INVESTMENT FORECAST

Multifamily
Washington, D.C.

IPA | INSTITUTIONAL PROPERTY ADVISORS

2022

Swift Recovery and Widespread Demand Warrant Elevated Development

Local economic pillars support historically strong fundamentals. Washington, D.C., registered a limited rise in unemployment during the pandemic that allowed the metro to quickly move into recovery. Supported by its sizable professional and business services and government sectors, roughly 100,000 jobs were regained last year, elevating apartment demand to record levels. As a result, vacancy contracted to 3.3 percent despite completions reaching a two-decade high. Suburban rentals in Virginia and Maryland were highly sought after during the initial months of the health crisis due to their affordability relative to the central business district. However, leasing activity returned in force inside the District as restrictions for dining and entertainment venues loosened and in-person classes resumed at universities. Barring any setbacks from COVID-19 variants, demand across the region will likely be sustained as access to high-paying positions continues to draw residents to the metro. Heightened renter interest has bolstered the market's construction pipeline, with over 30,000 units underway at the onset of 2022. This will likely place upward pressure on availability in the near term, resulting in a small uptick in vacancy. Still, the rate will remain 120 basis points below the 10-year-trailing average.
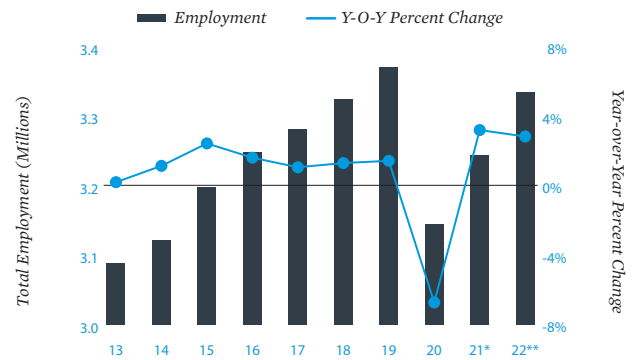
District's resiliency a catalyst for acquisition activity. Investors' confidence in Washington, D.C., has improved with transaction velocity returning to pre-pandemic levels last year. The metro offers buyers a diverse inventory mix that appeals to numerous investment strategies, which is elevating competition for assets across the region. The rise in valuations is placing downward pressure on first-year returns, lowering the average cap rate under 5 percent for the first time on record. Institutional capital sources are focusing on higher-quality properties in Silver Spring, North Prince George's County and Alexandria. The latter locale's buyer pool may expand in the near term as Phase I of Amazon's HQ2 nears completion. Listings in Southeast D.C. neighborhoods near the Anacostia Waterfront are highly sought after due to revitalization efforts in the area. Furthermore, the Silver Line Phase II extension of the metro rail line is expected to be operational this year, potentially directing investor interest to Reston, Herndon and Eastern Loudoun County. Historically low availability and robust rent growth projections for this year will likely support strong investment activity over the next 12 months.

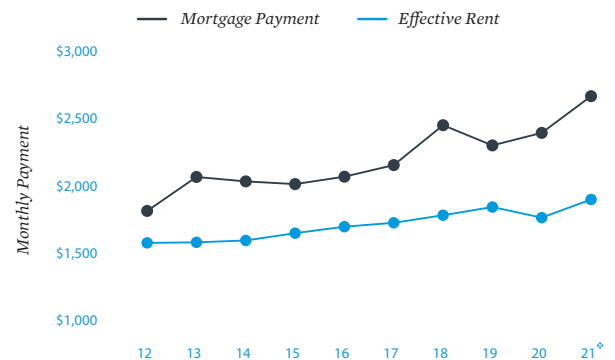**21.0%** — *2021 share of local population between 20 and 34 years old*

46.0% — *of local population hold bachelor's degree or higher✤*
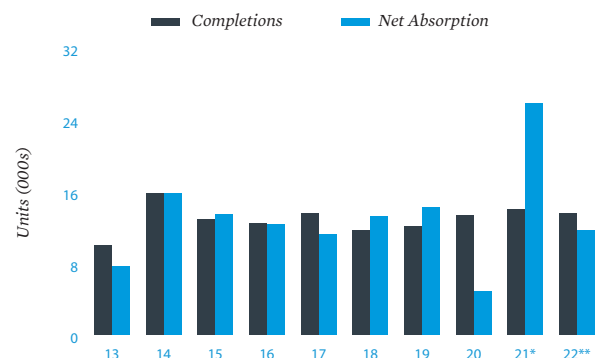
$571,200 — *2021 median home price*

Employment Trends

Legend: Employment, Y-O-Y Percent Change

Total Employment (Millions) — Year-over-Year Percent Change

Housing Affordability Gap

Legend: Mortgage Payment, Effective Rent

Monthly Payment

Supply and Demand

Legend: Completions, Net Absorption

Units (000s)

2022 Investment Outlook

The demand and supply scores on the Key Performance Index mirror the rankings prior to the pandemic, though rent growth has increased marginally. Tight availability amid improving demand driven by the ongoing jobs recovery should fuel rent gains in 2022.

Washington, D.C., maintains a solid liquidity score of 6, which is higher than some nearby primary metros like New York. The metro remains attractive to international investors, which helps drive deal flow but also creates a competitive bidding environment that presses down on yields.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.

Key Performance Index
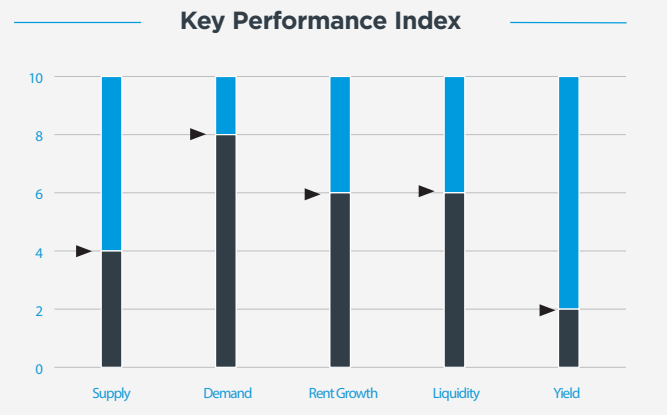
2022 Market Forecast

Employment
91,000 jobs
Metro **2.8%**
U.S. **2.5%**

Construction
as % of inventory❖
Metro **2.0%**
U.S. **2.2%**

Class A Vacancy
Up 20 bps
Metro **4.2%**
U.S. **3.6%**
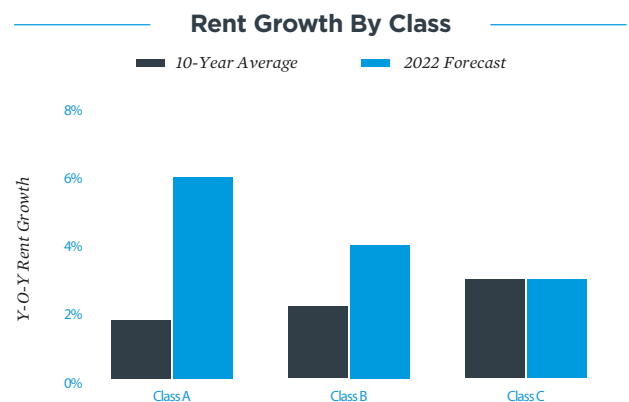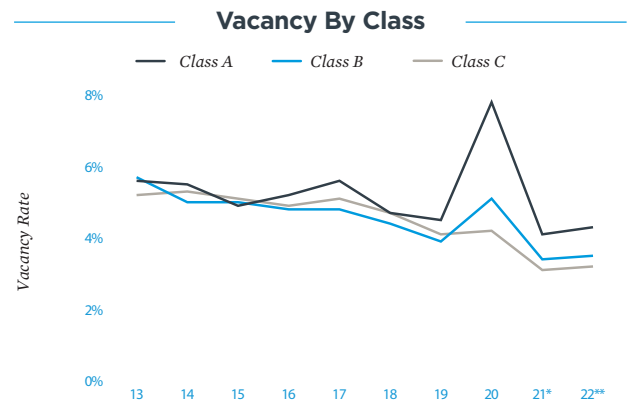
Class A Rent
$2,622 per month
Metro **5.9%**
U.S. **7.5%**

Investment
3-yr. avg. activity $20+ million
Deals: **69**
Volume: **$5.4 Billion**

Vacancy By Class

Class A — Class B — Class C

Rent Growth By Class

10-Year Average — 2022 Forecast

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* Estimate ** Forecast
❖ Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics