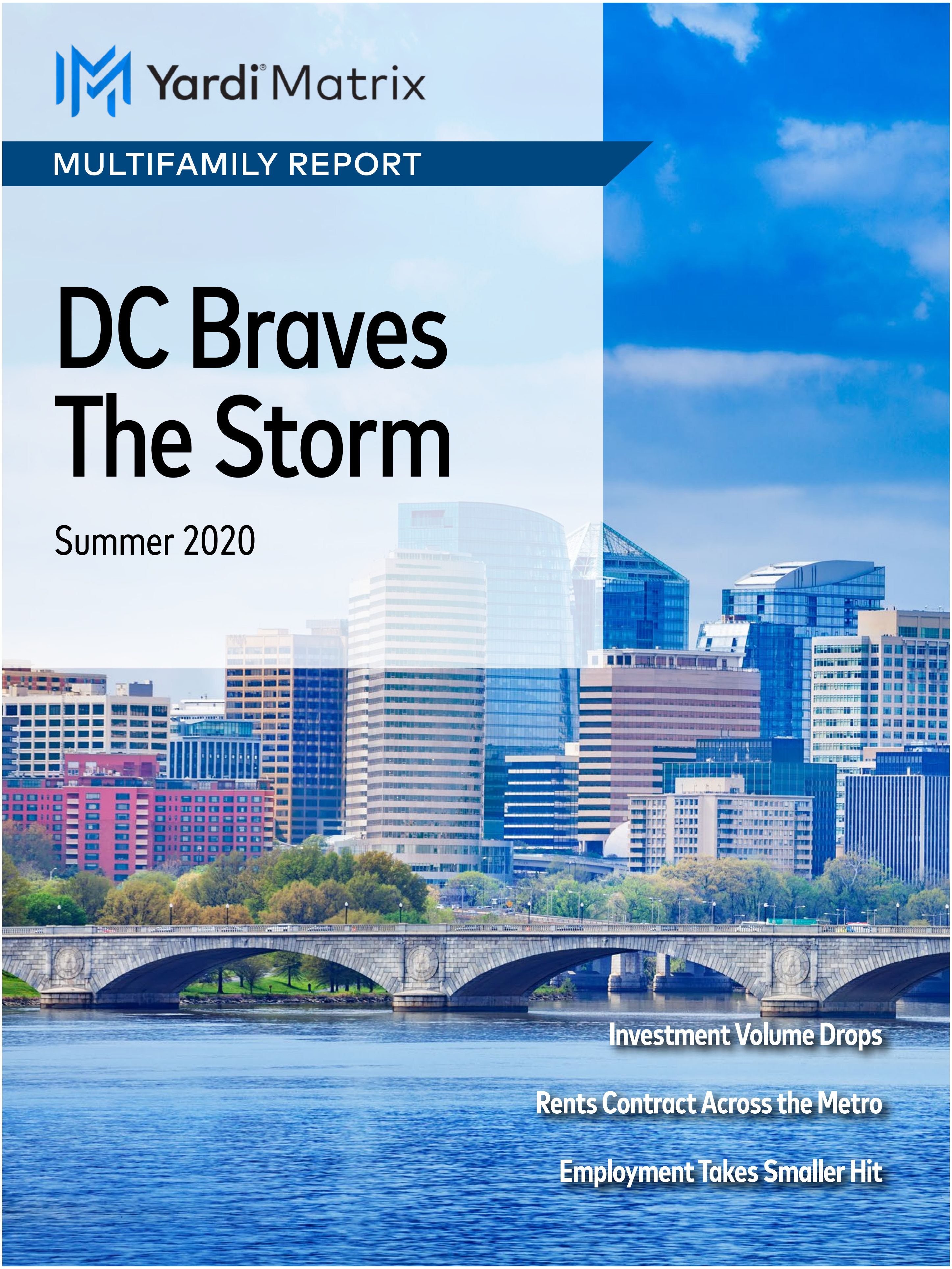
Yardi Matrix

MULTIFAMILY REPORT

DC Braves The Storm

Summer 2020



Investment Volume Drops

Rents Contract Across the Metro

Employment Takes Smaller Hit

WASHINGTON, D.C., MULTIFAMILY

Demand Softens, Development Hums Along

Anchored by the presence of the federal government and related industries, multifamily fundamentals in Washington, D.C., remained relatively healthy—at least when compared to other large coastal gateways. Even so, the pandemic-induced economic crisis has taken a toll on rent expansion. As of August, rents were down 0.3% to $1,819 on a trailing three-month basis, but remained above the $1,463 national average. Meanwhile, the metro's occupancy in stabilized assets dropped to 94.8% as of July, down 80 basis points in 12 months, but still 30 basis points above the U.S. figure.

The metro's employment pool shrank by more than 270,000 positions in the 12 months ending in June, equal to an 8.0% decrease. In D.C. alone, more than 73,500 people filed for unemployment benefits, with the number of new claims declining in August and early September as some businesses resumed activities.

More than 4,500 units came online across metro D.C. in the first eight months of the year, with an additional 39,731 apartments underway as of August. We expect a total of 9,136 units to be completed in 2020, taking into consideration the fact that many projects are facing significant delays due to the health crisis. Considering current volatility and softening demand brought by the unfolding downturn, we expect the average rent to drop 2.4% in 2020.

Market Analysis | Summer 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(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

Razvan Cimpean
Senior Associate Editor

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Recent Washington, D.C., Transactions

Potomac Vista

City: Woodbridge, Va.
Buyer: Jair Lynch Real Estate Partners
Purchase Price: $82 MM
Price per Unit: $199,755

The Point at Palisades

City: Manassas Park, Va.
Buyer: Pantzer Properties
Purchase Price: $71 MM
Price per Unit: $233,553

The Shawmut

City: Washington, D.C.
Buyer: Capital Security Advisors
Purchase Price: $49 MM
Price per Unit: $680,556

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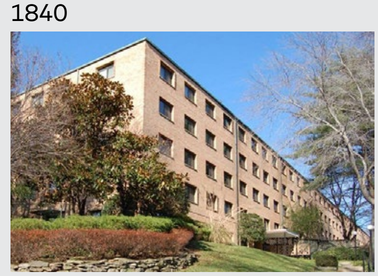


City: Silver Spring, Md.
Buyer: Quest Management Group
Purchase Price: $23 MM
Price per Unit: $144,778

RENT TRENDS

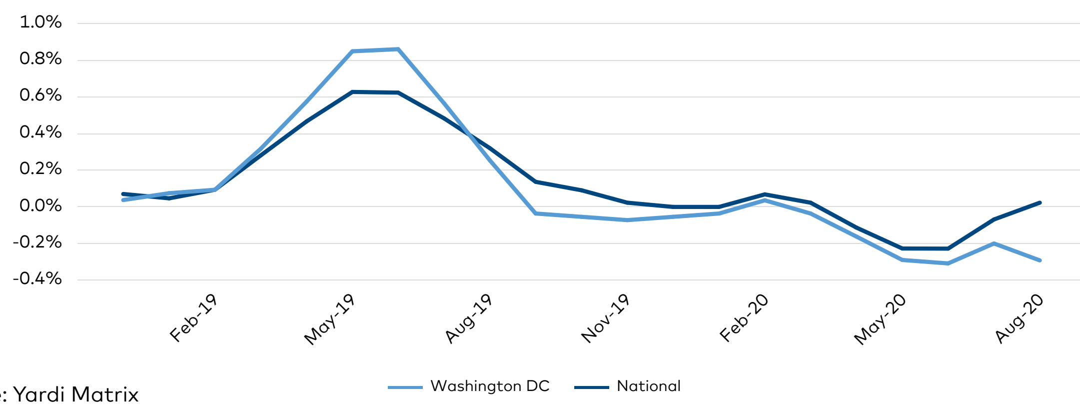
- Washington, D.C., rents declined 0.3% to $1,819 on a trailing three-month basis through August. Lifestyle rents dropped 0.4% to $2,143, while working-class Renter-by-Necessity rates were down 0.2% to $1,583.

- Several suburban areas with below-average rates saw year-over-year gains. Areas included Camp Springs/Fort Washington (5.0% through August to $1,724) and Stafford-Warrenton (4.8%, to $1,533). Meanwhile, rates across more expensive submarkets contracted, led by Northern Virginia: Herndon-Reston (-8.1% to $2,047), Lee Highway Corridor-McLean-Sugarland Run (-7.1% to $2,098) and Merrifield/Tysons Corner/Vienna (-6.8% to $1,852). Rates were also down across most of the core D.C. area, including East Foggy Bottom (-6.2% to $2,427), North Capitol (-4.3% to $2,531) and Capitol Hill (-3.9% to $2,680).

- The Federal Emergency Management Agency approved a Lost Wages Assistance program through which D.C. residents applying for unemployment will be able to collect an extra $300.

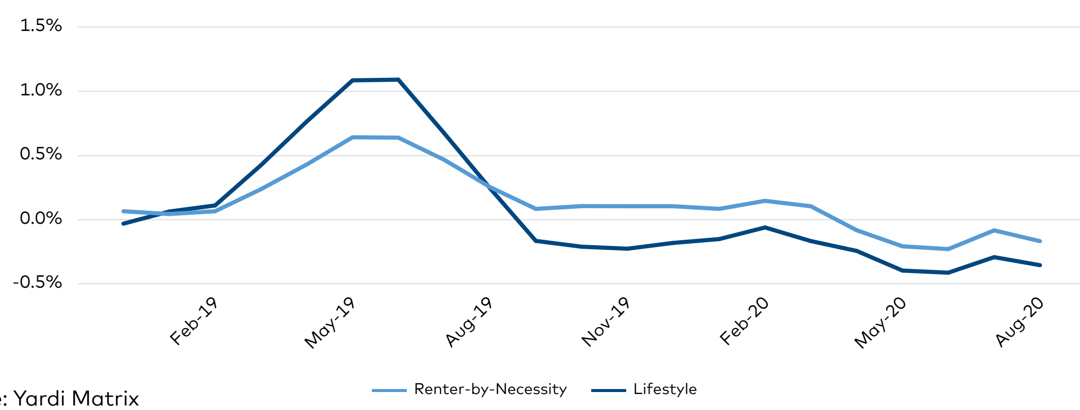
- Pressured by a strong pipeline and the health crisis, occupancy in stabilized properties dropped 80 basis points over 12 months, to 94.8% as of July. With new supply expected to surpass demand over the coming quarters, rent contractions are expected to linger. We expect the average metro D.C. rent to contract 2.4% in 2020.

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. lost 271,900 jobs in the 12 months ending in June. While unemployment surged between March and April from 3.4% to 10.0%—due to the severe COVID-19 fallout—the area's economy is faring better than those of most U.S. gateway cities.

- As businesses reopened, the metro's unemployment rate dropped to 8.4% as of June and stood at 8.0% in July, according to U.S. Bureau of Labor Statistics preliminary data.

- As of June 22, Washington, D.C., was in Phase 2 of its reopening plan, which allowed many businesses to reopen—including most retail, restaurants and hotels—while still discouraging nonessential travel and keeping most bars and nightclubs closed. Following Mayor Muriel Bowser's decision to declare a state of emergency on March 11, many major events were postponed or canceled. As a result, the metro's leisure and hospitality sector took a hard hit, losing 131,700 jobs in the 12 months ending in June, and shrinking by 37.3%.

- While leisure and hospitality accounted for nearly half of all positions lost, all other sectors felt the effects of the pandemic, with losses ranging from 1.7% (government) to 9.4% (education and health services).

Washington, D.C., Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
30	Manufacturing	54	1.7%
50	Information	73	2.3%
55	Financial Activities	157	5.0%
15	Mining, Logging and Construction	162	5.2%
90	Government	710	22.7%
80	Other Services	200	6.4%
60	Professional and Business Services	766	24.5%
40	Trade, Transportation and Utilities	374	12.0%
65	Education and Health Services	403	12.9%
70	Leisure and Hospitality	222	7.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Washington, D.C.'s population continued to expand, adding 17,276 residents in 2019, for a 0.3% increase, on par with the U.S. rate.

- In the last decade, growth has steadily decelerated from the 1.7% expansion in 2010, when the metro gained some 100,000 residents.

Washington, D.C., vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Metro D.C.	6,139,035	6,200,001	6,249,950	6,267,226

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

SUPPLY

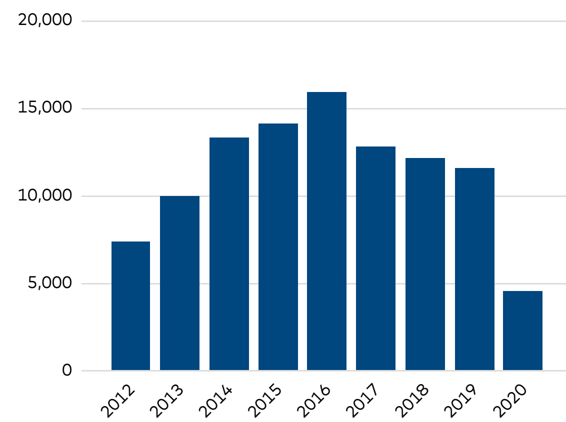
- Developers were working on 39,731 units across metro D.C. as of August. While Washington maintains one of the country's largest pipelines, the current health crisis and associated downturn are causing significant delays. We expect a total of 9.136 units to come online in metro D.C. in 2020. Additionally, some 205,000 units were in the planning and permitting stages as of August, many of which could face delays or be canceled altogether.

- With construction activity classified as essential during the metro's stay-at-home order, a total of 4,587 units came online in 2020 through August. That was roughly one-fifth less than the 5,945 units that were delivered within the same time frame last year.

- Development activity picked up steam in recent years in the Barry Farms-St. Elizabeths submarket, with a total of 4,555 units delivered between 2017 and 2019, equal to 36.8% of the submarket's existing inventory. As of August, developers were working on more than 6,500 units there, many of which are expected to come online in the next two quarters.

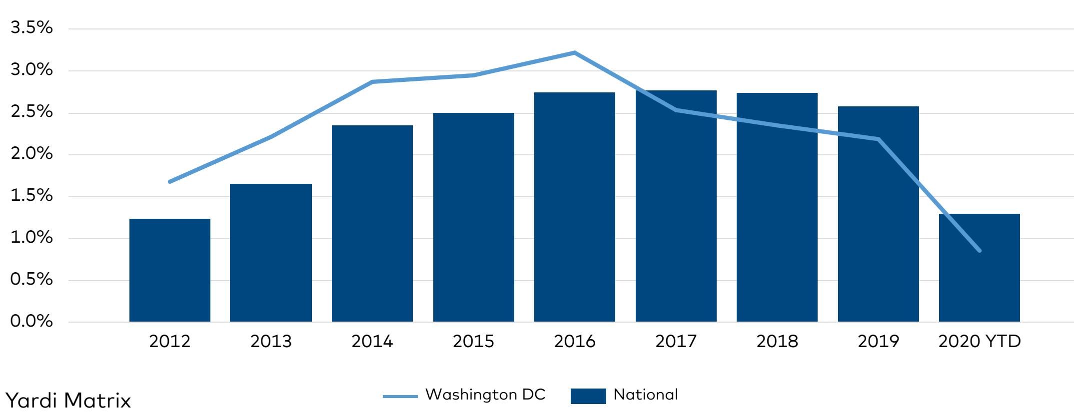
- Lerner Enterprises is expanding its Washington, D.C., inventory with two projects, including the metro's largest underway development. In Germantown, Md., the company is working on Black Hills Germantown, a mixed-use development designed to include 1,618 residential units, 1.1 million square feet of office space and more than 90,000 square feet of retail space. The project's first residential phase is slated to come online by year-end.

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



Source: Yardi Matrix

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



Source: Yardi Matrix

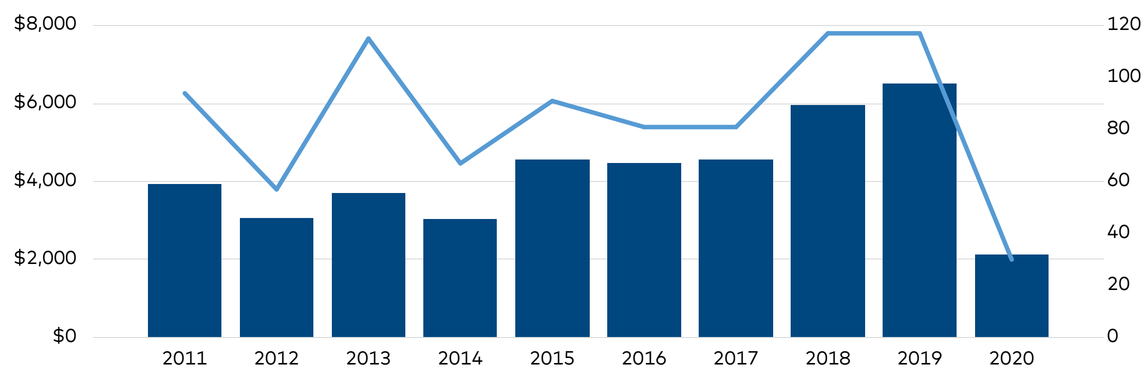
TRANSACTIONS

- Roughly $2.1 billion in assets traded year-to-date through August, accounting for a sizable volume, but still marking a visible slowdown from 2019. Last year, more than $3.8 billion in communities traded during the same time frame. However, the metro's average per-unit price continued to rise, reaching $264,141 for the first eight months of 2020. Meanwhile the U.S. figure dropped slightly, to $163,833.

- Buyers focused primarily on suburban submarkets in the 12 months ending in August. Of the $4.8 billion in assets that traded during this time, nearly $4.3 billion was for assets across Northern Virginia and suburban Maryland, and only $550 million was for assets within the District.

- Dweck Properties' acquisition of the 525-unit Willard Towers in the Friendship Heights area of Chevy Chase, Md. marked the largest deal in metro D.C. since the onset of the health crisis. Equity Residential sold the property for $276.5 million, or $526,667 per unit.

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



Source: Yardi Matrix

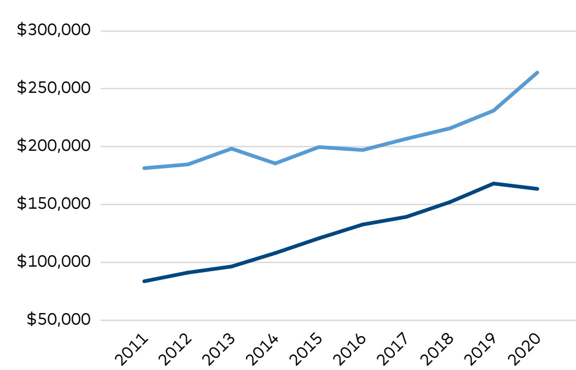
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Eisenhower East-Fort Hunt-Franconia	427
College Park	417
Chevy Chase-Potomac	385
Fairland	260
Alexandria West	254
Barry Farms-St. Elizabeths	217
South Herndon	202

Source: Yardi Matrix

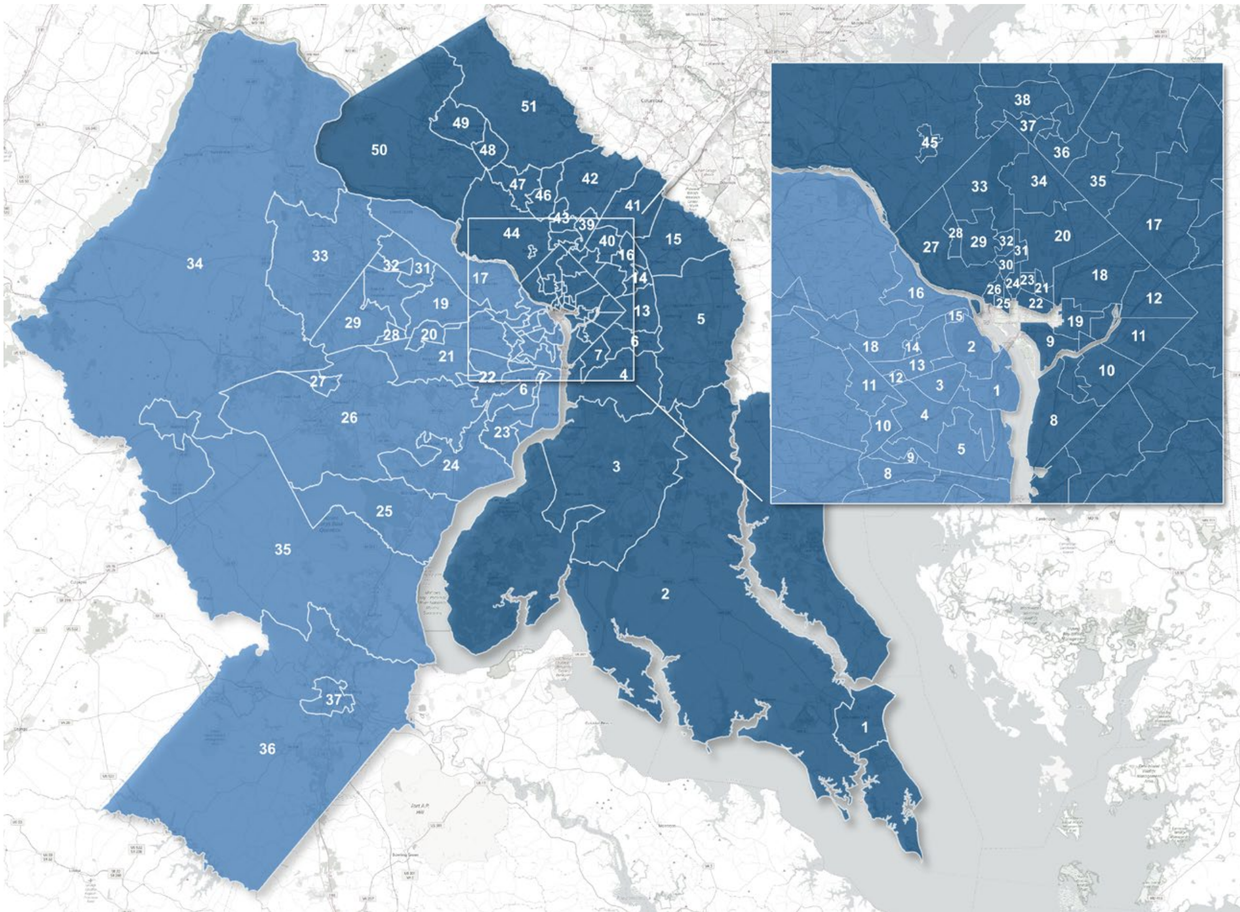
[1] From September 2019 to August 2020

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



Source: Yardi Matrix

WASHINGTON, D.C., SUBMARKETS



Area No.	Submarket
1	Birmingham–Downtown
2	Birmingham–University
3	Birmingham–Southside
4	Birmingham–Eastside
5	Birmingham–West
6	Homewood–West
7	Homewood–East
8	Mountain Brook
9	Lakeshore
10	Vestavia Hills
11	Highway 280 Corridor
12	Hoover
13	Jefferson County–East
14	Fairfield–Bessemer
15	Gardendale
16	Tuscaloosa
17	Walker County
18	Blount County
19	St. Clair County
20	Alabaster
21	Bibb County
22	Chilton County

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/St. 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
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

Area No.	Submarket
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
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 August 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 August 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, August 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.