INVESTMENT FORECAST

Multifamily

Washington, D.C.

IPA INSTITUTIONAL PROPERTY ADVISORS

2020

Multifamily Development Nudges Higher As Vacancy Reaches Cycle Low

Elevated renter demand in Navy Yard filling newly delivered apartments. After two years of declines, Washington, D.C.'s development pipeline will expand in 2020. The focal point of construction is in the Navy Yard and along the Capital South Waterfront, where more than 4,000 apartments will be completed by year end. New entertainment options, including the opening of Audi Field in 2018, have bolstered renter demand in the area. Deliveries will also rise in multiple Arlington submarkets, encouraged by the establishment in National Landing of Amazon's second headquarters. Housing needs are expected to increase in surrounding areas moving forward, as hiring at the e-commerce giant's new offices ramps up this year. The number of upcoming arrivals, particularly in the Navy Yard, will weigh on local vacancy in the short term, but fewer apartment additions in other parts of the market, such as Central D.C. and Downtown Silver Spring, will support an overall drop in availability in 2020. Tighter vacancy is in turn sustaining rent growth, particularly among Class B units.

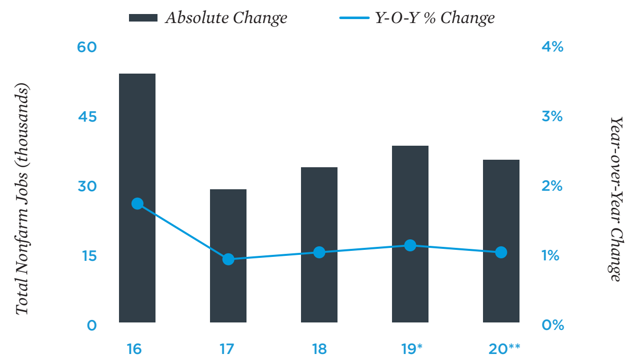
Investors looking for economic downside protection consider Washington, D.C. The depth and diversity of the Washington, D.C., inventory will drive the investment sales market and keep it one of the most liquid in the nation. Numerous investment strategies can be executed throughout the region, which also maintains a balanced buyer pool. Private and institutional capital are leading in terms of dollar volume but cross-border investors and REITs are keeping active investments. While the Amazon HQ2 announcement at the end of 2018 put significant focus on Northern Virginia for transaction activity, investors still view the entire region in a positive light for acquisitions. The addition of Amazon to the list of positive multifamily demand drivers will add a little more upward momentum to growth forecasts but as talk of an economic slowdown has heated up lately, Washington, D.C., can also offer multifamily investors the potential for one of the most recession-proof markets in the nation. During the Great Recession, Washington, D.C.'s apartment market maintained full-year positive rent growth. This possible downside risk protection during a recession is just another of the many reasons investors will support strong acquisition activity throughout the marketplace in the coming year.

21.2% *2019 share of local population between 20 and 34 years old*

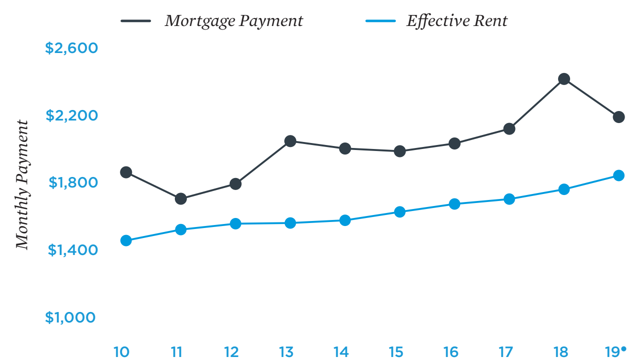
49.3% *of local population hold bachelor's degree or higher❖*

$438,833 *2019 median home price*

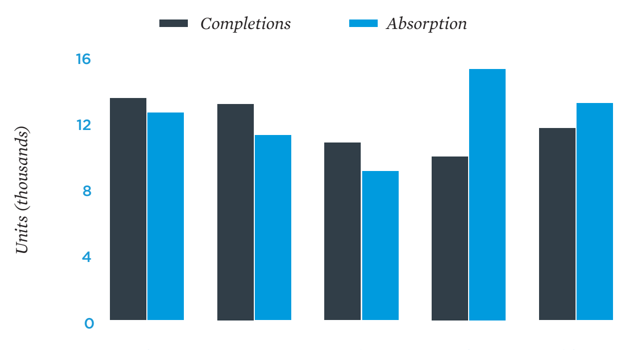
Employment Trends



Housing Affordability Gap



Supply and Demand



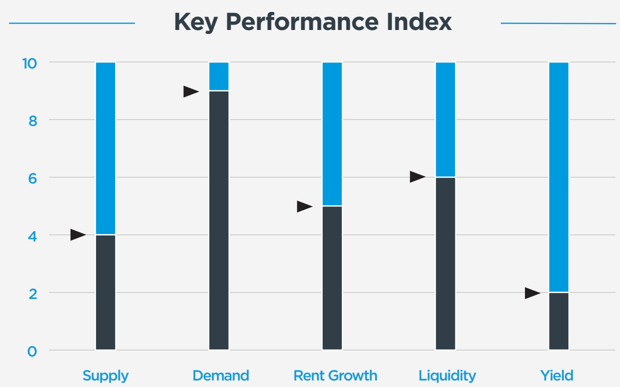
* Estimate ** Forecast • Through 3Q
❖ 2019: 25+ years old
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

Demand's upward movement from 7 to 9 represents a significant acceleration in the outlook for the Washington, D.C., market. Supply additions have been holding back rent growth as demand matched but did not exceed new deliveries.

Investors' positive outlook has maintained transaction activity measured by the liquidity index at 6 over the past six months. This positive outlook has also translated into the yield index dropping two points as cap rates compressed slightly in the second half of last year.

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



2020 Market Forecast

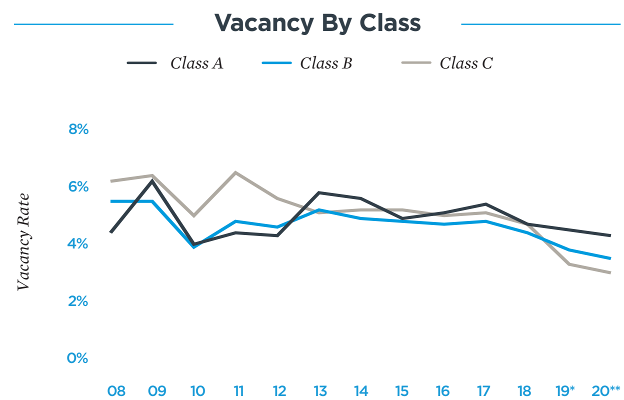
Employment
35,000 jobs
Metro **1.0%**
U.S. **1.0%**

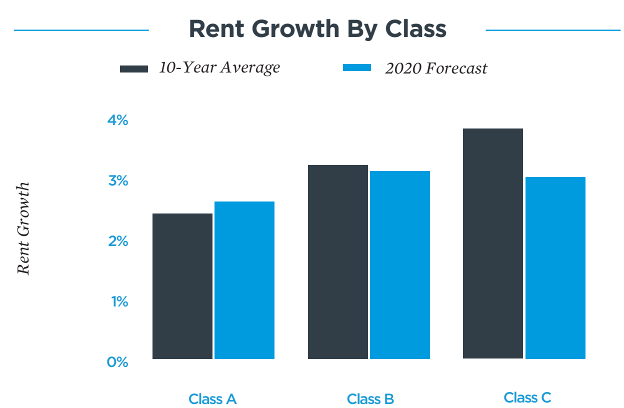
Construction
as % of inventory❖
Metro **1.8%**
U.S. **1.7%**

Class A Vacancy
Down 20 bps
Metro **4.2%**
U.S. **5.3%**

Class A Rent
$2,527 per month
Metro **2.6%**
U.S. **3.3%**

Investment
3-yr. avg. activity
$20+ million
Deals: **85**
Volume: **$6.4 billion**





Jeffery J. Daniels
Senior Vice President
National Director IPA Multifamily
(212) 430-6127 | jdaniels@ipausa.com

** Estimate ** Forecast*
❖ *Arrow reflects completions trend compared with 2019*
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics