Market Report

MULTIFAMILY 2Q/26

Washington, D.C., Metro Area

Renter Demand in Lower Tier Holding Up, Boding Well for Potential Recovery

Metro poised for stabilization amid sharp slowdown in new supply. The apartment inventory of Washington, D.C., rose at a steady rate of nearly 2 percent annually from 2019 to 2025. Last year's deliveries were met with almost no growth in renter demand, resulting in a 130-basis-point jump in vacancy. Both trends are expected to shift in 2026. The pipeline of new units in walkable District neighborhoods such as NoMa and Navy Yard will contract substantially this year. Similar patterns are also anticipated in Crystal City-Pentagon City in Virginia and Silver Spring, Maryland, which should help moderate vacancy in these submarkets, bringing rates into the 7 percent range as of March.

Class A properties most impacted by federal spending headwinds. In the 12 months ended in March, vacancy at Class A properties across the metro's three main jurisdictions rose by nearly 200 basis points. In comparison, Class B vacancy increased by about 130 basis points, while Class C vacancy largely held steady in the District and Maryland suburbs. This dynamic indicates that the impact of federal hiring and budget cuts has been hardest on luxury properties, a trend likely also tied to slower hiring among private firms dependent on federal funding and contracts, dampening demand from higher-wage renter cohorts.

2026 FORECAST

EMPLOYMENT
16,000 — Jobs will be lost
0.5% — Decrease Y-O-Y

CONSTRUCTION
5,000 — Units will be added
0.7% — Inventory increase Y-O-Y

VACANCY
5.6% — Vacancy rate
30 — BPS increase Y-O-Y

RENT
$2,240 — Average effective rent by year-end
1.2% — Increase Y-O-Y

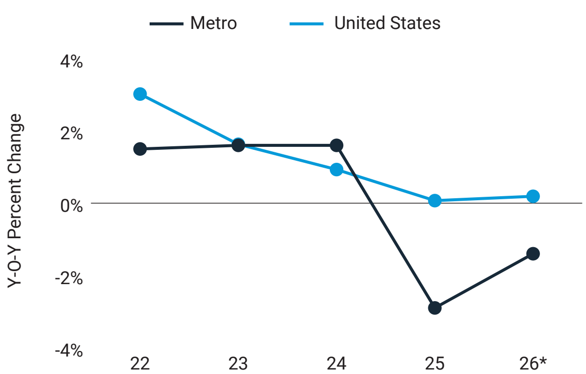
EMPLOYMENT

After shedding nearly 100,000 roles on net in 2025 — the largest annual drop in at least three decades outside 2020 — the metro's job market remains volatile in early 2026, with another 8,500 jobs lost through the first four months. Still, renewed March and April hiring in professional and business services, trade, transportation, and utilities offers early evidence of a less severe contraction. The public sector could see a modest rebound as the administration's approach to federal employment continues to evolve.

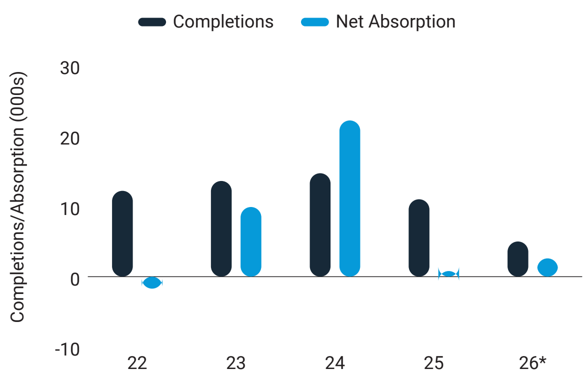
CONSTRUCTION

In the past decade, Washington, D.C., has delivered an average of about 12,500 units annually. However, supply pressure is set to abate this year, as the metro is forecast to see 54 percent fewer units than in 2025. Nearly half of the anticipated deliveries will be concentrated on the western side of the metro, extending from Bethesda-Chevy Chase and Rockville to Loudoun County. In contrast, the District will see the most notable decline in supply pressure this year, welcoming only about 1,000 new units.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



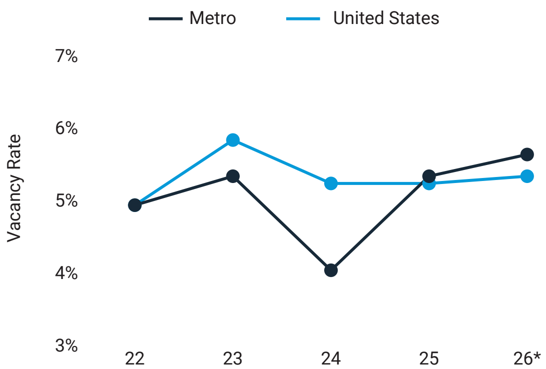
* Forecast

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

VACANCY

The metrowide vacancy rate is expected to reach 5.6 percent by year-end, 70 basis points above the historical average. A historically low delivery pipeline in the District will also support vacancy stabilization locally, which stood at 5.4 percent as of March, 40 basis points higher than the metric in the Maryland and Virginia suburbs. Supply overhang remained the primary reason for elevated vacancy rates not only in the District, but also in outer areas such as Fredericksburg-Stafford.

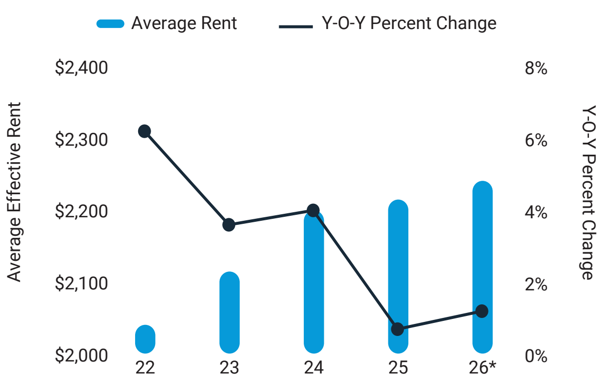
VACANCY TRENDS



RENT

Last year, the average effective rent in the metro still rose modestly year-over-year, despite considerable new supply and muted net absorption, which put upward pressure on vacancy. As the supply-demand imbalance improves in 2026, rent growth should continue at a slightly firmer pace. The Maryland side of the metro is expected to see stronger growth than Northern Virginia and the District, largely due to the higher concentration of Class B and C properties that have held up amid economic headwinds.

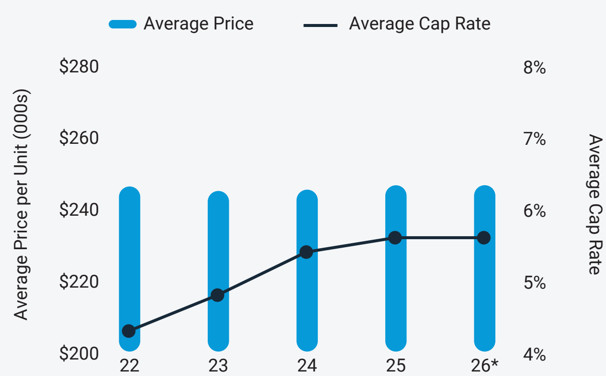
RENT TRENDS



INVESTMENT HIGHLIGHTS

- In the 12 months ended in March, transaction velocity in the metro increased by about 30 percent compared to the previous yearlong period. This growth is almost exclusively motivated by sub-$10 million deals. Among the sales during that period, institutional disposals were notably elevated, accounting for over half of the total dollar volume. Weaker fundamentals in 2025 may have made institutions more cautious. Private buyers were active; their increased share of total dollar volume was observed even among Class A transactions, which could indicate less competition for these assets.
- North Central and Northeast D.C. saw some of the most notable gains in transaction velocity, partially driven by several distressed sales of pre-1970 Class C properties. Similar growth was also observed in nearby Silver Spring and Hyattsville, Md. On the other hand, transaction velocity remained largely flat in the Virginia portion of the metro, indicating its comparative stability.
- Rent regulation across the metro is becoming increasingly bifurcated. The District maintains a long-standing rent-control regime limited to older stock, with a 2026 ballot initiative proposing a temporary rent freeze. Montgomery and Prince George's counties enacted permanent rent-stabilization caps in 2024, which may be contributing to a slowdown in the local pipeline. Northern Virginia remains exempt due to state preemption; this dynamic should continue to attract developers to the area and support future rent growth potential for existing properties.

SALES TRENDS



* Forecast ** Through 1Q

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

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