Yardi® Matrix

MULTIFAMILY REPORT

DC Resists Economic Woes

Spring 2020

Rent Growth Shrinks Considerably

Sturdy Economy Favors Quicker Recovery

Development, Transactions Expected to Slow

WASHINGTON, D.C. MULTIFAMILY

Yardi® Matrix

DC Stumbles, But Does Not Fall

While the COVID-19 pandemic and ensuing downturn are sure to take their toll on the rental sector, metro D.C. multifamily entered the storm relatively well prepared thanks to a sturdy economy and an employment composition that favors quicker recoveries compared to other large U.S. markets. That said, the metro's average rent contracted by 70 basis points month-over-month and 10 basis points on a trailing three-month basis as of April, as the first effects of the health crisis began to emerge.

The District's unemployment rate jumped to 6.0% as of March and more than 1.3 million unemployment claims had been filed across D.C., Virginia and Maryland through mid-May, but the area's economy carries a key silver lining for the long run. Although coastal gateway metros were the first to feel the swift shock of the pandemic, D.C.'s economy is relatively sturdy due to the federal government and related industries, which give the area a very stable employment base. Coupled with a phased reopening, this gives the Mid-Atlantic region a recovery head start.

Nearly 1.3 billion in multifamily assets traded, while some 2,984 units came online across metro D.C. through the first third of 2020, with an additional 35,283 apartments underway. With the impact of the health crisis becoming increasingly apparent, we expect both construction and transactions to slow down this year.

Market Analysis | Spring 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author
Bogdan Odagescu
Senior Editor

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Recent Washington, D.C. Transactions

The Cosmopolitan at Reston Town Center

City: Reston, Va.
Buyer: Cherner Development
Purchase Price: $120 MM
Price per Unit: $416,667

Inigo's Crossing

City: North Bethesda, Md.
Buyer: JRK Property Holdings
Purchase Price: $109 MM
Price per Unit: $230,180

Westchester Tower

City: College Park, Md.
Buyer: Hampshire Properties
Purchase Price: $66 MM
Price per Unit: $216,997

South Pointe

City: Temple Hills, Md.
Buyer: Signature Properties
Purchase Price: $43 MM
Price per Unit: $109,487

RENT TRENDS

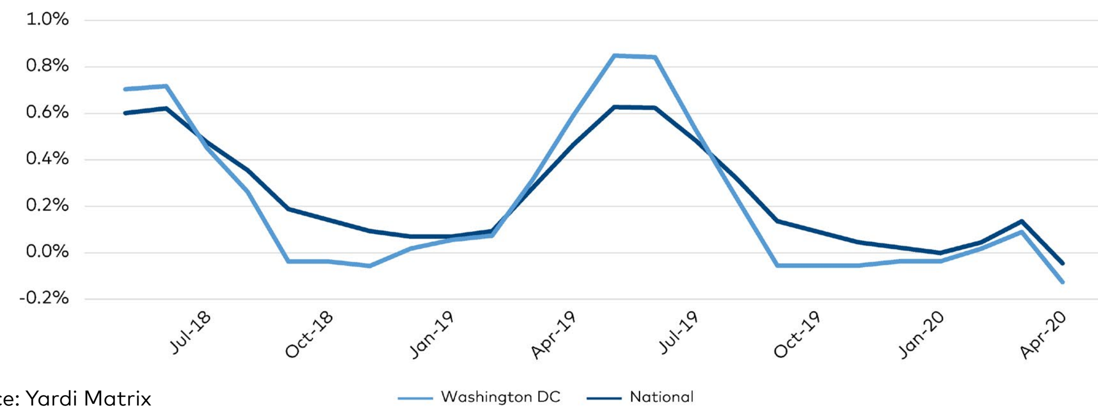
- The first effects of the health crisis are emerging into what was supposed to be prime leasing season. The average metro D.C. rent was down 70 basis points month-over-month as of April—also registering a 10-basis-point drop on a trailing three-month (T3) basis—to $1,838. Meanwhile, the U.S. rate was flat on a T3 basis and contracted 0.5% month-over-month, to $1,465.

- There was little variation across segments in the first months of 2020: Both the metro's working-class Renter-by-Necessity and Lifestyle rates contracted 0.1% on a T3 basis, to $1,592 and $2,178, respectively. In the long run, newly constructed Class A properties could be more exposed, with softening occupancy and longer lease-up periods due to a temporary drop in high-end demand.

- Rent gains were uneven across the map in the 12 months ending in April. Capitol Hill led growth (average rent up 11.0% to $2,749), followed by Fairfax (6.2% to $1,876) and Forestville/Suitland (5.5% to $1,391). Meanwhile, rates were down even before the COVID-19 crisis across a handful of submarkets, including North Reston (-3.2% to $1,654), Columbia Heights (-1.9% to $2,131) and Ashburn/Dulles/Sterling (-1.4% to $1,781).

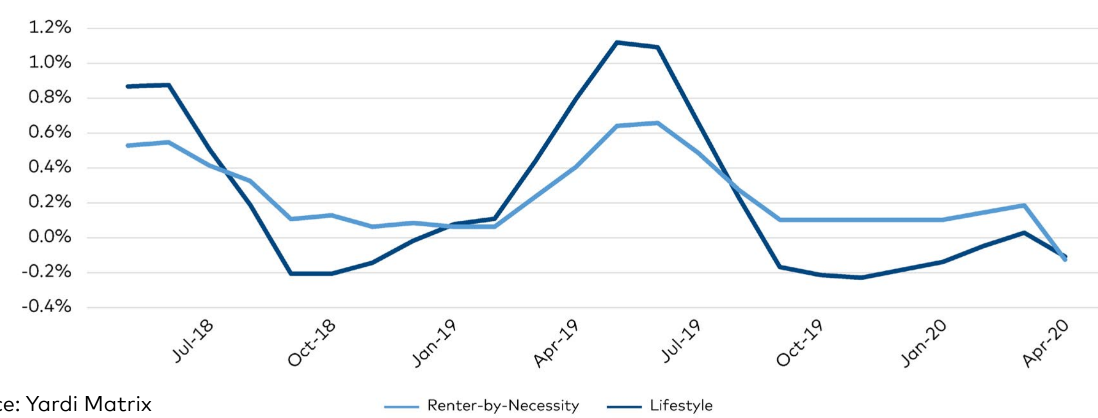
- A solid pipeline and rapid market softening brought by the health crisis will dent the metro's multifamily prospects in the immediate term, but long-term fundamentals are relatively sound, with the city better equipped to weather the storm than other large coastal metros.

Washington, D.C. vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Washington, D.C. Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Metro D.C. is relatively well prepared to weather the COVID-19 downturn, with its employment composition playing an important role. According to a Yardi Matrix analysis of the country's top 50 metros for total employment, Washington, D.C., had the lowest share of jobs in at-risk sectors—25%. By comparison, hospitality- and energy-heavy metros such as Las Vegas (49%), Orlando (41%) or Houston (35%) topped the list.

- That said, the wide-ranging effects of social distancing and stay-at-home orders have hit many gateway markets first, including Washington, D.C. The metro's unemployment rate was up 40 basis points in March, to 3.4%, while for the District alone it jumped 90 basis points to 6.0%. The number of initial claims since the pandemic hit the U.S. reached 1.3 million across D.C., Maryland and Virginia by mid-May. A deceleration trend followed the initial shock, but claims still continued to add up at an unprecedented rate.

- Prior to the COVID-19 aftermath, metro D.C. entered the second quarter in good shape, with 31,600 jobs added year-over-year through March for a 1.5% expansion, above the 1.4% U.S. average. Leisure and hospitality (-2,900 jobs) and education and health services (-2,400 jobs) were the only two sectors that contracted.

Washington, D.C. Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	782	23.2%
90	Government	734	21.8%
55	Financial Activities	163	4.8%
80	Other Services	212	6.3%
15	Mining, Logging and Construction	164	4.9%
40	Trade, Transportation and Utilities	404	12.0%
50	Information	78	2.3%
30	Manufacturing	57	1.7%
65	Education and Health Services	450	13.4%
70	Leisure and Hospitality	327	9.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro D.C. added 584,889 residents between 2010 and 2018. That marked a 10.3% expansion, nearly double the 5.8% U.S. average.

- Domestic net migration has been negative since 2014, but strong immigration and natural population growth continues to offset the trend.

Washington, D.C. vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Metro DC	6,082,465	6,139,035	6,200,001	6,249,950

Sources: U.S. Census, Moody's Analytics

SUPPLY

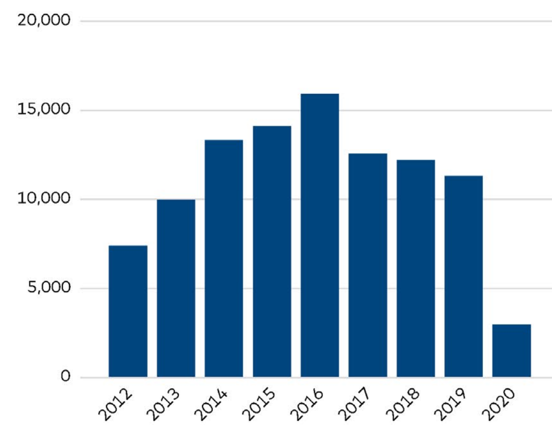
- Some 2,894 units came online across metro D.C. in the first four months of the year, with an additional 35,283 apartments underway—one of the country's largest pipelines. Only two of the properties completed in 2020 through April were located in the District, with the remaining eight spread across Northern Virginia. Continuing a well-established trend apparent throughout the cycle, the vast majority of projects that were recently completed or are under construction cater to Lifestyle renters.

- While the health crisis delayed many ongoing projects and affected groundbreakings, most development continued across the metro, including projects within or close to the Amazon headquarters site in Northern Virginia. However, many of the area's more than 200,000 multifamily units that are in the planning and permitting stages could face longer delays or even get axed, while the COVID-19 downturn unfolds.

- Of all units underway as of April, 44% of projects were within the District, 36% across Northern Virginia and 20% in suburban Maryland. The list of submarkets leading development included Barry Farms/St. Elizabeths (5,903 units under construction), Brentwood/Trinidad/Woodridge (3,394 units) and Germantown/Montgomery Village (1,918 units).

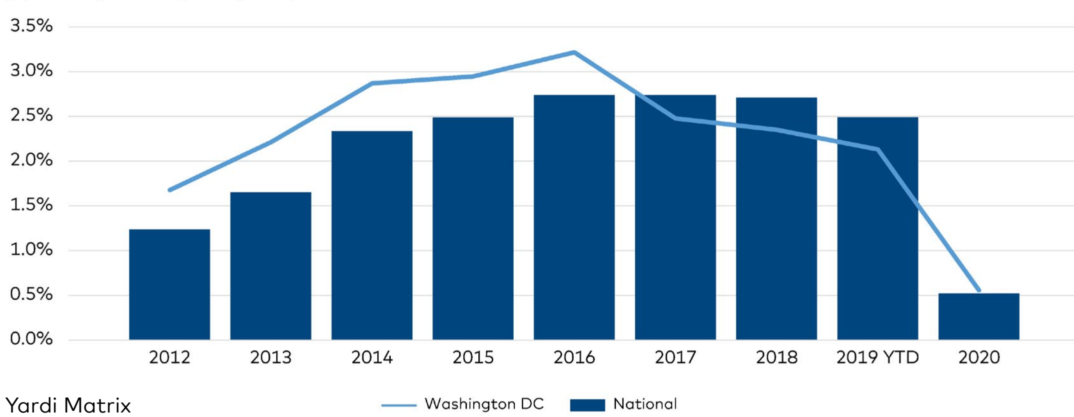
- As of April, Lerner Enterprises led the pipeline (1,862 units underway in two communities), followed by JBG Smith Properties (1,784 units in five communities) and MRP Realty (1,624 units in five communities).

Washington, D.C., Completions (as of April 2020)



Source: Yardi Matrix

Washington, D.C. vs. National Completions as a Percentage of Total Stock (as of April 2020)

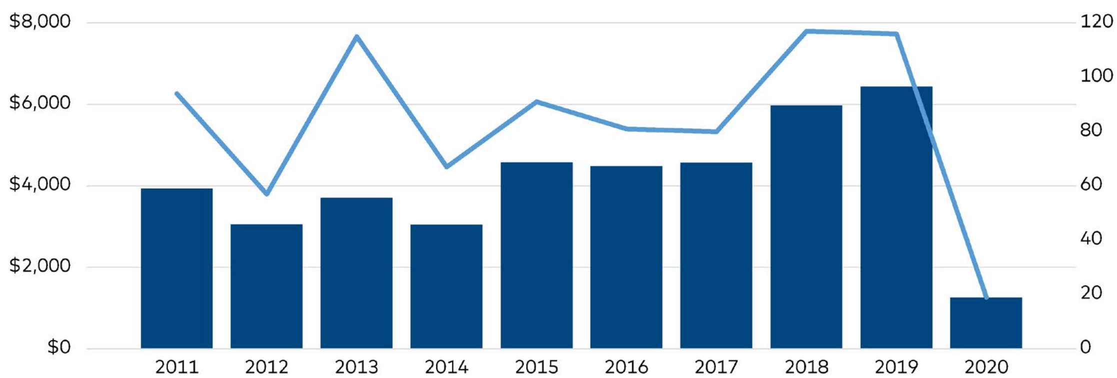


Source: Yardi Matrix

TRANSACTIONS

- Nearly $1.2 billion in assets traded in 2020 through April, at an average per-unit price of $256,176, well above the $162,169 U.S. average. Washington remained one of the country's largest targets for capital and is poised to hold this position, even as transaction activity slows down across the U.S.—the metro's fundamentals are relatively well insulated, at least when compared to other major coastal markets.
- More than $6 billion in assets traded in the 12 months ending in April, with deal distribution reflecting an almost even breakdown between Lifestyle and Renter-by-Necessity communities. Of the 88 assets that traded, only 12 were located within the District, while the suburbs continued to take the lion's share.
- Washington Real Estate Investment Trust was the most active buyer in the 12 months ending in April, acquiring more than 2,300 units for a total of $529 million.

Washington, D.C., Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

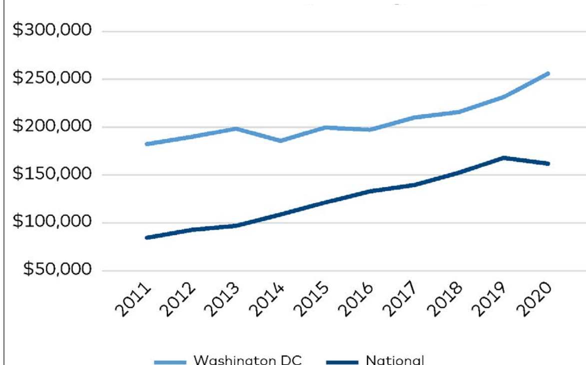
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
College Park	526
Eisenhower East/Fort Hunt/ Franconia	427
Pentagon City/Penrose	345
Fairland	329
South Herndon	292
Alexandria West	254
Wheaton	195

Source: Yardi Matrix

[1] From April 2019 to March 2020

Washington, D.C., vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Who's Still Investing in DC's Multifamily Market?

By Laura Calugar

With the economic havoc brought on by the COVID-19 crisis, many investors "are now in a wait-and-see mode," according to Foulger-Pratt Managing Partner & Chief Operating Officer Brigg Bunker. In the interview below, he talks about how the unprecedented situation is impacting his company and other real estate players in the D.C. area, as well as the state of multifamily investment in the market.

What should we know about the D.C. multifamily market?

The market has changed dramatically recently. There are many people going through challenging and uncertain times, resulting in changes in consumer habits, including the consistency of rent payments. As a result, there is significant uncertainty around existing projects and projects under construction, projects in lease-up and projects hoping to start in the near term. The uncertainty will continue until the COVID-19 restrictions are lifted and we start to see how the recovery will take place.

Are investors still pursuing multifamily deals in the D.C. area?

There are certainly a lot of equity investors who are now in a wait-and-see mode to determine whether or not they want to continue investing in the current environment. We also see long-term equity sources working to move forward given the time frame needed prior to construction

completion. From a debt perspective, an unintended consequence of implementing the Paycheck Protection Program is that many of the resources used for new loan origination are now being utilized to implement the Small Business Administration's program. This may result in a significant number of banks being on the sidelines in the near term. Projects that are teed up and ready to go in primary markets where specific submarkets are underhoused continue to attract equity investment during these uncertain times.

How is the new economic situation impacting D.C.'s hottest areas for multifamily development?

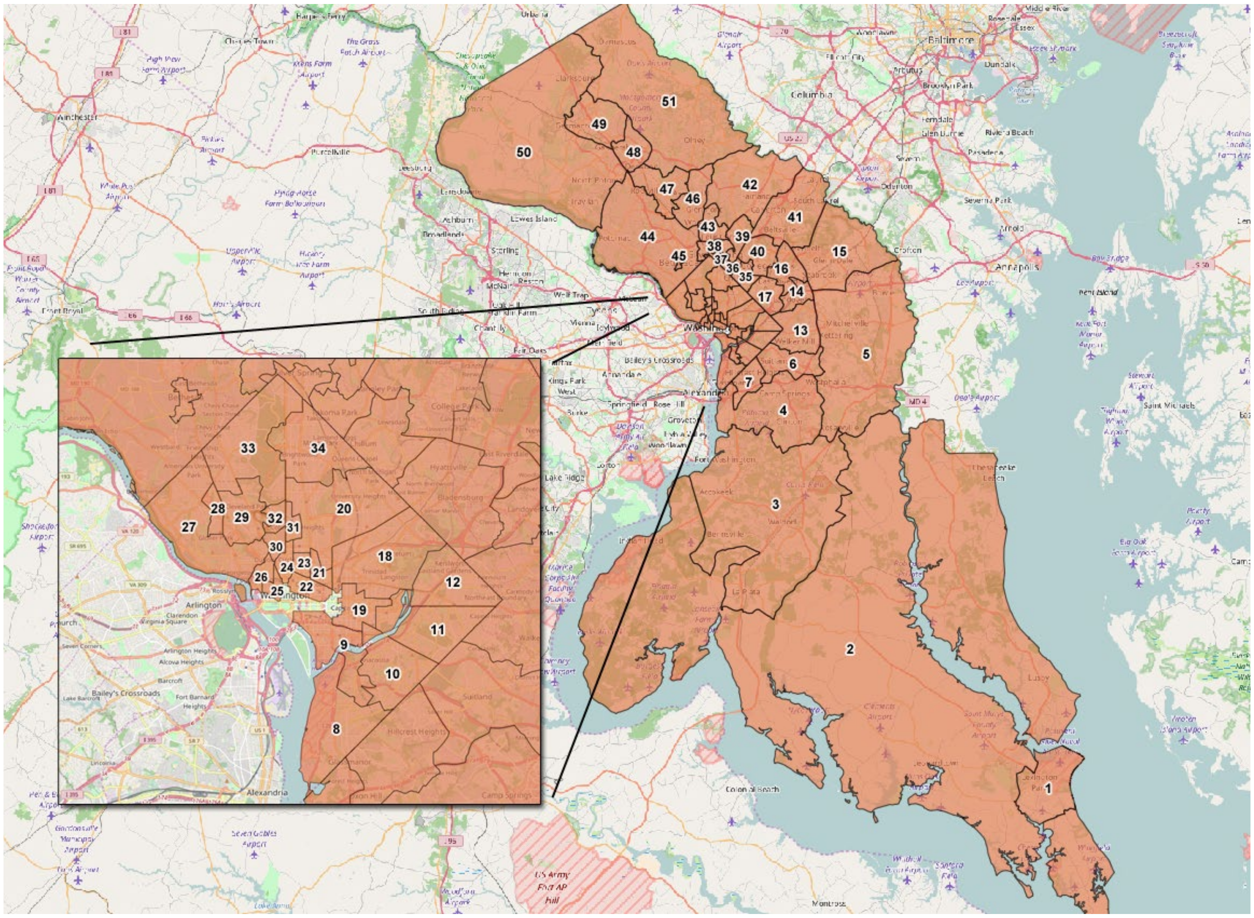
Many of the hottest submarkets are synonymous with new luxury product. Consumer spending has changed, but the lasting effects of those changes remain to be seen. The amount and timing of rent growth is certainly unknown at this time. Depending on how quickly a recovery occurs and what happens to wages, people may choose to stay in shared households or look for less expensive housing options that could affect some of the more expensive but desirable submarkets.

How are demand and supply performing across the metro?

Individual submarkets of new luxury product may experience temporary oversupply, but overall we continue to be underhoused in the region. The more pressing issue is whether we, as an industry, can deliver the type of housing to meet the needed demand in workforce and affordable housing.

(Read the complete interview on multihousingnews.com.)

WASHINGTON, D.C. SUBMARKETS



Area No.	Submarket
1	Lexington Park
2	California/Leonardtown/ Prince Frederick
3	St. Charles/Waldorf
4	Camp Springs/Fort Washington
5	Bowie/Lake Arbor/Largo
6	Forestville/Suitland
7	Hillcrest Heights/Marlow Heights
8	Congress Heights/Congress Park
9	Barry Farms/Saint Elizabeths
10	Anacostia/Garfield Heights
11	Fort Dupont Park/Marshall Heights
12	Deanwood
13	Seat Pleasant/Walker Mill
14	Cheverly/Glenarden/Landover Hills
15	Goddard/Glenn Dale
16	West Greenbelt/East Riverdale
17	Bladensburg/Riverdale Park

Area No.	Submarket
18	Brentwood/Trinidad/Woodridge
19	Capitol Hill
20	Brookland/South Petworth
21	North Capitol
22	Penn Quarter
23	Logan Circle/West Mount Vernon
24	South 16th Street/Scott Circle Corridor
25	East Foggy Bottom
26	West Foggy Bottom
27	Georgetown/Wesley Heights/ South Glover Park
28	West Cleveland Park/Wisconsin Avenue
29	East Cleveland Park/Woodley Park
30	Adams Morgan/North Dupont Circle
31	Columbia Heights
32	Mount Pleasant
33	North Connecticut Ave. Corridor
34	Brightwood/16th Street Heights

Area No.	Submarket
35	Chillum/Queens Chapel
36	Takoma Park
37	Downtown Silver Spring
38	West Silver Spring
39	East Silver Oak/White Oak
40	College Park
41	Beltsville/Laurel/South Laurel
42	Fairland
43	Wheaton
44	Chevy Chase/Potomac
45	Downtown Bethesda
46	Aspen Hill/Rossmoor
47	East Rockville
48	East Gaithersburg/Redland
49	Germantown/Montgomery Village
50	West Gaithersburg
51	Olney

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.