MARKET REPORT

Multifamily

Washington, D.C. Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

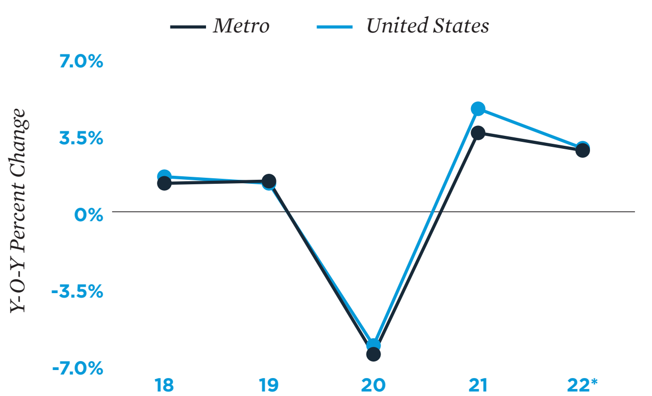
3Q/22

Epicenters of Local Development Activity Experience Notable Vacancy Compression

Wage growth underpins rental demand. Over the past year, the median household income rose by 1.7 percent in the nation's capital, more than double the U.S. pace of increase. The high concentration of Fortune 500 companies across the Washington, D.C. metro led to above-average wage growth, which also benefited resident retention and spurred net in-migration. This has helped fuel demand for apartments, with vacancy at the midway point of 2022 down 130 basis points from the recording at the same time last year. Submarkets like Navy Yard-Capitol South, Central D.C. and Bethesda-Chevy Chase have experienced significant momentum as of late, with availability falling by at least 300 basis points in each of these locales during the trailing 12-month period ending in June.

Rents continue to advance. Inflationary pressure is forcing action by the Federal Reserve. Rising interest rates are elevating mortgage costs, increasing the price of ownership in an already expensive single-family housing market. The gap between the average mortgage payment on a median priced home and mean effective rental rate has nearly doubled over the past year, which will likely incentivize many prospective home buyers to remain in the apartment market. This will benefit near-term demand, allowing rent growth to continue its historic climb. By year-end, the average effective rate is projected to surpass the $2,000 per month threshold for the first time on record. For some households, however, the added cost has led to consolidation, increasing turnover in the most recent quarter.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

93,000 JOBS
will be created

EMPLOYMENT:

Washington, D.C. employers are on pace to increase payrolls by 2.8 percent this year, with the addition of over 46,000 positions during the first half of 2022. Entering July, unemployment was at 3.4 percent, only 30 basis points above the 2019 rate.

12,000 UNITS
will be completed

CONSTRUCTION:

Development remains robust in the nation's capital, with the pace of construction matching last year's rate of increase. Projects slated for near-term delivery are concentrated in the Northeast D.C. and Navy Yard-Capitol South submarkets.

110 BASIS POINT
increase in vacancy

VACANCY:

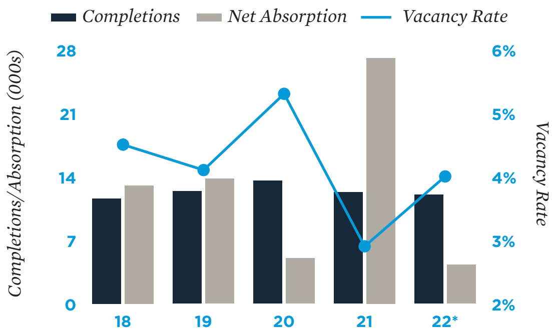
Availability increases this year as a number of renters move back home with their families or find roommates during this inflationary period. Still, the rate will remain 40 basis points below the trailing five-year average.

8.2% INCREASE
in effective rent

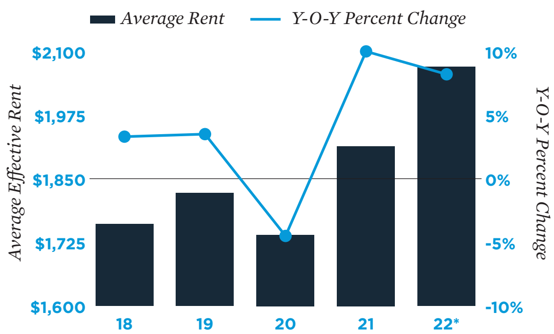
RENT:

Following the double-digit surge recorded last year, effective rents continue to climb at a robust clip. The average will reach $2,070 per month by the end of this year, marking the third-largest annual increase in at least two decades.

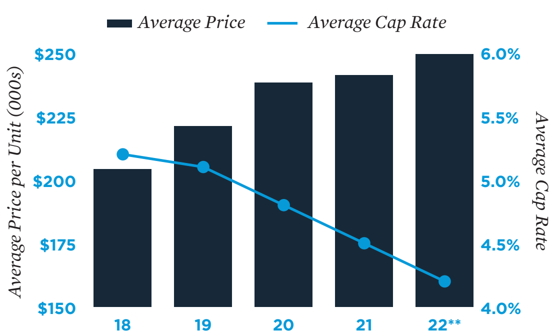
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

13,089 units completed

- Completions in the Northeast D.C., East Alexandria and Reston-Herndon submarkets accounted for over 42 percent of all deliveries during the past year ending in June.
- As Amazon's HQ2 project continues to progress, apartment development will likely accelerate in the Crystal City-Pentagon City submarket.

VACANCY

130 basis point decrease in vacancy Y-O-Y

- Driven by the 210-basis-point decline recorded inside of the District, metrowide vacancy fell to 3.4 percent over the trailing 12-month period ending in June — 50 basis points below the 2019 rate.
- Availability is exceptionally tight in Manassas and the surrounding area, with the local vacancy rate registering at 2.1 percent.

RENT

11.6% increase in the average effective rent Y-O-Y

- Tight availability across the metro limited concession usage, allowing the average effective rent to reach $1,996 per month. Rent growth was most pronounced in West Alexandria, notching a more than 20 percent increase.
- Class B rents noted the largest gains among class cuts during the past year, rising by nearly 12 percent to roughly $2,000 per month.

Investment Highlights

- Washington, D.C.'s robust economy, coupled with its young and educated workforce, is a major draw for institutions targeting multifamily assets. Over the past year ending in June, transaction velocity increased by 40 percent compared to the previous yearlong span. Looking ahead, apartment assets will likely remain highly sought after, as the ability to adjust rents largely on a yearly basis offers strong potential for inflation resistance relative to other investment options.
- Rising interest rates have steered buyers toward value-add opportunities as of late, due to the increased cost of capital. Inside of the District, apartments in the Anacostia Southeast submarket have been targeted most often. Here, entry costs frequently fall well below the market mean of $249,000 per unit, with first-year returns that average in the mid-5 percent range. Investors are finding similar opportunities in suburban Maryland, specifically in the Silver Spring-White Oak and Hyattsville submarkets.
- Buyers have shown a willingness to pay a premium for assets in Northern Virginia, particularly in Alexandria-I-395, Rosslyn and Arlington County neighborhoods. Pricing here often rises above $400,000 per unit, with cap rates that can fall into the mid-3 percent span.