MARKET REPORT

Multifamily

Washington, D.C. Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

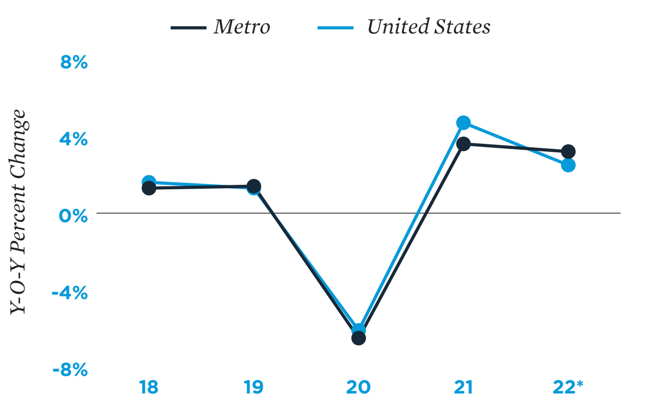
2Q/22

In-Migration and Barriers to Home Buying Bolster Apartment Demand in D.C.

Net absorption reaches record high. A plethora of high-paying jobs from a diverse set of industries is attracting young, educated workers to the region, bolstering apartment demand. Over the past 12 months ending in March, renters absorbed nearly 32,000 units, contracting availability to the lowest rate in over two decades. Renter demand is widespread, with all but one of the metro's 36 submarkets recording vacancy compression during the last four quarters. Many tailwinds remain, which suggests this momentum will be sustained moving forward. Washington, D.C.'s single-family housing market is one of the most expensive in the United States, limiting living options for many residents. Additionally, the metro's renter pool will continue to expand, with the population expected to increase by 200,000 residents over the next five years.

Demand surge warrants development increase. With over 33,000 units currently underway, Washington, D.C.'s pipeline is one of the largest in the nation. Builders are targeting sites proximate to Metro stations, as newly-built, transit-oriented developments are commanding premium rents. The bulk of ongoing projects are concentrated inside the District, but developers are also active in North Arlington, Bethesda and East Alexandria. Although this year's deliveries will be the highest since 2014, demand is expected to outpace supply additions, sustaining tight market conditions in the near term.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

105,000 JOBS
will be created

EMPLOYMENT:

Hiring velocity in Washington, D.C. surpasses the national rate of increase in 2022, as organizations expand the metro's employment base by 3.2 percent. Still, the total job count in the region will remain 0.5 percent below the pre-pandemic figure at year-end.

15,500 UNITS
will be completed

CONSTRUCTION:

Construction activity will rise to an eight-year high, with developers increasing the metro's inventory by 2.4 percent this year. The bulk of completions are concentrated within the District, particularly in Northeast D.C. and Navy Yard-Capitol South.

10 BASIS POINT
decrease in vacancy

VACANCY:

Net absorption is expected to surpass the 15,000-unit threshold this year, facilitating a second consecutive year of annual vacancy compression. Availability will fall to 2.8 percent by year-end, roughly 120 basis points below the metro's pre-COVID-19 rate.

6.4% INCREASE
in effective rent

RENT:

Tight market conditions limit concession usage throughout the region, supporting a further rise in the average effective rent. By the end of this year, the rate will reach $2,034 per month, building on the double-digit gain recorded in 2021.

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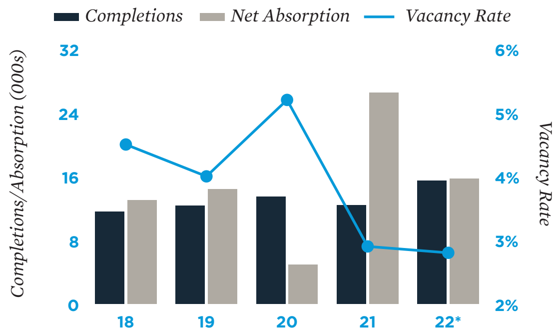
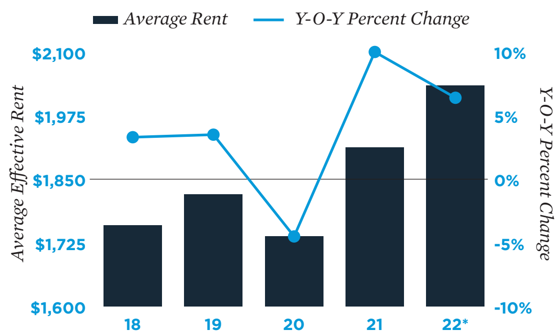
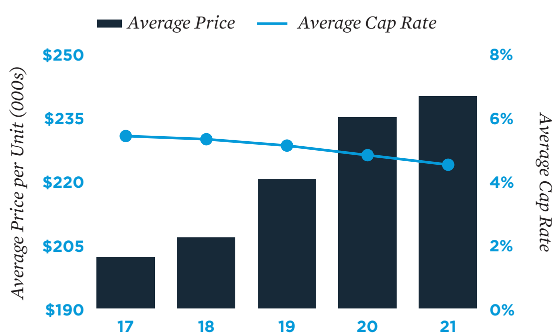
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

IPA Multifamily

John Sebree

Senior Vice President

Tel: (312) 327-5400 | jsebree@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

1Q 2022 - 12-Month Period

CONSTRUCTION

13,155 units completed

- Despite material and labor shortages, construction remained elevated, with developers expanding apartment inventory by 2 percent.
- Recent completions were heaviest in the Northeast D.C., North Arlington and Reston-Herndon submarkets, accounting for roughly 45 percent of all deliveries over the past year.

VACANCY

290 basis point decrease in vacancy Y-O-Y

- Leasing activity returned in force, with renters absorbing roughly 31,300 units over the past 12 months. As a result, metrowide vacancy lowered to 2.6 percent — 140 basis points below the 2019 rate.
- Availability plummeted by 390 basis points inside the District of Columbia, lowering the local vacancy rate to 3.4 percent.

RENT

12.2% increase in the average effective rent Y-O-Y

- Tight market conditions lifted the average effective rate to $1,941 per month, marking the highest annual growth rate in over 20 years.
- The suburban effective rent rose 11.2 percent last year to $1,821 per month. In the CBD, the average effective rate climbed 11.9 percent to $2,394 per month, as demand returned to the urban core.

Investment Highlights

- Overall deal flow increased by about 15 percent in 2021, as tight availability and record rent growth bolstered buyer demand for apartments in the Washington, D.C. metro. Transaction velocity in the Class B/C segment was the strongest in the past four years, elevating nearly 27 percent over the past four quarters.
- Competition for available assets lifted the mean sale price to nearly $240,000 per unit over the past year. During the same span, the average first-year return fell 30 basis points to 4.5 percent.
- Investors seeking properties with upside potential are active in Maryland and Virginia suburbs, particularly Manassas-Gainesville, Hyattsville and Silver Spring-White Oak. In these submarkets, cap rates for smaller Class B/C properties average in the low-6 percent range.
- Inside the District of Columbia, assets in Southeast neighborhoods are highly sought by investors seeking entry costs that generally fall well below the market average. Buyers are also targeting older Class B/C rentals in the Adams Morgan-Columbia Heights and Brightwood-Fort Totten submarkets, where cap rates average in the low-5 percent span.