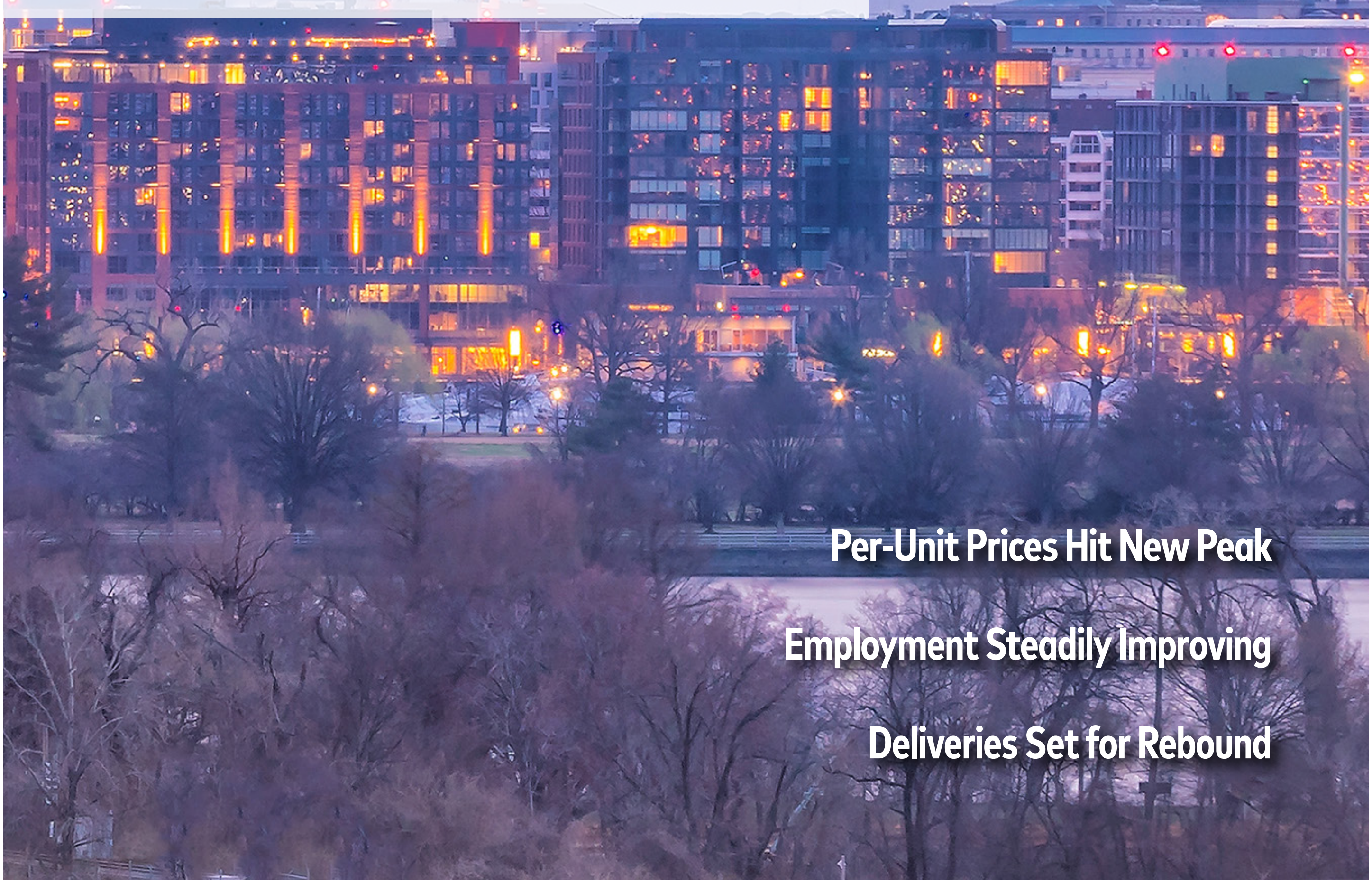
Yardi® Matrix

MULTIFAMILY REPORT

DC's Tricky, Surprising Year

Winter 2021



Per-Unit Prices Hit New Peak

Employment Steadily Improving

Deliveries Set for Rebound

WASHINGTON, D.C. MULTIFAMILY

Yardi Matrix

Development Endures

Washington, D.C.'s multifamily market continues to benefit from the presence of the federal government and related industries, which helped prop up fundamentals in 2020 to a certain extent, at least when compared to other large coastal markets. Nonetheless, rents were down 0.7% on a trailing three-month basis as of December, to $1,758, above the $1,462 national average. Meanwhile, the metro's occupancy rate in stabilized communities declined 100 basis points in the 12 months ending in November 2020, to 94.2%, the metro's lowest level over the past decade.

The metro's employment market shrank by 181,100 positions in the 12 months ending in November 2020—representing a 6.1% drop—with most sectors recording losses, ranging from 23.4% for leisure and hospitality to 2.0% for the professional and business services sector. Even so, metro D.C.'s economy bounced back relatively quickly, from a 10.0% unemployment rate in April 2020 to nearly half of that in just seven months.

A total of 9,582 units reached completion in 2020, marking an 18.1% drop from the previous year and the lowest level in almost a decade. However, developers were working on more than 42,000 apartments at the end of the year, placing Washington, D.C., among the country's top-performing markets for construction activity.

Market Analysis | Winter 2021

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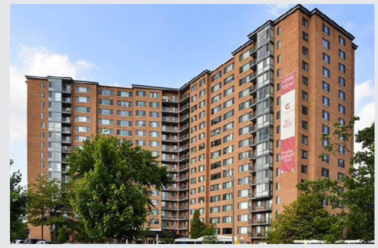
Recent Washington, D.C. Transactions

Southern Towers

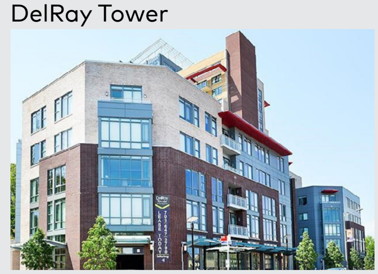


City: Alexandria, Va.
Buyer: CIM Group
Purchase Price: $506 MM
Price per Unit: $218,009

Cadence at Crown

City: Gaithersburg, Md.
Buyer: JRK Property Holdings
Purchase Price: $158 MM
Price per Unit: $294,144

DelRay Tower



City: Alexandria, Va.
Buyer: Caruthers Properties
Purchase Price: $145 MM
Price per Unit: $436,746

Station on Silver

City: Herndon, Va.
Buyer: UDR
Purchase Price: $128 MM
Price per Unit: $320,000

RENT TRENDS

- Metro D.C. rents contracted 0.7% to $1,758 on a trailing three-month (T3) basis through December, 60 basis points below the national average. Even so, the metro's average remained almost 17% above the $1,462 national figure. The overall D.C. rate was down 4.9% in 2020.

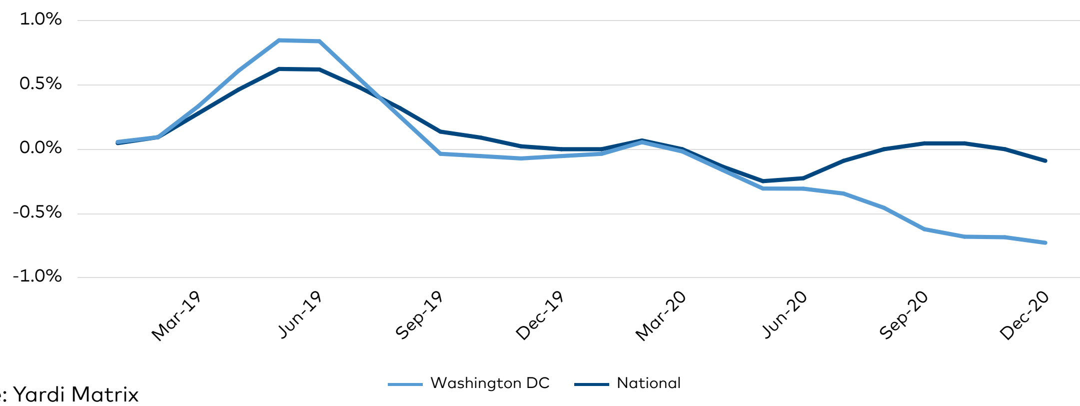
- On a T3 basis, metro D.C. working-class Renter-by-Necessity rates dropped 0.6% to $1,542, while Lifestyle rents were down 0.9% to $2,047 as of December.

- As a result of below-average rates and smaller inventory, Fredericksburg (7.3% to $1,395) and Falmouth-Spotsylvania (7.0% to $1,491) led rent growth in 2020. Of the 24 submarkets that reported upticks last year, only three posted rates above the metro's average rent, by as much as 8.0% and as little as 4.0%.

- Meanwhile, many submarkets that fared well prior to the pandemic saw significant declines last year. In Colonial Village-North Highlands-Rosslyn, rents were down 13.9% to $2,100, while in Fort Myer Heights-Radnor they dropped by 12.6% to $2,170. Penn Quarter remained the submarket with the highest average rent, despite an 8.8% nosedive to $2,595.

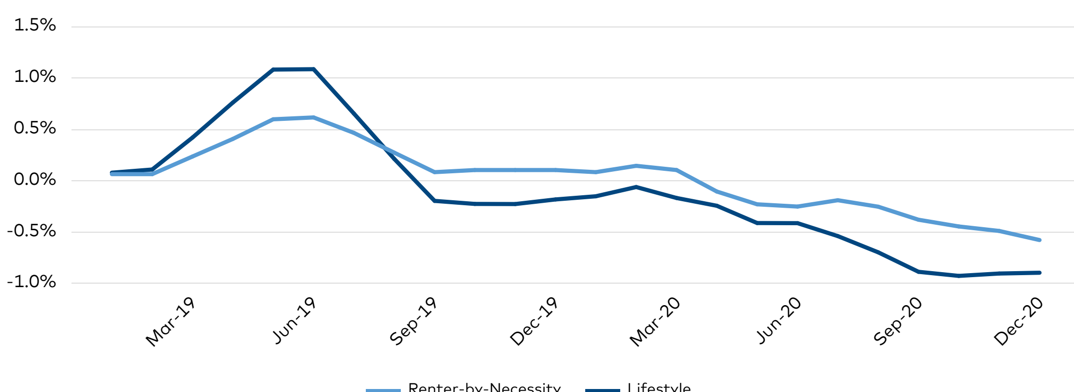
- While the long-expected eviction wave is not yet out of the question, the $25 billion in emergency rental assistance earmarked in December, as well as other federal provisions, should help prop up payments, at least in the short run.

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 Washington, D.C., lost more than 180,000 jobs in the 12 months ending in November, equal to a 6.1% contraction, 120 basis points above the national average. Meanwhile, the jobless rate—which reached 10.0% in April—has steadily improved in recent months, climbing to 5.7% in November, 70 basis points below the national rate.

- In the 12 months ending in November, all employment sectors contracted, except construction, which rose 1.0% or 1,600 positions. Leisure and hospitality jobs were down 23.4% or 78,400 positions, as the nation continued to deal with the harsh effects of the pandemic. Losses for other sectors ranged from 7.6% for education and health services to 2.0% for professional and business services.

- Renewed restrictions due to surging COVID-19 cases, including limits on indoor dining, have taken their toll on the metro's economy, and could drag out the recovery while vaccination efforts advance. A bright spot, however, comes from several of the metro's largest developments, including Amazon's HQ2 megaproject. In early February, the e-commerce giant filed plans for the development's second phase; the 3.3 million-square-foot project across four buildings includes some 2.8 million square feet of office space.

Washington, D.C. Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	168	5.2%
55	Financial Activities	159	4.9%
30	Manufacturing	54	1.7%
50	Information	73	2.3%
80	Other Services	202	6.2%
40	Trade, Transportation and Utilities	405	12.5%
60	Professional and Business Services	776	24.0%
90	Government	718	22.2%
65	Education and Health Services	421	13.0%
70	Leisure and Hospitality	257	7.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The population of Washington, D.C., rose 0.3% in 2019, with the addition of some 17,300 residents.

- Between 2010 and 2019, population growth slowed down significantly from the 1.7% uptick at the beginning of the decade, when the metro gained more than 100,000 residents.

Washington, D.C. vs. National Population

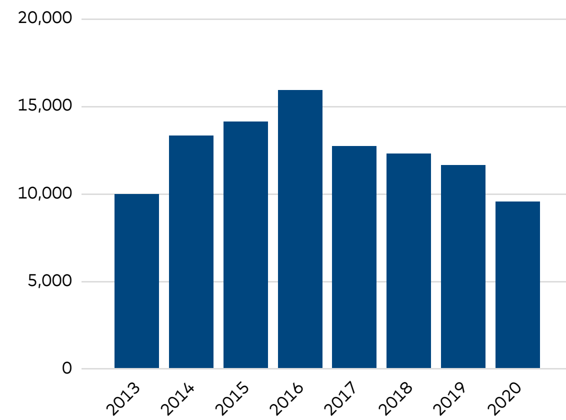
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Metro D.C.	6,139,035	6,200,001	6,249,950	6,267,226

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

SUPPLY

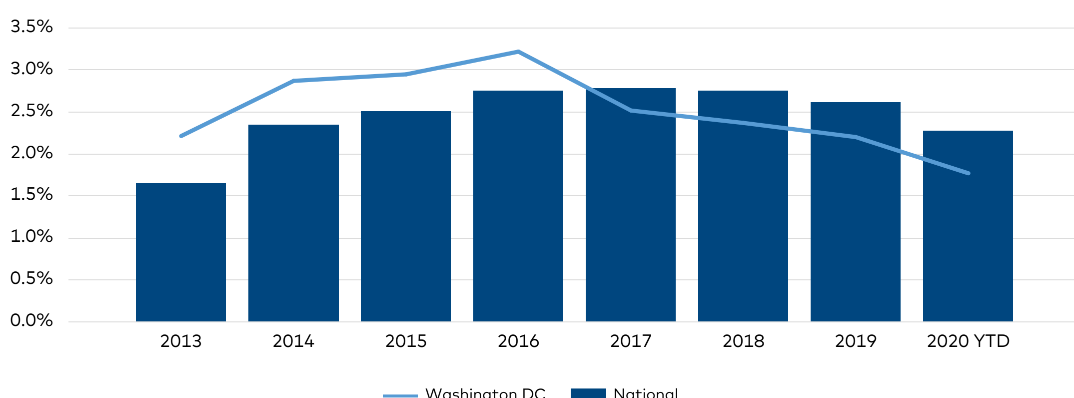
- Developers were working on a total of 42,437 units across the metro as of December, equal to 1.8% of existing stock and 50 basis points below the national average. Yardi Matrix expects 14,541 apartments to be completed in metro D.C. in 2021, which would mark a 50% increase from last year.
- With construction classified as essential during the metro's stay-at-home order, a total of 9,582 units came online in 2020. That still marked a decline from the 11,702 units completed the previous year. Even so, construction starts held steady in 2020, with work kicking off on 16,985 units, a figure that was actually higher than the previous year's 16,177 apartments.
- Toll Brothers Apartment Living delivered the largest project last year—the 525-unit Union Place in the Brentwood-Trinidad-Woodridge submarket. The Horsham, Pa.-based company is also working on two communities totaling 515 apartments in the metro, with an additional 3,056 units in the planning and permitting stages.
- The largest project at the end of 2020 was Lerner Enterprises' 1,618-unit Black Hill Germantown. At full build-out, the 22-building community will be the biggest multifamily property in the Germantown-Montgomery Village submarket. In Barry Farms-St. Elizabeths, where more than 6,100 units were under development at the end of last year, Lerner Enterprises is also working on the 244-unit 1000 South Capitol Street.

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



Source: Yardi Matrix

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

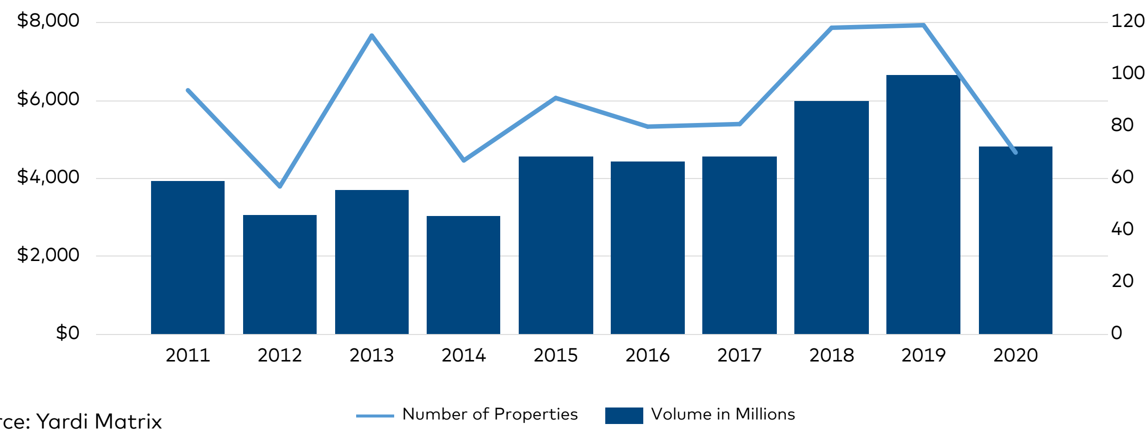


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment volume totaled $4.8 billion in 2020 in Washington, D.C., the lowest level since 2017. In line with national trends, the metro recorded a 27.6% decline in sales volume from 2019's $6.6 billion.
- Meanwhile, the average per-unit price continued to rise in 2020—following three consecutive years of steady increases—to a record $245,912, up 5.1% from the previous year. This marked the highest level in at least a decade, with many investors targeting value-add opportunities in stabilized markets. Of the 70 communities that traded in 2020, the split between Renter-by-Necessity and Lifestyle assets was nearly even.
- The top 2 submarkets for investment activity—Fairlington-Seminary Hill-West Potomac and Dale City-Lorton-Woodbridge—recorded a 315% increase to $1.2 billion in combined sales volume in 2020, compared to the previous year.

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



Source: Yardi Matrix

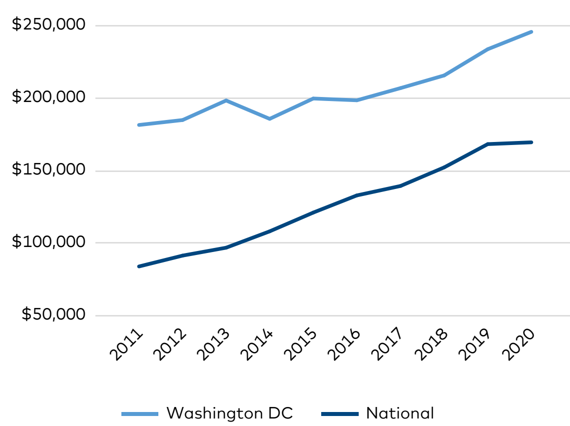
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Fairlington-Seminary Hill-West Potomac	742
Dale City-Lorton-Woodbridge	433
Chevy Chase-Potomac	385
College Park	319
West Gaithersburg	256
Burke-Falls Church-Jefferson	202
Fairland	199

Source: Yardi Matrix

[1] From January 2020 to December 2020

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



Source: Yardi Matrix

MULTI-HOUSING NEWS
data by
Yardi Matrix

Top 10 Markets for Transaction Activity in 2020

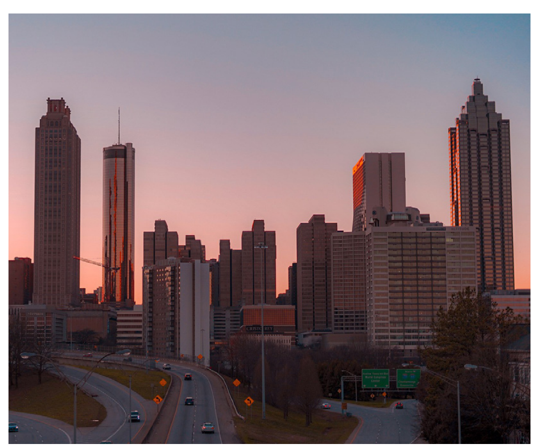
By Razvan Cimpean

Last year proved challenging for the multifamily sector, with year-over-year rent growth declining in many markets. The COVID-19 health crisis has seen renters in more dense and expensive gateway markets relocating to suburban areas and smaller U.S. cities, in search of affordable alternatives.The majority of investment activity has remained focused on established urban multifamily markets, but that, too, has been affected. The number and the amount of deals changed, with most assets trading for less than $100 million.

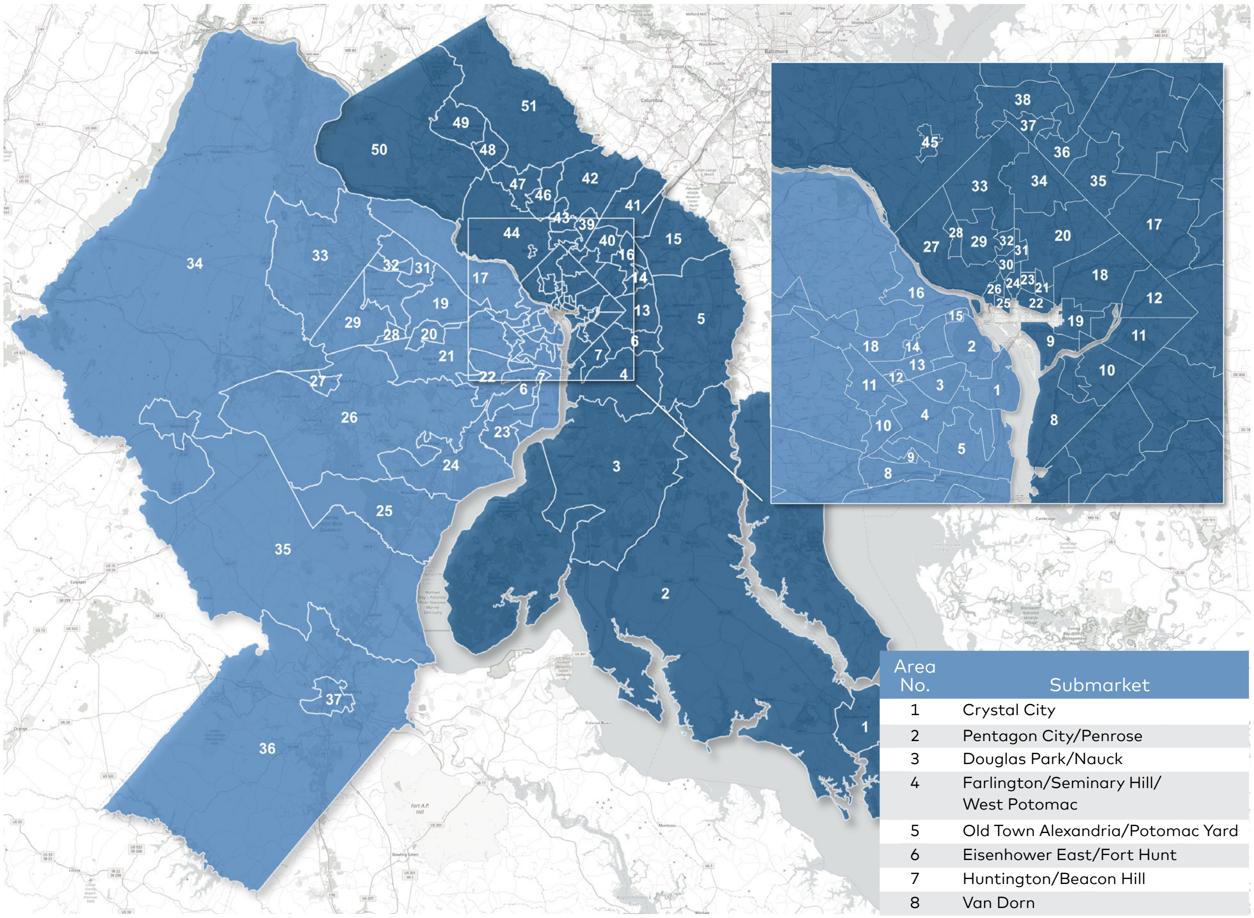
Rank	Market	Transaction Volume (MM)	Price Per Unit
1	Phoenix	$5,879.7	$187,251
2	Dallas	$5,501.8	$128,712
3	Washington, D.C.	$5,468.2	$235,076
4	Atlanta	$5,253.5	$142,429
5	Denver	$4,435.8	$247,160
6	Charlotte	$2,959.3	$158,235
7	Tampa	$2,518.9	$155,874
8	Austin	$2,387.3	$160,872
9	Miami	$2,333.2	$224,266
10	Houston	$2,328.2	$113,460

WASHINGTON, D.C.

For the better part of last year, Washington, D.C., showed great performance in the face of the pandemic. The employment market contracted by 6.1 percent in the 12 months ending in November, losing more than 180,000 positions. Transaction volume totaled $5.3 billion in 2020, the lowest level over the past two years and a 21 percent drop from 2019's $6.6 billion.



WASHINGTON, D.C. SUBMARKETS



Area No.	Submarket
1	Crystal City
2	Pentagon City/Penrose
3	Douglas Park/Nauck
4	Farlington/Seminary Hill/ West Potomac
5	Old Town Alexandria/Potomac Yard
6	Eisenhower East/Fort Hunt
7	Huntington/Beacon Hill
8	Van Dorn
9	Landmark/Foxchase
10	Alexandria West
11	Bailey's Crossing
12	Columbia Heights West
13	Arlington Heights/Clarendon
14	Ashton Heights/Buckingham
15	Fort Myers Heights/Radnor
16	Colonial Village/ North Highlands/Roslyn
17	Lee Highway/McLean
18	Ballston/East Falls Church
19	Merrifield/Tyson's Corner/Vienna
20	Fairfax
21	Burke/Falls Church/Jefferson
22	Annandale/Franconia/Springfield
23	Mount Vernon
24	Dale City/Lorton/Woodbridge
25	Dumfries/Triangle
26	Prince George/Manassas
27	Manassas
28	Fair Oaks
29	Bull Run/Centreville/Chantilly
30	South Herndon
31	North Reston
32	Herndon/Reston
33	Ashburn/Dulles/Sterling
34	Gainesville/Leesburg
35	Stafford/Warrenton
36	Falmouth/Spotsylvania
37	Fredericksburg

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 December 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 December 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, December 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.

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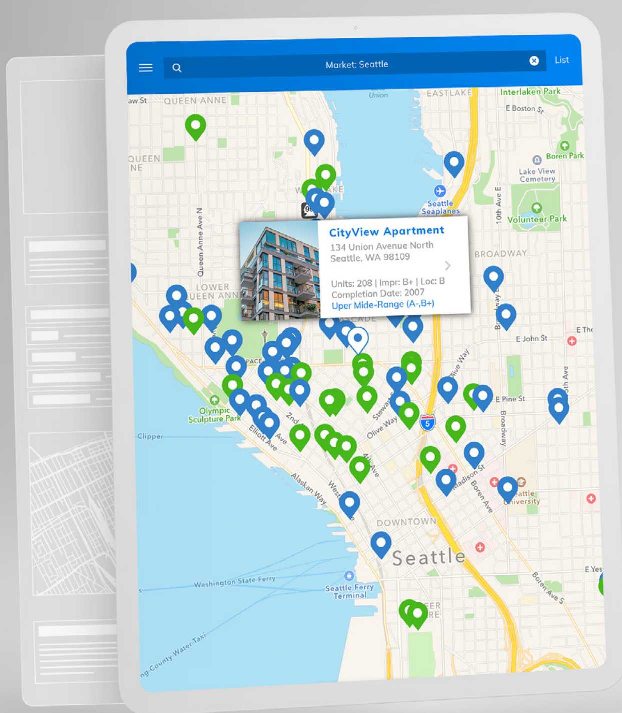

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