SPECIAL REPORT

Washington, D.C.
Multifamily Outlook

IPA INSTITUTIONAL PROPERTY ADVISORS

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Washington, D.C. Multifamily Market Positioned Well To Withstand DOGE Flux

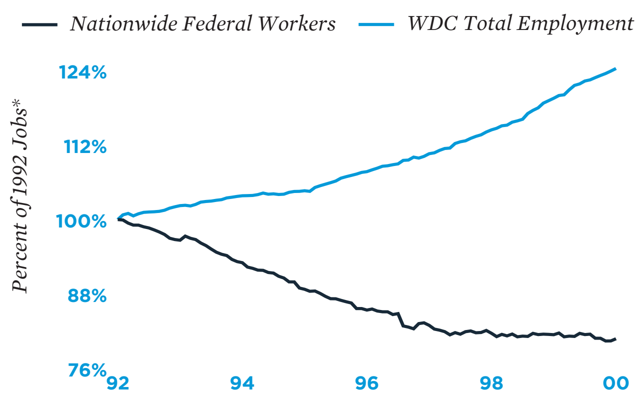
Robust economy to act as shield against government job cuts. Recent actions undertaken by the Trump administration's newly formed Department of Government Efficiency (DOGE) are raising questions about the potential impact on the Washington, D.C. metro multifamily market. To date, DOGE activities have focused on job cuts targeting probationary staff members, which number more than 200,000 nationwide, and buyout offers so far accepted by 75,000 civilian federal employees. DOGE has also cut funding to non-profits, non-governmental organizations, contractors and other non-state entities. While it is not yet clear exactly how many layoffs and resignations have taken place, with many of these actions also being challenged in the courts, these reductions come at a time when Washington, D.C. is experiencing a healthy employment environment.

Overall labor market still very tight. Nearly 40,000 jobs were created in 2024, which was in line with the annual average during the 2010-2019 growth cycle. At 3.2 percent, the unemployment rate also ranked as one of the lowest among major markets and was nearly a full percentage point below the U.S. total. In addition, the foreign-born population, which comprises a greater than average share of the workforce, has very low exposure to government job cuts. The tight labor market lifted the median household income to $131,000 last year, a figure only eclipsed by the San Francisco Bay Area, which will help sustain positive economic momentum even as uncertainty increases.

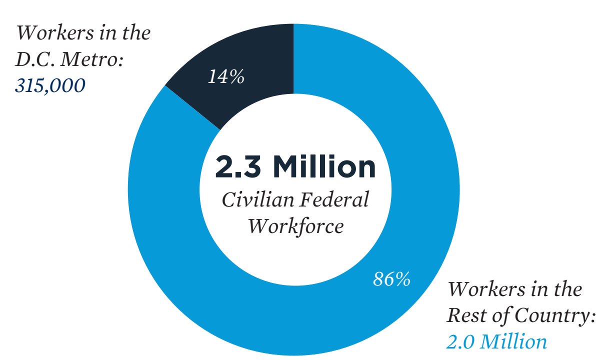
Past government downsizing may provide peek into future. The Clinton administration oversaw a significant decline in the Federal workforce under a program that aimed to make government more efficient. The federal civilian workforce — excluding postal workers — fell from approximately 2.3 million in 1992 to 1.9 million by 2000 — a reduction of about 440,000 jobs or roughly 19 percent nationwide. Total employment in Washington, D.C. meanwhile grew by more than 535,000 jobs over the same period as the private sector more than counterbalanced a slimmer government. The local economy broadened and diversified, with the share of government jobs in D.C. falling from a peak of 27.3 percent in 1992 to 21.3 percent in 2000. Signs of a new wave of corporate expansion are already forming today.

Pillars of private-sector growth showcase evolving economy. In recent years the metro has garnered increasing interest from key growth sectors in private industry. High-profile investments include Amazon's HQ2, which has already created 8,000 jobs and made commitments for 17,000 more over time. Google, Microsoft, Salesforce, and other tech firms have also established a presence, particularly in Northern Virgina, which has the highest concentration of data centers in the world and handles 70 percent of global Internet traffic. Healthcare, biotech, and clean energy are also growth drivers, broadening and strengthening the metro's employment base and helping cushion against labor market disruptions from government job cuts.

Clinton Cuts Did Not Phase D.C. Job Market



Share of Federal Workers in D.C.



** Modeled to remove Census worker impact*

Sources: BLS

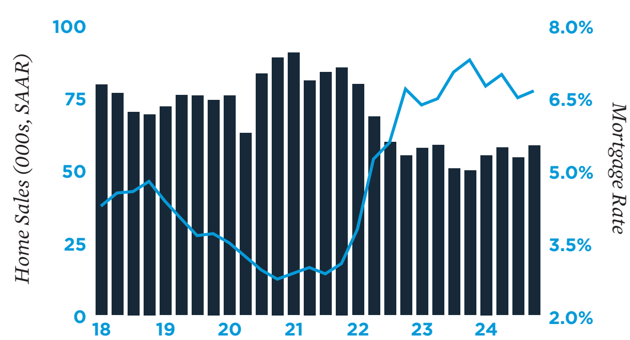
Implications From New Policies On Multifamily Sector

Housing affordability crunch underscores value of rentals. The rapid run-up in mortgage rates since early 2022 has kept for-sale housing inventory minimal as homeowners who capitalized on low rates during the pandemic are reluctant to trade up. The median home price in the metro hit an all-time high of $650,900 at the tail-end of 2024 as buyers chased the few available listings. As a result, the spread between the typical mortgage payment on a median priced home and the average multifamily rent eclipsed $2,000 in the fourth quarter. This delta will help sustain rental demand as the jump to homeownership is too steep for many.

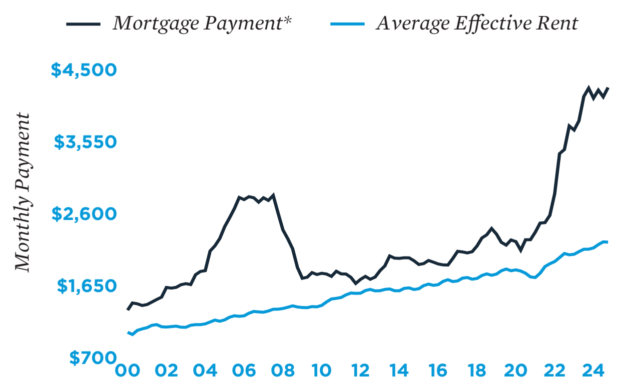
Office use policies could help blunt impact. The Trump administration has ordered all federal employees to work at the office five days per week. This could help shore up housing demand in metro D.C., as those who moved beyond commuting distance relocate back to the region. An estimated 40 percent of federal workers work remotely, at least part time. Progress has already been made towards reanimating urban activity. Metrobus ridership has recovered to pre-pandemic levels in recent months, while Metrorail ridership is setting records at some stations including NoMa, McLean, and Ashburn. This additional activity will help offset the impact from layoffs, while job losses incurred from off-site workers living elsewhere will not have any impact on the demand for housing locally.

Strength in multifamily sector to act as shock absorber. The metro D.C. apartment market is one of the tightest in the nation, with a vacancy rate of just 4.0 percent in the fourth quarter of last year and rent growth more than three times the national average. This will allow owners some amount of breathing room to withstand softening demand. Meanwhile, multifamily properties could fill a key role during a period of economic uncertainty. While not immune to effects of layoffs, the apartment rental market is at the center of multiple crosscurrents and some loss of demand could be offset by the need for more rental housing as workers seek more flexible living arrangements, or make rapid and unplanned moves back to the region.

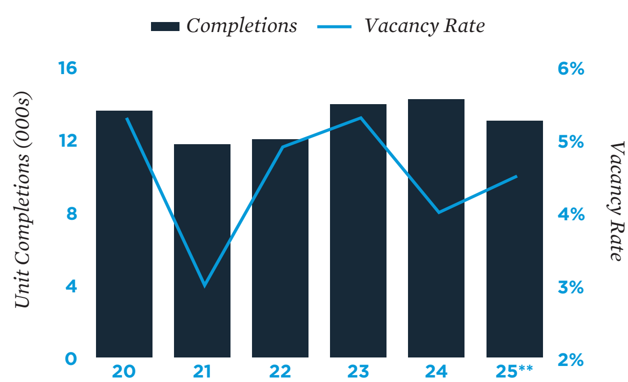
D.C. Home Sales Slid After Rate Jump



D.C. Metro Affordability Gap Near Record



D.C. Apartment Fundamentals Solid



* *Mortgage payments based on median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI*

** *Forecast*

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