburbs Return to Pre-Pandemic Footing; Renter Demand in the District Also Rising

Renter demand drives recovery outside the core. The distribution of vaccines in the spring paved the way for businesses to reopen, facilitating hiring and household formation as well as lifting renter demand. This is especially true in northern Virginia and suburban Maryland. As of the second quarter, vacancy in both areas had recovered to within 10 basis points of the pre-2020 benchmark, while also recording year-over-year growth in average rent. Even with these gains, monthly rates continue to reside well below those inside the District, drawing renters priced out of the core. The prevalence of remote and hybrid office work have also lessened the burden of a long commute, allowing some households seeking larger spaces to relocate to the suburbs.

Apartment operations turn a corner in the District. After sliding for the preceding 12 months, performance metrics in D.C. improved in the second quarter. Fundamentals will continue to recover as some of the motivators for urban living return. Many employers, including federal agencies, are solidifying plans to return workers to offices in the coming months, while full in-person instruction will resume at George Washington University this fall. At the same time, ongoing construction activity will present a challenge to property performance in select submarkets. Inventories in the Navy Yard-Capitol South and Northeast D.C. submarkets will each expand by over 9 percent this year, which could keep vacancies above 2019 levels.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook

115,000 JOBS
will be created

EMPLOYMENT:

After conceding 227,200 jobs to the health crisis last year, the market's employment base is anticipated to expand by 3.7 percent in 2021. Hiring through the first half of the year has already brought the unemployment rate down to 5.3 percent, below the U.S. level.

10,700 UNITS
will be completed

CONSTRUCTION:

The pace of development will fall to an eight-year low in 2021 after over 13,000 units were delivered in the previous year. Arrivals are concentrated in Navy Yard, Northeast D.C., Bethesda-Chevy Chase and Reston-Herndon.

50 BASIS POINT
decrease in vacancy

VACANCY:

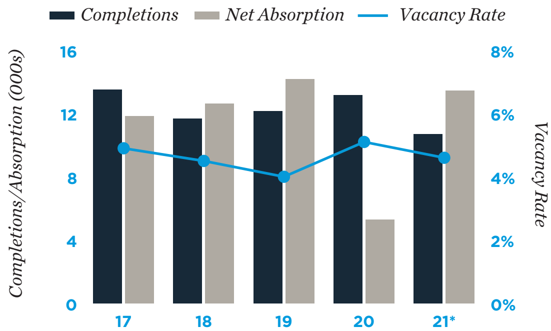
Apartment absorption returned in force in the second quarter, dropping vacancy below the 5 percent threshold. Aided by less construction activity, the rate is expected to reach 4.6 percent by year-end. The measure is nevertheless 60 basis points above the 2019 level.

5.4% INCREASE
in effective rent

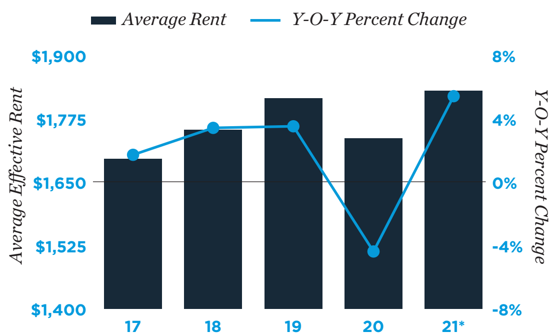
RENT:

After falling 4.4 percent last year, the average effective rent will recover to $1,830 per month in 2021. A stabilizing Class A average, paired with Class B and C advancements, will help lift the marketwide measure to just under the pre-pandemic high.

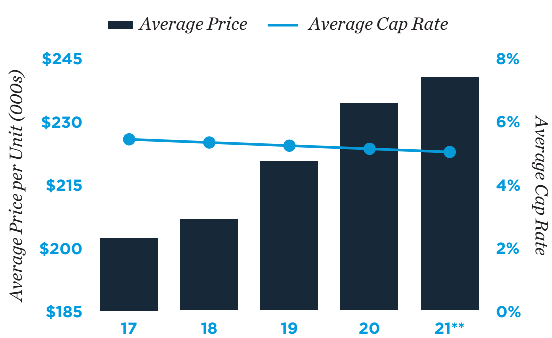
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

2Q21 — 12-Month Period

CONSTRUCTION

12,572 units completed

- Apartment inventory in Washington, D.C., expanded by 1.9 percent year over year in June as deliveries surpassed the previous 12-month-period total by about 800 rentals.
- Through the first half of 2021, Navy Yard-Capitol South and Northeast D.C. have welcomed the most openings, exceeding 1,100 units each.

VACANCY

40 basis point increase in vacancy Y-O-Y

- Leasing velocity recovered markedly in the second quarter with nearly 7,700 units absorbed over the three-month span, dropping vacancy 70 basis points from March to 4.7 percent as of June.
- Although tightening, availability is highest in the District at 6.6 percent, while the northern Virginia and Maryland rates are below 4.3 percent.

RENT

1.6% decrease in the average effective rent Y-O-Y

- Renewed competition for leases helped push the average effective rent up 3.2 percent between March and June to $1,782 per month. The measure is nevertheless below the $1,834 high recorded early last year.
- While Class A and B monthly rents have fallen from pre-pandemic levels, the average Class C rate was up 3.1 percent year over year.

Investment Highlights

- Transaction velocity was up over 50 percent in the second quarter compared with the same period the year prior. Deal flow nevertheless remains below pre-pandemic levels on a trailing-12-month time frame.
- Despite fewer trades, competition for assets on the market has contributed to a 6 percent increase in the average sale price to $240,000 per unit over the four-quarter period ending in June. The mean cap rate dropped 10 basis points to 5 percent over the same span, the lowest level on record dating back to 2000.
- While properties in the urban core faced steep hurdles over the past four quarters, multiple investors pursued Class B assets in Downtown D.C., given the favorable long-term positioning of the submarket. Buyers seeking lower entry costs inside D.C. often targeted the Capitol South Waterfront and the Fort Totten area.
- More properties changed hands in northern Virginia, with added activity in Fredericksburg and along the I-95 Corridor. The Alexandria area also continued to draw buyers, given proximity to Amazon offices.

IPA Multifamily
Richard Matricaria
Executive Vice President of Brokerage Operations
Tel: (818) 212-2250 | rmatricaria@ipausa.com

For information on national multifamily trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250